AGENDA

SELECT COMMITTEE - KENT'S EUROPEAN RELATIONS

Wednesday, 8th January, 2014, at 9.00 am Ask for: **Denise Fitch**

Darent Room, Sessions House, County Hall, Maidstone Telephone **01622 694269**

Tea/Coffee will be available 15 minutes before the start of the meeting in the meeting room

Membership

Mr A J King, MBE (Chairman), Mr A H T Bowles, Mr D S Daley, Mr G Lymer, Mr R A Marsh, Mrs P A V Stockell, Mr R Truelove and Vacancy (UKIP x 2)

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1 Declarations of Interests by Members in items on the Agenda for this meeting.

2 9.00am - Carolyn McKenzie - Sustainability and Climate Change Manager (KCC) (Pages 3 - 4)

3 10.00am - Huw Jarvis, Kent Downs and Marshes Leader Programme Manager; Nick Johannsen, Kent Downs AONB and Keith Harrison, Chief Executive, ACRK (Pages 5 - 16)

4 11.00am - Paul Wookey – Locate in Kent (Pages 17 - 18)

5 12.00 noon - Rob Lewtas - UK Trade and Investments (Pages 19 - 78)

EXEMPT ITEMS

(At the time of preparing the agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public)

Peter Sass
Head of Democratic Services
(01622) 694002

Monday, 23 December 2013

Kent's European Relationship Select Committee – 8th January, 9.00 a.m.

Biographical Information: Carolyn McKenzie

Carolyn McKenzie is the Sustainability and Climate Change Manager at KCC. She has over 10 years of experience of developing and running EU projects, as lead and partner, across a number of funding streams, with values from £50,000 to £2m+. Her focus is low carbon and environment. Over 50% of the Sustainability and Climate Change budget is externally funded, delivering core priorities of Bold Steps for Kent.

Suggested themes for Members' questions

(Using case studies/example projects e.g. CLIMACT, ARCH, FUSION)

1. The role EU funding has played in achieving KCC's aims and priorities for sustainability in Kent

2. Match funding issues – learning, opportunities and risks

3. Interreg work - the costs to KCC for EU cross-border partnership work vs the identified benefits

4. Support for Kent businesses

5. Opportunities (and risks) for the future

6. Recommendations for maximising the benefits

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Kent's European Relationship Select Committee – 8th January, 10.00 a.m.

Biographical Information for panel:

Keith Harrison - Keith is the Chief Executive of Action with Communities in Rural Kent (ACRK), and has worked in rural and/or community development since 1995 for both non-profit and public sector organisations in Gloucestershire, Kent, London and Somerset.

ACRK, created as a charity called the Kent Rural Community Council in 1923, works primarily to alleviate disadvantage in rural areas (i.e. 85% of Kent, serving 29% of the population.) Since 2008 ACRK has operated seven EU-financed projects – on social entrepreneurship, sustainable communities, older person's social care, healthcare and volunteering, young people's careers in the non-profit sector and energy use in community-owned buildings – with funding under the Grundtvig, Leonardo and PROGRESS programmes. These projects have involved partners from Belgium, Czech Republic, France, Slovakia, Spain and Sweden. In addition, ACRK has operated the ESF (European Social Fund) Community Grants programme across Kent and Medway – providing investment in charities and social enterprises helping people into employment and training. This scheme runs until July 2015. ACRK's European work has brought just over £1.4 million for community-led regeneration into Kent.

Keith is Chair of the Kent Downs & Marshes LEADER Local Action Group (which has Kent County Council as its accountable body.) From 2002 until 2006 Keith was the Programme Manager for the Somerset Levels & Moors LEADER Local Action Group, facilitating investment in almost 90 land management, food and tourism pilot projects – including co-operation activity with LEADER Local Action Groups in France, Ireland, the Netherlands and Sweden.

ACRK is part of a national network of Rural Community Councils (the ACRE Network comprising 39 organisations, c.700 staff and around £35 million annual turnover); Keith represents these bodies on the Defra-convened Rural Development Programme for England Monitoring Committee (providing scrutiny on £3.9billion EU co-financed investment in the rural economy across England) and its 'External Working Group' helping to design the successor programme for 2014-20.

Huw Jarvis – Huw is the Kent Downs and Marshes Leader Programme Manager, Kent County Council. He took on this role in June 2009 and since then has been working on a number of diverse projects across the region to develop the programme and assist the Local Action Group to deliver the objectives of the Local Development Strategy. By adopting a hands on and can do approach with applicants and by trying to remove bureaucracy from the application process, Huw and project officer Richard Hall, have brought the programme up to speed from what was a late and difficult start. Either working with a forester in a wood yard in the depth of winter or with a farm business in the middle of a perfect Kentish spring day, Huw insists that he has more material, anecdotes and characters to draw from for a book than James Herriot ever had!

A graduate of both London and Strathclyde, Huw has worked in the public sector for twenty five years in Kent and Devon. Huw started his public sector career with Rochester City Council after moving from the private sector and became the council's first Head of Tourism and Marketing, before taking an Assistant Director's role at Shepway District Council. After seven years at Shepway, Huw joined the South West of England Regional Development Agency in Exeter and coordinated the RDA's national lead role with DCMS, as well as dealing with regional issues. Huw originally hails from South Wales, is a keen rugby and cricket enthusiast, a Fellow of the Royal Geographical Society and a Kent Common Purpose Graduate.

Nick Johannsen - Nick is the AONB Director and works with partners to develop and promote the vision and strategic direction for the management of the Kent Downs AONB. He liaises at a local, regional and national level to secure commitment, policy, resources and action which will conserve and enhance the natural beauty of the area. He leads on the Management Plan review, oversees the work of the Unit and its delivery of the policies and actions of the plan. Nick also supports many partnership projects. Amongst other work he is Chairman of the Board of the 'Up on the Downs' Landscape Partnership scheme operating around Dover and Folkestone. He also chairs the steering group of the Our Land sustainable rural tourism project, the Kent Landscape Group, and the Mid Kent Downs Countryside Partnership. He sits on the Kent Countryside Access Forum, the North Downs Way Steering Group, is an advisor to the Board of Stour Valley Arts and is a trustee of the Kent Woodland Employment Scheme.

Suggested themes for Members' questions (the panel will make presentations which may cover these themes, followed by Q&A)

1. National and local priorities for rural development – issues for Kent and for KCC.

2. The EU funding programmes at different levels for rural development
   - How rural Kent has benefitted from various funding streams (some with KCC involvement)?
   - What have been the challenges in doing so?
   - What are the risks and opportunities for the future?

3. The National Leader Programme and The Kent Downs & Marshes Leader
   - Governance arrangements – implications for KCC as accountable body - options and opportunities?
   - Support for Kent's rural businesses – outcomes from the programme (benefits and any drawbacks (area size?)
   - Maximising benefits in the future

4. Future funding: The ESIF Draft Strategy for the South East and rural priorities for Kent – issues, challenges and opportunities to maximize benefits to KCC/Kent?

Kent's European Relationship Select Committee - Supplementary information provided by Huw Jarvis

The Leader approach 2007 - 2014 background

The Leader approach is a delivery mechanism under the **Rural Development Programme for England (RDPE) 2007-2014**. Also known as Axis 4, the Leader approach is not a scheme, fund or set of objectives, but is a method of harnessing local knowledge to enable a "bottom up", community led approach to deliver RDPE funding in rural areas.

There are about 130 leader areas in England. Each Leader area bid for RDPE funding to operate a programme in their area based on a Local Development (Delivery) Strategy **(LDS),** a plan that identifies priority funding for Leader areas.

The term leader comes from the French acronym for 'Liaison Entre Actions de Developpement de l'Economie Rurale meaning 'Links between the rural economy and development actions'. In practice, it is a method of delivering rural development in rural communities where local people have the opportunity to take funding decisions at a local level in line with their LDS,

Leader should represent public and private partners and local interest groups. **Local Action Groups (LAGs)** can be existing partnerships set up under previous LEADER programmes; existing partnerships set up for another purpose but which follow the Leader principles; or be a completely new partnership. The LAGs should be broad, covering all sectors of the local society and economy. The Leader delivery approach can be aligned with other initiatives, such as Local Area Agreements.

LAGS developed and submitted Local Development Strategies which set out their plans for their areas, including selection criteria for local projects. The Selection Panels for LAGs include representatives from the Regional Development Agencies (formerly SEEDA in the SE now Defra), which are responsible for the overall management of the delivery of the Leader approach, Natural England and the Forestry Commission. Once selected, the groups are responsible for delivering against their LDS, selecting and funding projects which best meet the priorities for their area and support the delivery of their Strategy.

The Leader Approach delivers a minimum of 5% of the EU funds within the RDPE. This means a minimum of £105m across the country.

It will be the role of Defra, as the Managing Authority for the RDPE, to ensure that the application of the Leader approach across England conforms to the requirements specified in the relevant EU regulations. That includes that the minimum spend requirement (£105 million) is met over the period of the Programme.

LAGs are required to select an administrative and financial lead actor or 'accountable body' (in our case KCC) to take responsibility for overseeing the funding and the operation of the partnership. Alternatively, the LAG members may come together in a legally constituted common structure, the constitution of which would provide assurance on the operation of the partnership and its ability to administer public funds.

The lead role is important, since it involves an assumption of responsibility for regulatory compliance, including state aid rules.

Under the Rural Development Regulation (Council Regulation (EC) No 1698/2005) each rural development programme is required to establish a Monitoring Committee which will "satisfy itself as to the effectiveness of the implementation of the programme". **Defra** has therefore established a Programme Monitoring Committee (PMC) for the Rural Development Programme for England 2007-2013 (RDPE).

The Regulation requires representation on the Committee from organisations of:

- the competent regional, local authority and other public authorities;
- the economic and social partners;
- any other appropriate body representing civil society, non-governmental organisations, including environmental
- organisations, and bodies responsible for promoting equality between men and women.

Kent County Council as Kent Downs and Marshes Leader Local Action Group Accountable Body

Kent County Council (KCC) will assume the role of accountable body.

KCC has the capacity to take on this role given that:-

- it already assumed the accountable body role for three regeneration programmes (Kent Rural Towns, Kent Rural Revival and Mid Kent LEADER+)
- It operates as lead body for two key rural partnerships (Kent Downs AONB and the Kent Rural Board)

- it contracts rural delivery work through Service Level Agreements with three strategic partner agencies (Action with Communities in Rural Kent, Kent Association of Parish Councils and Produced in Kent Ltd.)
- it worked in partnership with Medway Council and Action with Communities in Rural Kent to prepare and deliver a sub-regional 'Rural Access to Services' programme (financed by SEEDA).

Cost effectiveness is a priority for KCC. As such a 'Best Value' solution to providing the administrative and financial support services necessary for successful LDS delivery will continue to be examined and implemented.

The LAG will be supportive of KCC in its role as the accountable body.

Functions that the Accountable Body will perform.

KCC will continue to employ the programme staff (Project Manager and Project Officer). Line management of programme staff is provided by the accountable body but the Programme Manager also has a direct working relationship with the LAG Executive Chair. Both the Programme Manager and Project Officer are responsible for the development of projects, project applications and the marketing of the programme.

The accountable body will provide office space, IT/telecom support and internal training and development opportunities for the programme staff.

The accountable body is responsible for all the financial considerations with reference to the **facilitation** of the programme. It will also provide support and assistance to the programme staff with project specific claims.

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Cheesemakers of Canterbury

A Kent Downs and Marshes Leader Funded Project
~ Case Study ~

"'Ashmore' is a natural cheese made from unpasteurised British Friesian milk, collected fresh in the mornings"

About Cheesemakers of Canterbury

Cheesemakers of Canterbury produce handmade cheese with milk sourced from local dairy farms. They produce a highly successful hard cheese 'Ashmore' as well as a semi-soft cheese, and have won British and international cheese awards.

Cheesemakers of Canterbury applied for a Leader grant to allow them to increase their capacity for making hard cheese, whilst expanding their product range to incorporate a number of soft cheeses, including a soft cheese made from local goats milk.

The expansion of the business involved relocating the production of semi-soft cheese, allowing a greater volume of production of the current hard 'Ashmore' cheese range. This in turn enabled Cheesemakers of Canterbury to meet the increasing demand for their 'Ashmore' cheese, which at present, is outstripping supply. Relocating provided the additional benefit of creating extra space for maturing the hard cheese whilst also enabling the development and production of the new soft cheese range.

Leader funding Contribution

The Cheesemakers of Canterbury project successfully secured a grant from the Kent Downs and Marshes Leader programme for soft cheese making equipment, training and other business expansion costs. The grant amount totalled £18,816, 50% of the total project costs, under the measure for the **support, creation and development of micro-businesses.**

Project location

To find out more about The Kent Downs and Marshes Leader programme visit:
http://www.kentruralnetwork.org.uk/leader
For more information about the Cheesemakers of Canterbury visit:
http://www.cheesemakersofcanterbury.co.uk/

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The Farriers Arms

A Kent Downs and Marshes Leader Funded Project

~ Case Study ~

"We try our utmost to make sure our guests have an enjoyable and memorable experience"

About The Farriers Arms

The Farriers Arms located in the village of Mersham, near Ashford was founded in 1606, in 2009 it was left abandoned by the previous landlord, to prevent the loss of the pub 80 village residents came together and brought the grade 2 listed property, it was finally reopened after 5 months of extensive renovation.

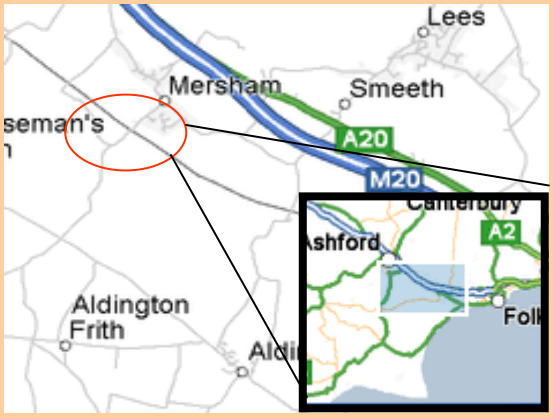
The Farriers Arms which is now run as a pub and restaurant, applied for a Leader grant to help fund the innovative idea by creating a micro-brewery to brew local beer onsite.

The micro brewery will produce beer from local hops, and promote local food and drink. It is also hoped that brewing beer onsite will help the business expand and will enable larger profit margins, as well as creating a unique selling point, to help bring increased tourism to the area. It is envisaged that in the future the micro brewery could also begin to brew cider and consider the possibility of using the technical aspects of the micro-brewery as an educational facility.

Leader funding Contribution

The Farriers Arms project successfully secured a grant from the Kent Downs and Marshes Leader programme to help towards building works, ground works, brewing equipment and brewery training. The grant amount totalled £7,842.28 42.18% of the total project costs, under the measure for the **support, creation and development of micro-business's.**

Project location



To find out more about The Kent Downs and Marshes Leader programme visit:
http://www.kentruralnetwork.org.uk/leader
For more information about The Farriers Arms visit:
http://www.thefarriersarms.com/

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Norman Davidson

A Kent Downs and Marshes Leader Funded Project

~ Case Study ~

"Managed woodland lets light enter previously dense and unreachable ground, ensuring the regeneration of new fauna and flora"

About Norman Davidson

Norman Davidson is a sole trader producing logs and other woodland products from processed timber. The business had reached capacity and was unable to meet the growing demands of the wood fuel sector. The demand for wood to be used as fuel has been growing due to an increase in the use of both household and commercial fires and log burners.

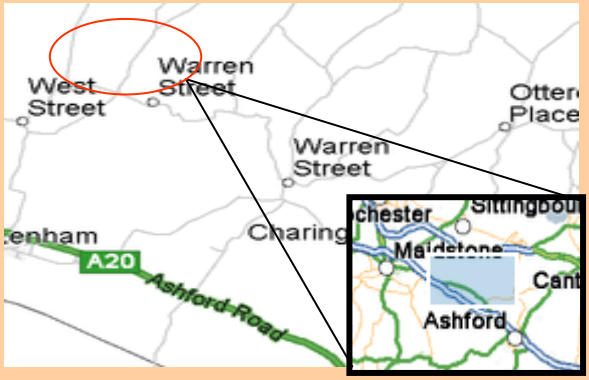
In order to keep up with demand Norman Davidson applied for a Leader grant to allow him to increase both the efficiency and capacity of his operation. The project involved the purchase of new equipment which will enable an increase in the production of logs for fuel, a reduction in wastage and an overall more efficient production process.

Not only will the project enable Norman Davidson to keep up with demand from local residents and expand the current business, but it will also help to deliver wider reaching benefits. One example of this is the improved management of woodlands which will not only increase bio-diversity, but also improve access to the woods for local people and visitors.

Leader funding Contribution

The Norman Davidson logging expansion project successfully secured a grant from the Kent Downs and Marshes Leader programme, for firewood processing equipment. The grant amount totalled £25,167, 40% of the total project costs under the measure for **adding value to agricultural and forestry products.**

Project location



To find out more about The Kent Downs and Marshes Leader programme visit:
http://www.kentruralnetwork.org.uk/leader

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Kent's European Relationship Select Committee – 8th January, 11.00 a.m.

Biographical Information: Paul Wookey

Paul Wookey has been CEO of Locate in Kent since 1999, the inward investment agency for Kent and Medway. Prior to joining Locate in Kent in 1999, Paul Wookey worked for Kent County Council for 8 years in the Economic Development Unit where he was the Assistant Director of Economic Development.

Before joining KCC, Paul worked for the Welsh Development Agency and prior to that worked was a town planner at Newport Borough Council.

Paul has a BA (Hons) in Town Planning and a PostGraduate Diploma in Town Planning from Oxford Brookes University. He is a member of the Royal Town Planning Institute, Institute of Economic Development and the Institute of Management.

(Paul may be accompanied by Mandy Bearne, Director of Marketing and Research)

Suggested themes for Members' questions

1. Introduction and current issues

2. The advantages of Kent as a location for businesses

3. Barriers to obtaining EU funding in support of objectives for Kent and how these might be overcome in future

4. Issues around establishing European partnerships in order to obtain EU funding for projects

5. From your perspective- the potential contribution to growth finance from EU funding:the issues, the alternatives, and maximising the potential.

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Kent's European Relationship Select Committee – 8th January, 12.00 a.m.

Biographical Information – Robert Lewtas

Rob Lewtas specialises in international business development and marketing with experience across both public and private sectors. Rob spent most of his career in the IT & Communications industry, most recently providing corporate networking solutions to global clients. He has many years experience assisting companies in setting up operations in the UK, including several multi-million pound investment projects and property acquisitions. His understanding of commercial real estate proved valuable when he was involved in the technical bid team for the London 2012 Olympics.

Rob's role in UKTI is to work with UK based FTSE 250 companies and hi-growth SMEs to develop new opportunities and to win business in new markets. Rob's particular specialism is identifying and securing hi-value procurement contracts and accessing large scale investment programmes in complex international market places.

Rob is married with two children, lives in Kent and enjoys sailing, running, rugby and travelling.

Suggested themes for Members' questions

1. UKTI background, context and rationale for exporting

2. International trade and Kent – benefits and any disbenefits for Kent businesses and the Kent economy

3. Kent's export performance

4. UKTI work with KCC – past and present/challenges and opportunities

5. Kent International Business

6. Unlocking Kent's Potential? - EU Structural Investment Funds (including European Regional Development Funds - ERDF) – challenges, risks and opportunities for Kent

7. The role of LEPs and Opt-ins – challenges, risks and opportunities for Kent

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CBI
THE VOICE OF BUSINESS

The only way is exports

Renewing the UK's role as a trading nation

CBI on
Exports

Contents

Foreword

To deliver sustainable growth at home, the UK needs to renew its role as a trading nation. This means boosting exports across the board and ensuring that British access to the biggest market in the world, the European Union's Single Market, is protected.

Yet with growth faltering in many mature economies, we need to vigorously pursue opportunities in high-growth, emerging markets. Being objective about where the UK's economic strengths lie and how they align with demand in these markets must be at the heart of our outlook.

Exports to Brazil, Russia, India, China (BRICs) have grown – but from a very low base. Even if growth continues to pick up as it has done in recent years, exports to these countries will not make up the majority of the UK's total until around 2047, putting us behind many of our competitors. This is a stark reminder of the mountain that we have to climb, yet is unsurprising given that, on the whole, ships arrive in the UK with considerably more goods than they leave our shores with.

Since 2011, when the CBI published *Winning overseas* with Ernst & Young, government has rightly taken action to put the UK on a more competitive footing. The Prime Minister's direct participation in trade missions has supported a range of high-value business deals. Similarly, the Chancellor's ambition to double the value of UK exports by 2020 has helped focus minds in business and Whitehall.

UK Trade and Investment (UKTI) has also set an example, developing greater commercial nous. As a result, business attitudes towards its services are moving firmly in the right direction, although challenges around consistency and visibility remain.

Yet key aspects of wider government policy continue to neglect the importance of UK trade. Our competitors recognise that winning the global race is a team effort, and include every business-facing government function in their push for international success. Too often, British officials consider trade to be something that only UKTI is responsible for.

We need to catch up by expanding top-of-government support for exporters into a whole-of-government approach. This report assesses recent UK trade performance and contributes the business perspective on the key barriers to progress, while also challenging British companies to develop global ambitions.

Action needs to be immediate if we are to match the efforts of our competitors and reverse the UK's declining share of global trade. By putting exports at the heart of industrial strategy and setting the right resourcing framework through an all-of-government commitment, government can help underpin businesses' efforts to seize opportunities in emerging markets.

The title of this report underscores our view that, while there is no silver bullet that delivers growth, exports will be an essential component to securing a prosperous global future for the UK.

Katja Hall
Chief Policy Director

> “Our competitors recognise that winning the global race is a team effort, and include every business-facing government function in their push for international success.”

Executive summary

Improving the UK's export performance is central to our future prosperity. With public finances constrained and domestic consumers still burdened by debt, one of our best prospects for sustainable economic growth is through increased exports.

The UK must shape a new role for itself in a fast changing world. As the balance of world economic power shifts increasingly away from developed, mature economies towards emerging high-potential challengers, business as usual is not an option.

We need to renew our role as a trading nation. For the UK to pay its way in this new, dynamic environment, we must export more and more quickly. There are three essential strands to renewing our role as an exporting nation:

- Assessing what we do well and how that matches up with the needs of high-growth emerging economies around the world, and nurturing our comparative advantages
- Maintaining and deepening our access to the biggest market in the world – the European Union's Single Market
- And to succeed in the longer term, the UK must play its part in securing an EU-wide free trade agreement with the USA and with others around the globe.

The main focus of this report is on the first of these strands: what we need to do to seize the opportunities in the newly emerging markets of the world. Some progress has been made against the five point plan the CBI set out in 2011 (**Exhibit 1, p8 and Exhibit 13, p19**) but the additional recommendations in this report would reinforce the place of UK exporters in the world's more mature markets.

1

UK exports have underperformed

The UK has persistently run a trade deficit over the past 15 years, despite possessing some strong comparative advantages. Export performance has continued to disappoint more recently, with the gains from a large depreciation in sterling yet to be fully realised.

- The UK's share of global exports has fallen steadily over time
- The UK has some valuable comparative advantages...
- ...but recent export performance has disappointed
- The gains from sterling's depreciation have not yet filtered through fully to exports...
- ...or encouraged switching expenditure away from imports
- As a result, net trade has not materially supported economic growth.

Businesses must match capabilities to changing demand

The balance of world economic growth is tilting rapidly from developed, mature economies towards emerging high-potential challengers. Businesses recognise that they must respond to the challenge. That means re-engineering capabilities to match demands in the world's emerging markets.

- The UK has seen supply chains hollowed out...
- ...but more can be done to strengthen the UK supply chain network
- Business strategies and investment should assess and aggressively exploit export opportunities.

2

Seizing the opportunities in emerging markets

With growth faltering across many advanced economies, the UK needs to take a hard-headed look at where global growth will come from in the future and how the UK can best position itself to access high value export markets. That requires business and government to work together to make the most of the opportunities.

- The UK's drive for export growth must focus on emerging economies
- Other major exporters currently have a stronger presence in the BRICs…
- …so UK business and government efforts must target high-growth markets…
- …while recognising these can pose extra challenges in doing business
- Longer term, emerging market demand will change, and should align more closely with the UK's strengths
- The UK's current export markets will nonetheless remain important.

Putting exports at the heart of industrial strategy

Growing our exports depends on businesses identifying new opportunities and winning new orders. But government has a number of essential roles to play in supporting that activity. We need to learn from many of our competitors who are more active in supporting exporters through their industrial strategy, aviation links to markets and sending out the message that they are keen to do business across the globe.

- Boosting exports must be the keystone of the UK's industrial strategy…
- …by learning from past mistakes and successes
- Exports and aviation links go hand-in-hand
- Businesses should be able to expect robust intellectual property (IP) protection overseas
- The UK needs to be – and seen to be – a welcoming hub for global trade
- Perceptions and practical issues need to be addressed in tandem
- The campaign against global corruption needs to avoid unintended consequences.

Setting the right resourcing framework

The five-point plan of the 2011 *Winning overseas* report called on government to provide the right policy framework to boost businesses' export capability. A renewed top-of-government commitment to this goal has yielded dividends for UK Plc. From the Chancellor's ambition to double UK exports to £1 trillion and raise the number of exporting companies by 100,000 by 2020 to the Prime Minister's personal facilitation of trade missions, UK exporters can see a clear commitment. This top-of-government commitment needs to be complemented by all-of-government action and the effective channelling of resources to support exporters.

- UKTI and UK Export Finance need greater flexibility in how they deploy their resources
- Government support can help manage the risks of exploring overseas markets
- Promised improvements in export finance must be swiftly delivered and intensively marketed.

Exhibit 1 The CBI/Ernst & Young five-point plan to boost UK exports — *Winning overseas*, 2011

1. Government must set a high bar for export performance to be met through a 2020 national exports strategy
2. Government must provide the right policy framework to boost businesses' export capability
3. UKTI must inject greater commercial focus into its operations to better support UK businesses
4. CBI will take the lead in supporting UK businesses entering new markets
5. Business and government must work together to increase the availability of export finance

Recommendations

Businesses must match capabilities to changing demand

- **RECOMMENDATION 1:** Businesses and trade associations should take targeted action to strengthen domestic supply chains, invest and build key capabilities for the future

Putting exports at the heart of industrial strategy

- **RECOMMENDATION 2:** Plans to boost export performance in emerging markets must be embedded in all government strategies for sectors
- **RECOMMENDATION 3:** The Davies Commission must deliver a strategy for the short, medium and long term to boost capacity and promote investment in connectivity across the UK
- **RECOMMENDATION 4:** The government must work with industry on the review of the current night flights regime to ensure it carefully considers the needs of the air freight sector and its delivery cycles in the future
- **RECOMMENDATION 5:** The government should ensure that the EU uses its economic weight to press for robust IP protection provisions in international trade negotiations. This requires active UK engagement on IP initiatives in Europe
- **RECOMMENDATION 6:** The UK needs to develop a reputation for being open to top talent, by streamlining processes and setting out which key markets are to have premium visa services
- **RECOMMENDATION 7:** The government should review the practical impact of the Bribery Act on competitiveness, with a particular focus on small and medium-sized enterprises (SMEs)

Setting the right resourcing framework

- **RECOMMENDATION 8:** Prioritise increasing awareness of UKTI and UK Export Finance, with particular attention paid to communication with SMEs
- **RECOMMENDATION 9:** To support high-growth export champions, the government should introduce a New Markets Incentive – a targeted tax credit to underpin exploratory export activity by SMEs
- **RECOMMENDATION 10:** The government must urgently deliver and then intensively market the UK Export Finance direct lending facility
- **RECOMMENDATION 11:** Incorporating export finance into the planned business bank should create a 'one stop shop' for business finance

1 UK exports have underperformed

The UK has persistently run a trade deficit over the past 15 years, despite possessing some strong comparative advantages. Export performance has continued to disappoint more recently, with the gains from a large depreciation in sterling yet to be fully realised.

- The UK's share of global exports has fallen steadily over time
- The UK has some valuable comparative advantages...
- ...but recent export performance has disappointed
- The gains from sterling's depreciation have not yet filtered through fully to exports...
- ...or encouraged switching expenditure away from imports
- As a result, net trade has not materially supported economic growth.

The UK's share of global exports has fallen steadily over time

Over the past few decades, developed economies have seen their share of global exports decline – from over three-quarters in the mid-1980s to just 55% in 2011. Much of this is explained by the growing prominence of developing economies (**Exhibit 2**). Over the same period, their global export share climbed to over 40% in 2011 (from 28% in 1980), fuelled in part by low labour costs enabling them to compete successfully in developed markets.

But not every developed economy has fared the same. For example, Germany's global exports share actually rose in the early 2000s and has stayed broadly constant since (**Exhibit 3**). In contrast, the UK's share of global exports has fallen to just 3.4% of world exports in 2011, almost half that in 1980 (6.2%). So for the UK there have clearly been other factors at work. As outlined later, these differences in export performance are largely down to differences in the composition of trade, with Germany more aligned with emerging economies' heavy industry requirements. The UK has had comparatively lower export exposure to faster-growing economies, with its current exporting strengths less suited to their present needs. However, the UK's poor aggregate performance does mask some disparities – for example, the UK was among the largest exporter of services in 2011 (second only to the US), compared to its position as only the 10th largest exporter of goods.

Exhibit 2 Share of global exports (%)

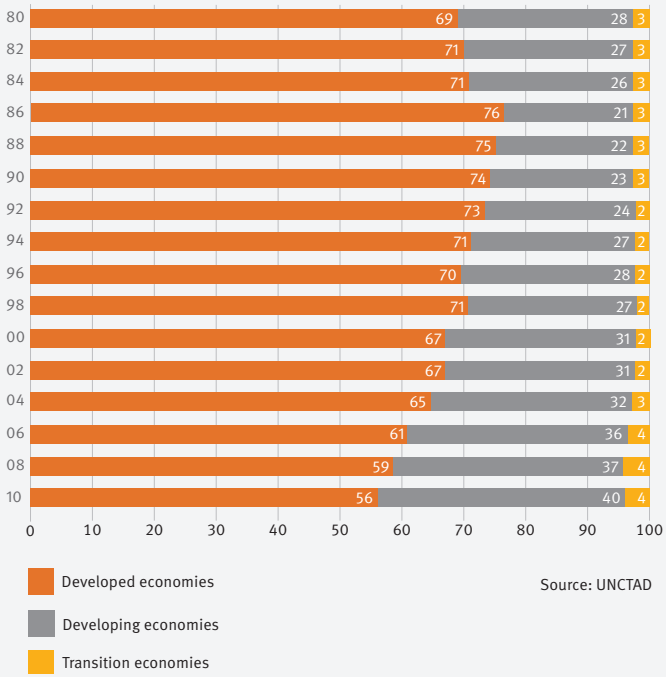
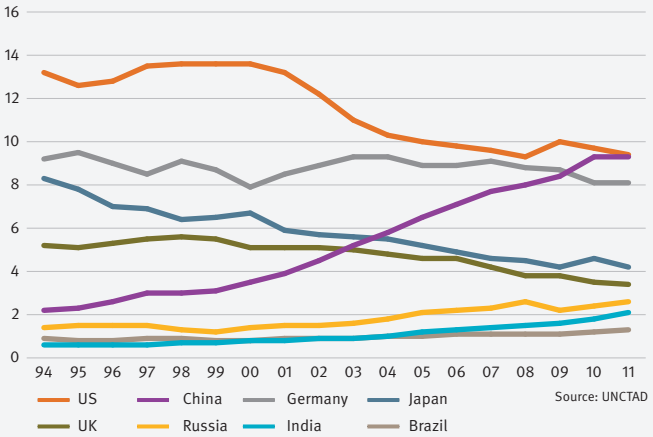


Exhibit 3 Share of global exports by selected countries (%)



Recently, the sharp depreciation in sterling which followed the financial crisis was expected to support UK export growth. The pound depreciated sharply over 2007 and 2008 – it is currently around 26% down on its 2007 peak. This is much larger than the fall in the currencies of the UK's major trading partners, with the euro down by just 0.5% compared to January 2007 and the US dollar down 3.2%.

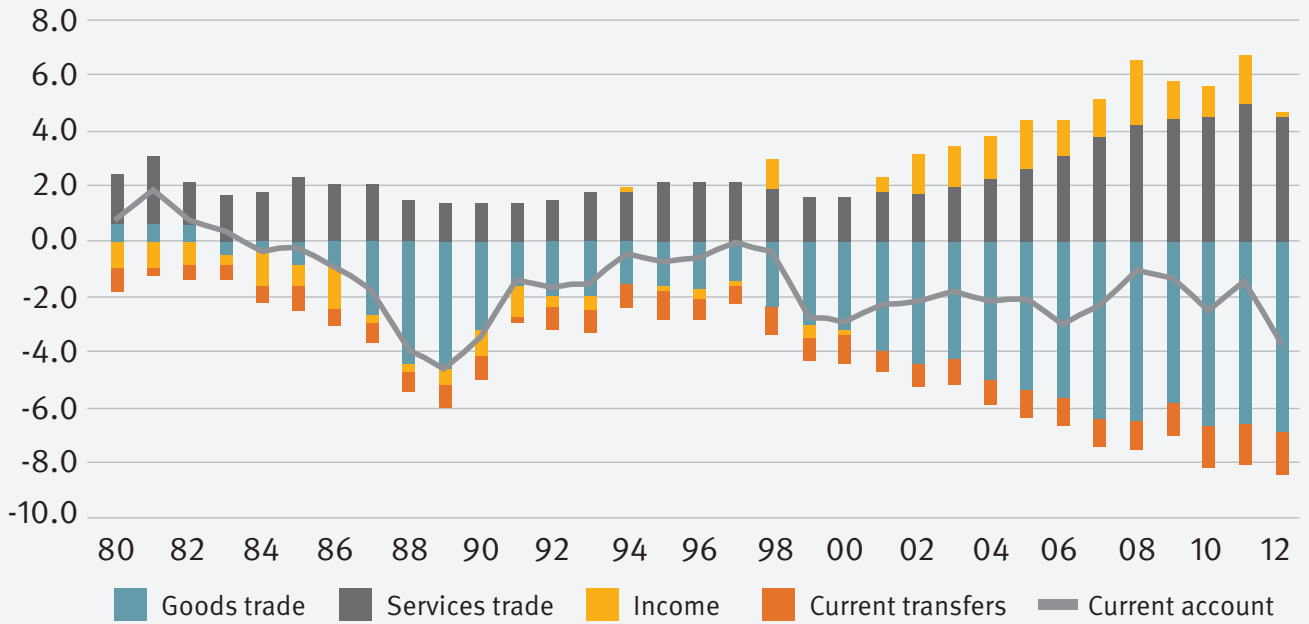
The UK has some valuable comparative advantages...

The UK has run a persistent trade deficit since 1998, driven by an ever-widening shortfall in the value of goods trade (the goods deficit stood at almost 7% of GDP in 2012). In contrast, we have run a growing surplus in services (4.6% of GDP in 2012), partially offsetting the deficit in goods (**Exhibit 4**).

Certain types of services are also exported through outward foreign direct investment, i.e. through a UK-based company creating a base in the destination market. The returns from this are likely to fall under the income balance of the current account (which records net flows of income into the UK), which has also recorded a persistent, although volatile, surplus since the early 2000s.

Despite the overall trade deficit, the UK has a number of valuable exporting strengths. These are areas in which the UK has a comparative advantage. There are several ways of measuring comparative advantage, but the simplest is to look at the sectors in which the UK runs a trade surplus. Another broad measure is where productivity in a sector is high relative to other industries in the economy.

Exhibit 4 **UK current account balances (% of GDP)[1]**



Source: Office for National Statistics/Haver Analytics

Judging by trade balances, the UK's current strengths lie mostly within financial and business services (**Exhibit 8, page 14**), and some knowledge-intensive areas of manufacturing, such as pharmaceuticals, aerospace and specialised machinery (**Exhibit 5**). On the productivity measure, transport and machinery equipment – the broad categories under which aerospace and specialised machinery fall – figure strongly once again (**Exhibit 6**).

The UK's specialism in knowledge-intensive manufacturing is largely a product of its strong skills base in that field and a global lead in research and innovation. Its comparative advantage in financial and insurance services, with the evolution of London as a world-leading centre for financial services, owes much to a highly-skilled workforce and language and time-zone advantages.

Exhibit 5 Trade balances, selective sector breakdown 2011 (£bn)

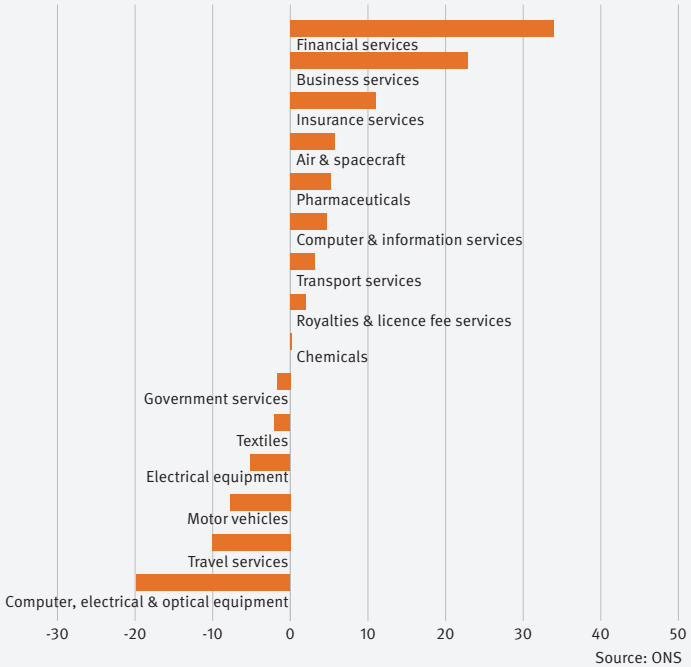


Exhibit 6 Productivity, Q3 2012 (output per hour), selective sector breakdown (2009 = 100)

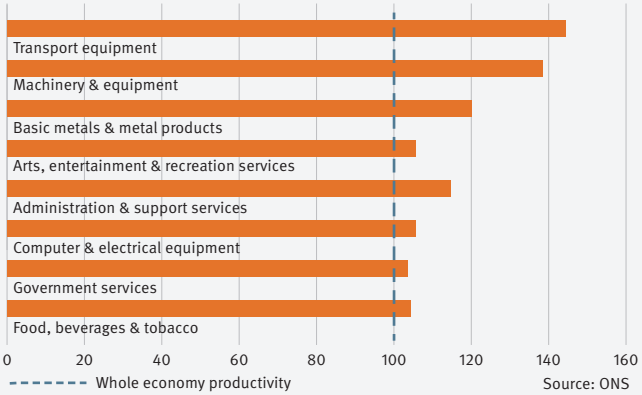


Exhibit 7 Export volumes (Q2 2008=100)

Source: ONS

Exhibit 8 Ryder Architecture – making the most of overseas opportunities for UK specialists

Ryder Architecture was established in 1953 in Newcastle and now works across the UK from offices in Newcastle, Glasgow, Liverpool and London and internationally in South East Asia and the Middle East. Ryder's quest for excellence in architecture is supported by a continuing evolution of best practice in the design process and business within a culture that promotes collaboration, creativity, empowerment, entrepreneurialism and teamwork.

Ryder first worked overseas in the early nineties and for several years international work has been an ambition to help the business diversify and grow as well as provide greater opportunities for staff. The onset of the UK recession coincided with an opportunity to pursue a major healthcare project with a Hong Kong-based practice, and the collaboration helped lessen the risk.

After a few visits and presentations at conferences – supported by UKTI – Ryder landed a master planning commission in Dalian in north east China.

It was a challenge for Ryder to commit senior resource and finance to building its overseas profile given the prolonged period before seeing a return, especially during the recession. Now, however, they are realising the benefits for the whole business and are confident of a good return on investment.

Managing Partner Mark Thompson says *'the buzz and excitement generated by people working on projects on the other side of the world and having the opportunity to visit is impossible to quantify, but is certainly an advantage in retaining and attracting talent. An international portfolio has also helped our credibility when bidding for projects in the UK providing greater diversity and a more robust foundation for growth.'*

Developing their international portfolio is a key driver for Ryder in the coming years. UK design skills are valued in fast-growing markets such as China, Hong Kong and Singapore so Ryder are able to sell expertise in specialist sectors such as healthcare. *'Looking at the opportunities being presented to Ryder now, despite the almost fatal impact of the recession, these are the most exciting times I have experienced,'* Thompson observes, *'we are at the start of an exciting journey onto the international stage.'*

...but recent export performance has disappointed

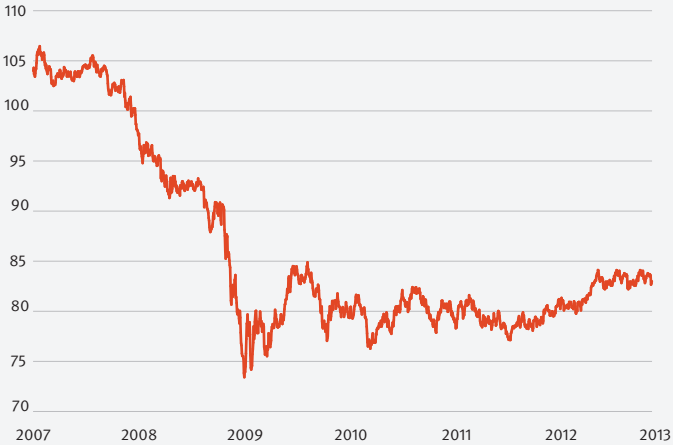
Despite these comparative advantages, the UK's export performance has continued to disappoint in recent years: compared to their pre-recession peak (in Q2 2008), the volume of exports has fallen (by 0.6%). The decline is entirely accounted for by lower exports of services, which are still down on their pre-recession peak (-5.0%), while there has been a small rise in goods exports volumes (+2.3%) (**Exhibit 7**).

In nominal terms, the main driver of the decline has been the financial services sector – the UK's main specialism – which has seen the value of exports fall by 19% since mid-2008. This is clearly a response to the financial crisis, and it is not clear what the likely path of financial services exports will be over the coming years. Nonetheless, the impact on total exports underscores the far-reaching importance of the financial services sector to the UK's economy as a whole.

The gains from sterling's depreciation have not yet filtered through fully to exports...

The UK's recent export performance has disappointed despite the sharp fall in its currency. Sterling fell by 31% between 2007 and 2008 (**Exhibit 9**) and, excluding interim fluctuations, has generally remained low since (still down 25% on its 2007 peak).

Exhibit 9 Sterling effective exchange rate (January 2005=100)



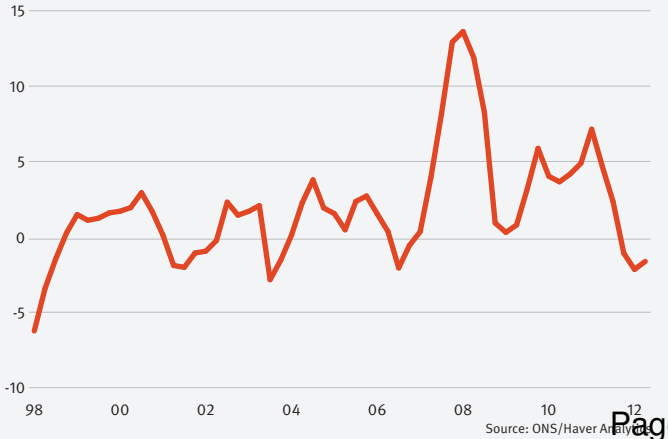
Source: Haver Analytics

With UK-produced goods and services cheaper in trading partners' currencies, this should have boosted export volumes. This has occurred to a small degree, with export volumes up by 4% since sterling's trough in Q4 2008 (although, as outlined, export volumes are still below their pre-recession peak). Nonetheless, the boost to exports has not been on the scale expected: at the beginning of 2012, economic forecasters expected export volumes growth of around 4.5% on average for the year, but the outturn was a slight decline (-0.3%).

This compares poorly with the UK's previous trade response to significant exchange rate depreciations. Sterling depreciated by 17% between the end-1990 and early-1993, and export volumes rose by almost 34% over the following three years.

There are several reasons why sterling's fall may not have fed through to strong export growth. Principally, rather than passing on the depreciation through reduced prices and gaining market share, exporters may have chosen to keep prices unchanged or even raise them in order to support margins. This might have been a particularly attractive option given the heightened uncertainty over future demand and business prospects. Reflecting this approach, the export price deflator – a measure of export price inflation – continued to rise between 2010 and early 2012 in the wake of sterling's depreciation (**Exhibit 10**). In theory, a rise in margins should also lead to new entrants into the market, creating competitive pressures. However, impaired credit conditions may be impeding this process.

Exhibit 10 **Export price deflator (year-on-year %)**



Source: ONS/Haver Analytics

Some exporters may also not respond to the depreciation if they:

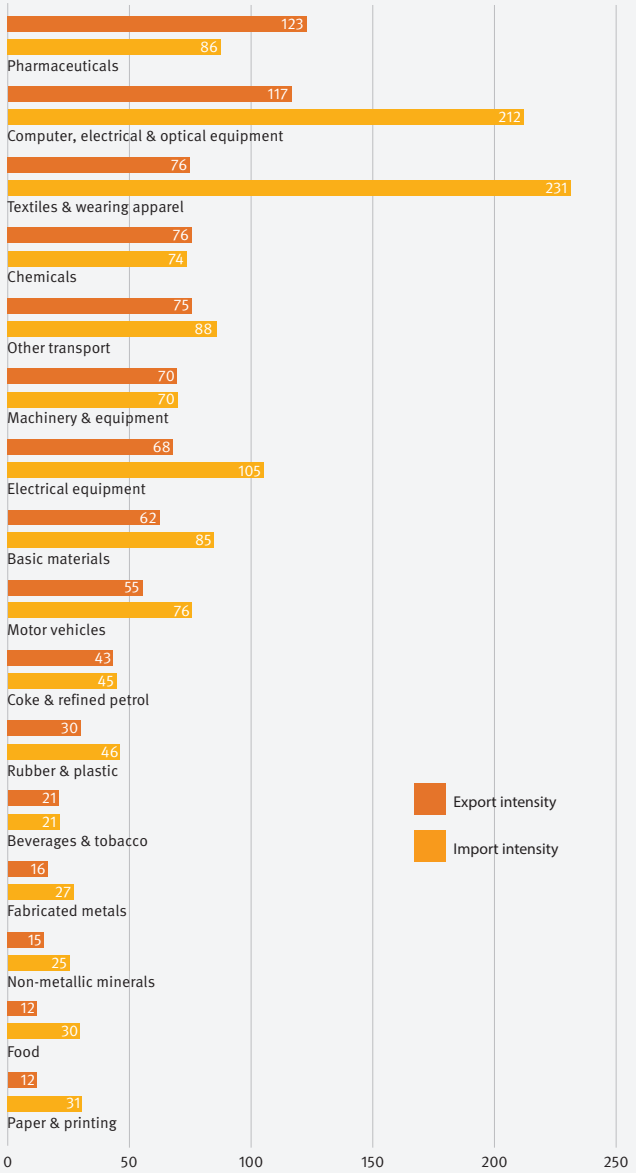
- work entirely in foreign currencies
- import a large amount of their inputs
- employ currency hedging
- compete on non-price factors.

Efforts to boost market share could also have been hampered by sluggish activity in the UK's major export markets. However, even taking this into account, the UK's recent trade performance has been surprisingly weak.[2]

...or encouraged switching expenditure away from imports

As well as the impact on exports, sterling's fall should have exerted downward pressure on demand for imports. A weaker currency raises the relative price of imports, so encouraging demand to switch to domestically produced equivalents – an effect illustrated by measures of "import penetration". But while several indicators[3] show a moderation in import penetration trends over 2011 (three years after sterling's trough), import penetration subsequently picked up over the course of 2012.

Exhibit 11 Export and import intensity of manufacturing sectors, 2010 (exports or imports as a % of turnover)



Source: ONS, CBI Calculations

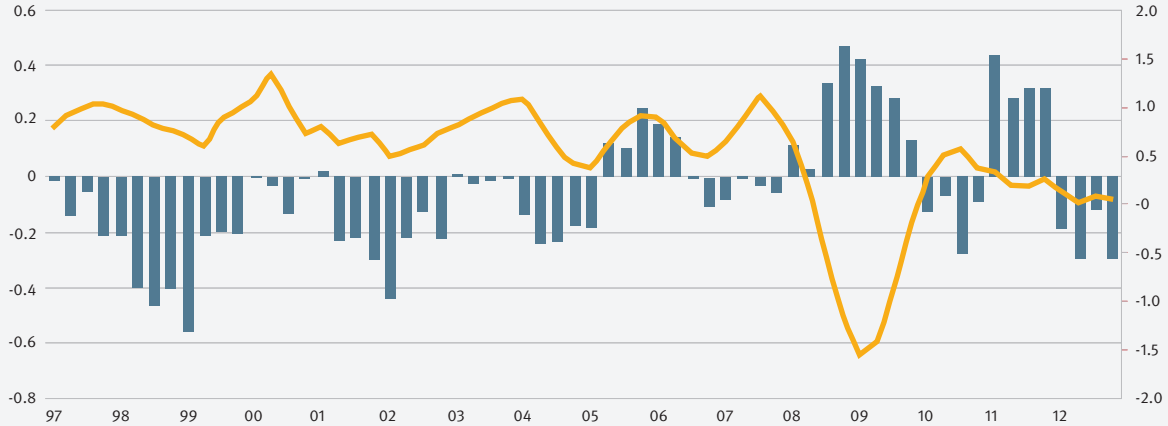
Since the end of 2008, import volumes have risen (by 3%) – similar to the rate of rise in exports (4%). The strength of imports might be seen as a positive sign, reflecting the resilience of UK domestic demand relative to its trading partners (notably the Eurozone). However, another – less encouraging – explanation could be a high level of import-dependency on the part of UK producers.

Areas of manufacturing that are already export intensive (sectors where exports account for a high proportion of turnover) also have a high degree of import intensity (**Exhibit 11**), meaning that exports and imports will tend to move together. This may be because there is no suitable domestic substitute for imported materials. So exporters can find themselves in a vicious circle: they may be forced to raise the price of goods sent overseas to cover higher production costs arising from the higher price of imported components, or suffer lower margins. This pattern may well be a factor behind the strength in export price inflation between 2010 and 2012, and the apparent disconnect with sterling movements.

As a result, net trade has not materially supported economic growth

If import growth on the current pattern continues – despite a low sterling exchange rate – it will hold back the economic growth that should come from any boost to exports. Apart from a brief period in 2011, net exports (i.e. exports minus imports) have failed to register a material positive contribution to GDP growth in recent years (**Exhibit 12**).[4]

Exhibit 12 **GDP growth and contribution from net trade, four-quarter rolling average**



Source: ONS/Haver Analytics

Exhibit 13 Growing business overseas – progress to date against key benchmarks

In the CBI/Ernst & Young 2011 *Winning overseas* report, we set out a five-point plan to grow UK business overseas. The first of these steps was for the government to develop and implement a national exports strategy by 2020, underpinned by a number of key performance indicators (KPIs) to be reviewed after a period of five to ten years. While this period of review is some way off, a stock-take suggests that progress against key benchmarks has faltered.

One such benchmark was for the level of net exports in volume terms to rise to +2.5% of GDP by 2016, from -2.4% in 2010 (subsequent data revisions mean that the 2010 figure is now -2.0%). The volume of exports alone should amount to 36% of GDP by 2016, from 29% in 2010 (subsequently revised to 30%).

As of 2012, exports alone have inched higher as a proportion of GDP (to 31%), but are below where we had initially expected them to be at this stage (32%). Similarly, the level of net exports has also risen (to -1.5% of GDP), but not to the extent expected (our KPI had factored in a rise to -0.6% of GDP in 2012). Indeed, the level of net exports has actually fallen on 2011, when it had hit -0.5% of GDP.

However, as outlined earlier, much of is this is down to weaker export growth than expected (where export volumes fell by 0.3% in 2012), due to sluggish global demand – impacted largely by the effects of the Eurozone crisis on sentiment and activity. Growth in imports has also been comparatively resilient, as domestic demand in the UK has held up better relative to its major trading partner, the Eurozone.

Government action does indeed have the potential to influence this particular KPI, but it will naturally continue to be highly influenced by developments in the global economy. Should a rebalancing of exports proceed as broadly expected, there will still be scope to meet this KPI by 2016. This will also be somewhat contingent on our other KPIs – to raise the proportion of SMEs exporting to one in four by 2020, from one in five currently[5], and for average annual growth in nominal exports to the BRICs to exceed 11% by 2020, both of which are too early to assess at this stage.

2 Businesses must match capabilities to changing demand

The balance of world economic growth is tilting rapidly from developed, mature economies towards emerging high-potential challengers. Businesses recognise that they must respond to the challenge. That means re-engineering capabilities to match demands in the world's emerging markets.

- The UK has seen supply chains hollowed out...
- ...but more can be done to strengthen the UK supply chain network
- Business strategies and investment should assess and aggressively exploit export opportunities

The UK has seen supply chains hollowed out...

The medium-sized and smaller businesses that supply the sectors where the UK has a comparative advantage play a vital role in UK exports. They also make the UK an attractive place for larger companies to base their operations, providing a secure, responsive resource to meet production needs. Although some medium-sized and smaller businesses export their goods and services directly, many are involved in exports primarily as links in larger companies' supply chains.

Over the period from the mid-1990s to 2007, however, the persistent strength in sterling and low production costs in developing economies pushed down the cost of imports, making it attractive for firms to import components. This had the effect of hollowing out supply chains.

To some degree, import dependency will always remain, as other countries are able to produce more efficiently some of the inputs needed by UK producers. But to remain internationally competitive, we need innovation to improve products, efficiency and productivity across all those sections of the UK supply chain that are best delivered domestically.

...but more can be done to strengthen the UK supply chain network

There is plenty of scope to strengthen the UK supply chain network – helping businesses invest in skills, quality and performance improvement, innovation and physical capital. This requires cross-sector analysis to determine areas where there are gaps, as well as needing more intensive cooperation between UK businesses of all sizes (**Exhibit 14**). The boost to economic growth from stronger domestic supply chains – and therefore decreased reliance on imports – is a key aspect of export policy.

The Automotive Council, for example, has identified the potential for the UK to provide as much as 80% of all component parts for vehicle assembly if our manufacturing capacity is increased.[6] Some businesses have proactively been investing in the security of their domestic supply chains: for example, Jaguar Land Rover and Rolls Royce are actively working to nurture British suppliers through skills training and capital investment. It is in the interest of every UK business that this sort of collaboration should become much more widespread.

Exhibit 14 CBI connecting medium-sized businesses and supporting overseas ambitions

Peer-to-peer support is a critical factor when businesses are exporting for the first time or making investment decisions in order to enter new markets. As part of the *Winning overseas* action plan the CBI committed to helping businesses share experience and expertise from internationalising their firms as well as working with government to improve support for exporters.

The CBI is actively delivering this plan at home and abroad. M-Clubs were set up as part of the CBI's *Future champions* campaign to provide a forum for medium-sized businesses (MSBs) to discuss the business landscape, their growth potential and how they plan to achieve it. Taking place across the country, MSBs connect and share ideas on key topics for this business demographic: access to growth capital, leadership development and increasing exports to new markets.

Throughout CBI work with exporters, issues with export finance were a recurring theme. Another of the *Winning overseas* commitments the CBI made was to set up an export taskforce, to produce recommendations on how to remove barriers firms face when accessing export finance. During 2012, this group worked closely with UK Export Finance to improve the range of support available for businesses looking to expand overseas and in 2013 further work will be done.

Businesses recognise that to be successful at breaking into a market there is no substitute for visiting it. The CBI Director-General, John Cridland and Deputy Director-General, Neil Bentley, have been part of the Prime Minister's trade missions to India, Brazil and Mexico. In collaboration with trade minister Lord Green and UKTI, the CBI has led delegations, including visits of medium-sized businesses to Turkey and Russia in 2012.

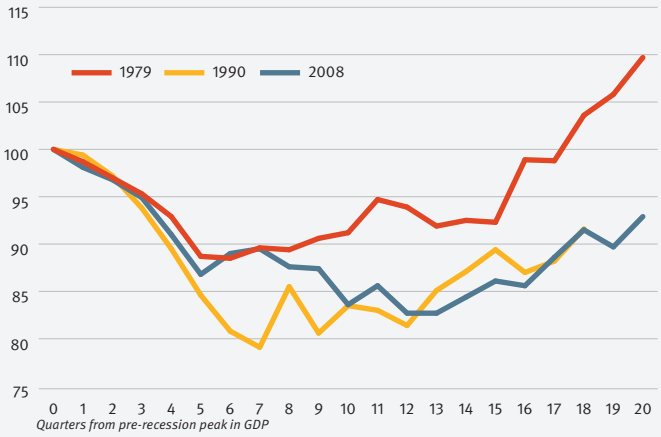
In 2013 the CBI's exports campaign is set to continue. Alongside the M-Club network is focus on critical issues for these businesses, there will be detailed work on the exporting barriers which MSBs face and recommendations designed to boost their overseas ambitions.

Business strategies and investment should assess and aggressively exploit export opportunities

Increasing private sector investment is essential to raising exports. That applies not only to the physical capital necessary to export but also in terms of market research and product innovation.

So far, business investment has recovered to a broadly similar extent to that seen after the 1990s recession (**Exhibit 15**). Nonetheless, capital spending is likely to have been depressed by heightened uncertainty over demand as well as the impact of the financial crisis on the cost and availability of credit – both for existing exporters looking to expand, and firms looking to exploit new business opportunities overseas. The combined effect of all these factors is likely to have limited the scaling up of the UK's export potential.

Exhibit 15 Level of business investment compared with previous recessions (peak in GDP = 100)



Source: Bank of England *Inflation report*, February 2013

Recommendation 1

Businesses and trade associations should take targeted action to strengthen domestic supply chains, invest and build key capabilities for the future

3 Seizing the opportunities in emerging markets

With growth faltering across many advanced economies, the UK needs to take a hard-headed look at where global growth will come from in the future and how the UK can best position itself to access high-value export markets. That requires business and government to work together to make the most of the opportunities.

- The UK's drive for export growth must focus on emerging economies
- Other major exporters currently have a stronger presence in the BRICs...
- ...so UK business and government efforts must target high-growth markets...
- ...while recognising these can pose extra challenges in doing business
- Longer term, emerging market demand will change, and should align more closely with the UK's strengths
- The UK's current export markets will nonetheless remain important.

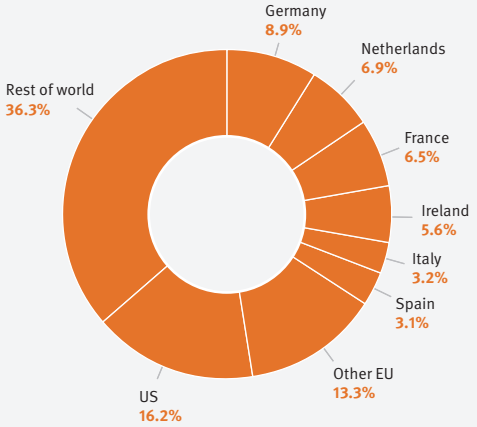
The UK's drive for export growth must focus on emerging economies

The UK's historic reliance on mature, advanced economies has been a key factor behind its recent underperformance.

The US and EU together accounted for nearly two thirds (64%) of UK total exports in 2011 (**Exhibit 16**). Like many advanced economies, both regions were hit hard by the global financial crisis and subsequent recession. The Eurozone in particular faces a lengthy period of sluggish activity, deleveraging and structural adjustment. For 2013, the CBI forecasts no growth – indeed a slight decline – in GDP for the Eurozone as a whole. Meanwhile, the US recovery is relatively modest and at risk from the fiscal uncertainty. As a result, the UK's continued dependence on these markets risks holding back export growth.

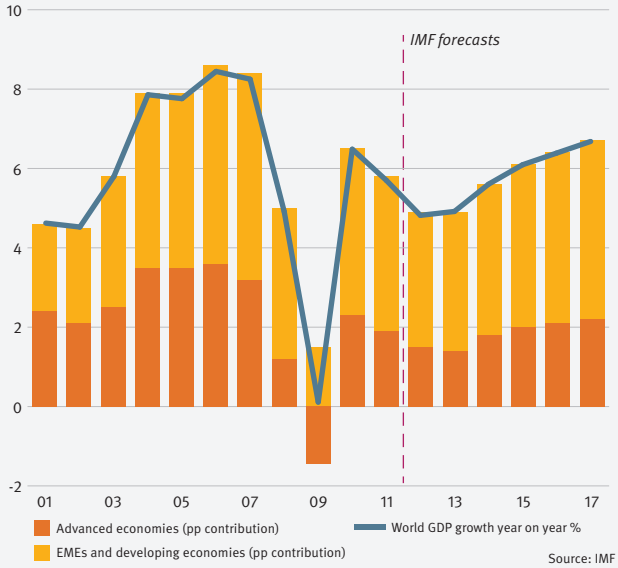
Just to stand still in the export league tables, the UK therefore needs to reorientate its efforts towards those economies that will be more robust sources of demand in the future. Emerging markets – in particular, the BRIC economies – have outperformed others over the past decade and are likely to continue growing strongly in the near term (**Exhibit 17**). Over the next five years, the International Monetary Fund (IMF) forecasts that emerging markets will grow at an average annual rate of 7.7% (8.9% for the BRICs alone), against slower growth for advanced economies (of 4.4%) (**map page 36**[7]). Companies such as Nissan have been adapting their strategies to reflect these global realities (**Exhibit 18, page 26**).

Exhibit 16 UK exports – geographical breakdown (% of total exports)



Source: ONS

Exhibit 17 World GDP growth (PPP adjusted)



Source: IMF

> "Over the next five years, the IMF forecasts that emerging markets will grow at an average annual rate of 7.7% against 4.4% for advanced economies"

Exhibit 18 Nissan: a strategy of growth through exports

Exporting is an essential element of Nissan's business strategy globally. In the UK, Nissan is the largest producer and exporter of cars by volume due to the high productivity and skill of Nissan's workforce, which saw its Sunderland plant again hit record UK production figures in 2012.

In all, 85% of Nissan vehicles produced in the UK are exported and the bulk of these are destined for Europe, underlining the importance of our trading relationship with the EU. As John Martin, Nissan's Senior Vice President for Manufacturing and Supply Chain explains *'The European market is essential to the ongoing health and viability of Nissan's operations in the UK.'*

While the European market is important, growth there is constrained and Nissan is placing a growing emphasis on emerging markets. When the Renault-Nissan Alliance was formed in 1999 the BRIC nations represented only 8% of the total industry volume. There has been a surge in growth in the BRIC nations and other high-growth markets such as Indonesia and Mexico.

By 2012, the BRIC countries represented 36% of global vehicle sales. China, which registered 600,000 car sales in 1999, became the world's biggest car market last year with about 18 million units. Of the 8.1 million vehicles Renault-Nissan sold in 2012, 30% of sales were generated from the four BRIC nations.

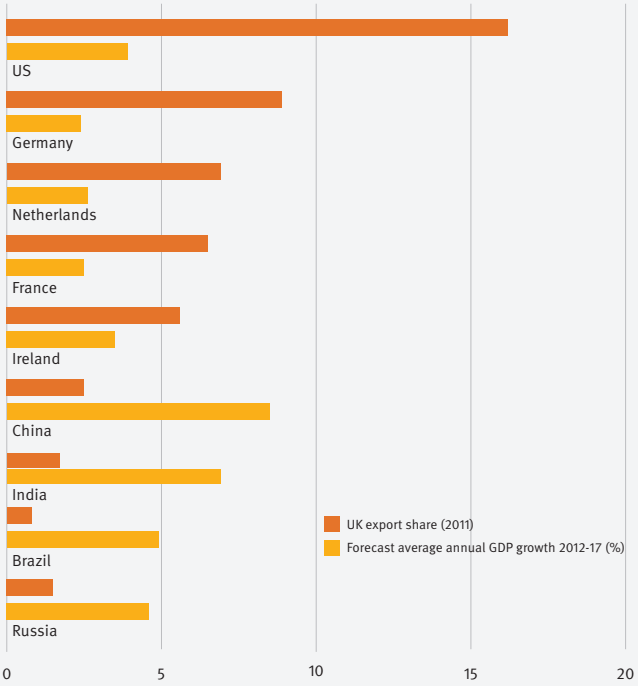
The Renault-Nissan Alliance, has put a great deal of effort into these emerging markets. *'Each market presents unique challenges and for the Alliance, the approach differs from country to country, but the opportunities speak for themselves'*, explains John Martin.

Other major exporters currently have a stronger presence in the BRICs...

At present the UK is poorly placed to exploit the opportunities offered by these high-growth economies. Some progress has been made in recent years: between 2008 and 2011, the value of total UK exports to the BRICs rose by 42%, a much larger increase than those to either the US (9%) or the EU (10%). But much more expansion is needed if the UK is to reorientate significantly away from mature markets.

UK exports to the BRICs are rising from a very low base. Despite strong growth, they made up just 7% of total UK exports in 2011, with those to China comprising just 3% (**Exhibit 19**).

Exhibit 19 UK export share and forecast GDP growth in key markets (%)

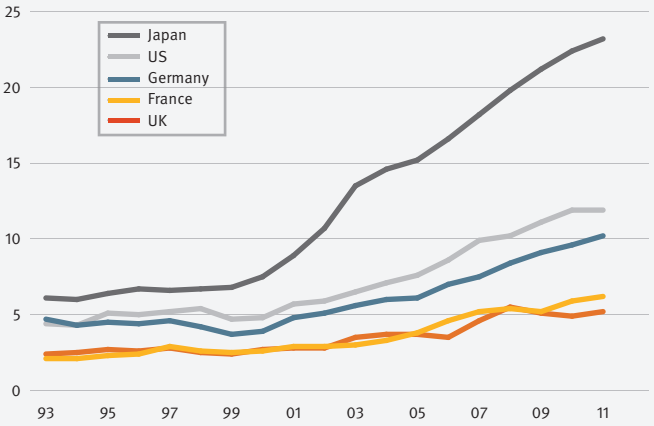


Source: ONS and IMF

Furthermore, it is clear that other major global exporters have a stronger trade exposure to the BRICs, highlighting even more starkly the UK's slow progress to date. Even if Japan is excluded – given its inherent advantages from geographical proximity to China (which accounts for a fifth of its goods exports) – the UK still lags far behind the US and Germany (**Exhibit 20**).

At its current pace of growth, the low level of UK exports to the BRICs means that the process of rebalancing is only likely to occur over a long period. Assuming the value of UK exports to the BRICs alone continues to grow as it has done in the recent past, exports to these countries will not make up the majority of the UK total until around 2047.[8]

Exhibit 20 **Goods exports to BRICs (% total of goods exports for that country)**



Source: IMF/Haver Analytics

> "Exports to BRICs will not make up the majority of the UK total until around 2047"

...so UK business and government efforts must target high-growth markets...

As well as re-orientating exports to the BRICs, the UK will need to identify and penetrate other key markets as they emerge.

An economy outside of the developed world that makes up at least 1% of global GDP could be defined as a potential 'growth market' (**Exhibit 21**).[9] On this measure, several target emerging markets aside from the BRICs stand out – notably Mexico, Indonesia, Turkey and Poland (**Exhibits 22-25, pages 30 and 31**).

Given robust GDP growth forecasts for the next five years and high projected population levels, these economies represent promising potential export opportunities for the UK. As they develop further, productivity levels should also rise, leading to robust growth in profitability and consumer incomes. Indeed, Mexico, Indonesia and Turkey are among the "Next 11" economies singled out by Goldman Sachs, a grouping which they believe could potentially have a BRIC-like impact in rivalling the G7.[10]

Exhibit 21 **Emerging economies over 1% of world GDP (PPP-adjusted)**

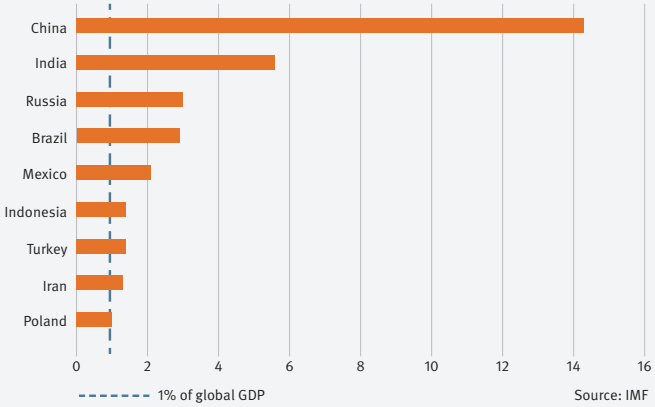


Exhibit 22 Mexico

Mexico has grown strongly over the past decade, at an average annual rate of 4.4%. Forecast economic growth is also strong, expected to average 5.1% to 2017. Mexico is currently the 11th largest economy in the world (in PPP terms), and is widely expected to emerge as a key growth market in the years ahead. It is relatively well placed to deal with global economic shocks, thanks to its floating exchange rate and sound banking system.

The main challenge facing UK firms is Mexico's dependence on the US. Both nations have strong trading links, and given that the UK's specialism in goods is more closely aligned to that of the US, this could act as a competitive disadvantage. US firms will have the added advantage of lower transport costs, stronger networks and knowledge of the market. Broader economic linkages mean that Mexico's economic prospects are strongly linked to those of the US.

Exhibit 23 Indonesia

Indonesia weathered the global financial crisis well compared to its G20 counterparts. Its economy grew strongly in 2012 (by 6.2%), driven in large part by growing investment; businesses are ramping up spending on new factories and infrastructure, providing a strong exporting opportunity. Indonesia's low labour costs and its proximity to China mean it is one of the economies well placed to step into China's role as a global exports hub, as labour costs in China rise.

Indonesia's main drawbacks are similar to those seen in most growth markets – an unpredictable business environment, inflexible labour laws and institutional corruption. Some signs of protectionist policies are also likely to hit the confidence of foreign investors – a key issue, given Indonesia's reliance on foreign investment to offset its current account deficit.

Exhibit 24 Turkey

Barring a sharp contraction in GDP in 2009, Turkey's economy has performed well over the past decade (averaging growth of 8.1%), largely due to macroeconomic reform and fiscal consolidation in the early 2000s. Growth slowed substantially over the course of 2012, but this has widely been viewed as a welcome development as it will help to tackle long-standing imbalances, such as a large current account deficit and over-reliance on domestic demand. Indeed, Turkey is making progress in rebalancing its own exports away from Europe (currently its largest market) towards North Africa and the Middle East, a factor that will underpin more sustainable growth ahead.

Nonetheless, Turkey still has strong trade links with Europe, leaving it vulnerable to a further worsening in the region's activity. This would be particularly damaging to its still large current account deficit (-5.6% of GDP in mid-2012), reducing its resilience to external shocks.

Exhibit 25 Poland

Poland is one of the largest economies in Central and Eastern Europe. The region as a whole has been hit by its substantial trade and financial linkages with the Eurozone. The outlook is also fairly weak, as deleveraging by Western European banks restricts credit availability, and fiscal consolidation drags further on domestic demand.

As a result, while Poland (along with Turkey) has held up comparatively well so far, it is facing strong economic headwinds ahead. This limits its potential as an export market in the near term, but opportunities are likely to be more favourable once global growth is on a firmer footing, particularly as the Eurozone makes further progress in its structural adjustments. Its membership of the EU, as well as proximity to the UK, will also aid the logistics of exporting.

> "Given robust GDP growth forecasts for the next five years, these economies represent promising potential export opportunities for the UK"

Other countries may also present new export opportunities for the UK, based on other criteria. For example, as hitherto low labour costs in China begin to rise and the country moves away from low-end manufacturing, other Asian economies in close geographic proximity look set to step up as global supply chain hubs. This is particularly true of Vietnam, which has the advantages of low labour costs and a stable political environment.[11]

...while recognising these can pose extra challenges in doing business

In assessing the right markets to export to, a range of other factors need to be considered as well as market demand. These range from the effectiveness of governance and political stability to trade restrictions and broader economic prospects. In making inroads into new emerging markets, businesses may also face additional challenges, such as an unfamiliar business environment, inadequate infrastructure and bureaucracy issues, which require extra support (**Exhibit 26**).

Exhibit 26 Zurich Insurance and DAC Beachcroft – helping would-be exporters to take the first step

While expansion into foreign markets is vital for companies to survive and prosper, it can also be fraught with significant risks and potential liability exposures, particularly in emerging markets.

Zurich and its legal partner, DAC Beachcroft, have been considering what insurance and legal advice is critical for businesses to protect themselves against the risks exporting can present. These can include a variety of hurdles including regulatory obligations, complex international tax and licensing rules and supply chain risks.

Often it is getting the basics right that can do most to remove uncertainty, reduce the risk of problems and make disputes easier to resolve. It is of fundamental importance to start with good commercial practice and thorough risk evaluation.

Having effective product liability insurance is also an important step to containing the risk that a defective product may cause injury or damage the property of another. It is essential that a business checks their existing cover automatically extends to goods exported, or can be extended.

While product liability coverage provides valuable protection against injury or damage caused to third parties, the risk of a product simply not working is a business risk. Therefore, legal advice is needed to limit exporters' exposure to product quality losses. This should include steps such as drawing up a clear contract with details of legal structures and applicable law, agreeing specification/performance criteria for the product being exported, drawing up product recall plans in advance and being prepared for quality control audits.

UK exporters should also be prepared to push for English law and dispute resolution provisions in their contracts. Partners in emerging markets may be reluctant to engage with local courts due to the influence of politics and corruption or simply due to delays. English law remains widely respected and London retains a reputation as a leading centre for the resolution of commercial disputes.

So long as exporters take the right steps, plan effectively and manage their risks, there should be no reason for businesses not to make the most of opportunities in high-growth markets.

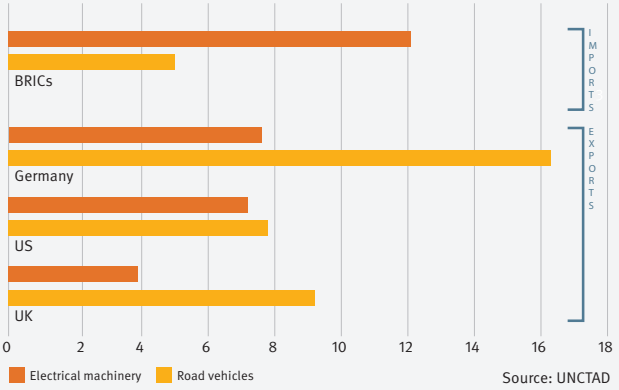
Longer term, emerging market demand will move into alignment with the UK's strengths

A key element of rebalancing our external trade is not only to ensure that the UK targets high-growth economies, but how our exports to these markets align with their demand. Currently, the UK falls short in this regard.

The current imports of the BRICs are at present largely industrial in nature, comprising mostly machinery and transport equipment, fuel-related products and industrial chemicals. This is an unsurprising mix, given their relatively early stages of industrial development. But these products do not tally with the UK's main comparative advantages.

Machinery and transport equipment, for example, is the single largest category of BRIC imports, mostly comprising electrical machinery and motor vehicles. Looking at the UK's trade balances, both areas stand out as having large trade deficits (**Exhibit 5, page 13**). In both, the UK also lags behind its international competitors in exporting to the BRICs (**Exhibit 27**). Indeed, in contrast with the UK's trade deficits, Germany runs a surplus in electrical machinery and road vehicles trade, illustrating its greater success in accessing BRIC economies.

Exhibit 27 Key BRIC imports (% of total goods imports) vs advanced economy exports (% of total goods exports)



Source: UNCTAD

UK exports in these categories could be helped by a weak currency. Indeed, it is possible that the past effects of sterling's depreciation could still be feeding through, as firms take time to adjust their business models in response. For example, firms are likely to take some time in establishing the procedures to export to new markets. Similarly, they will need time to locate appropriate local suppliers to support them on the ground.

Exporters' response to weaker sterling, in terms of raising price or preserving margins, may not serve as an impediment to rebalancing. Higher margins in one sector could encourage other companies that were previously producing for the domestic market to start exporting, thus increasing the overall value of exports.[12] But once again, this type of adjustment would be likely to take place only over a longer period.

More significantly, as the BRICs and other emerging markets reach more mature stages of economic development, their requirements are likely to align more closely with the UK's comparative advantages. For example, specialisms such as financial and business services are likely to benefit as their business infrastructures become more sophisticated. And there is likely to be expanding demand for higher education (**Exhibit 29**). As a result, the UK's current strengths provide key opportunities for supporting a sustained improvement in exports further ahead. Similarly, the UK is likely to retain its comparative advantage in knowledge-intensive areas of manufacturing, as emerging markets take time to transition towards higher-end and comparatively higher-cost areas of manufacturing.

Exhibit 29 University of Southampton – international activity at the heart of its agenda

The University of Southampton has a long history of international activity. From its establishment it has attracted students from around the world and developed global research partnerships. The recent opening of a campus in Malaysia has taken that global activity to the next level.

For the university, an international outlook is central to its strong academic base. Increasingly the university works with multinational companies as well as forming research and education partnerships around the world with other leading institutions.

Attracting international students is valuable for the quality of the education and the overall student experience. Overseas students currently represent just over 25% of the student population, coming from around 140 countries of origin. As Southampton alumni have risen to prominent leadership positions across the globe, the reputation and influence of the university, and the UK as a whole, receive a boost.

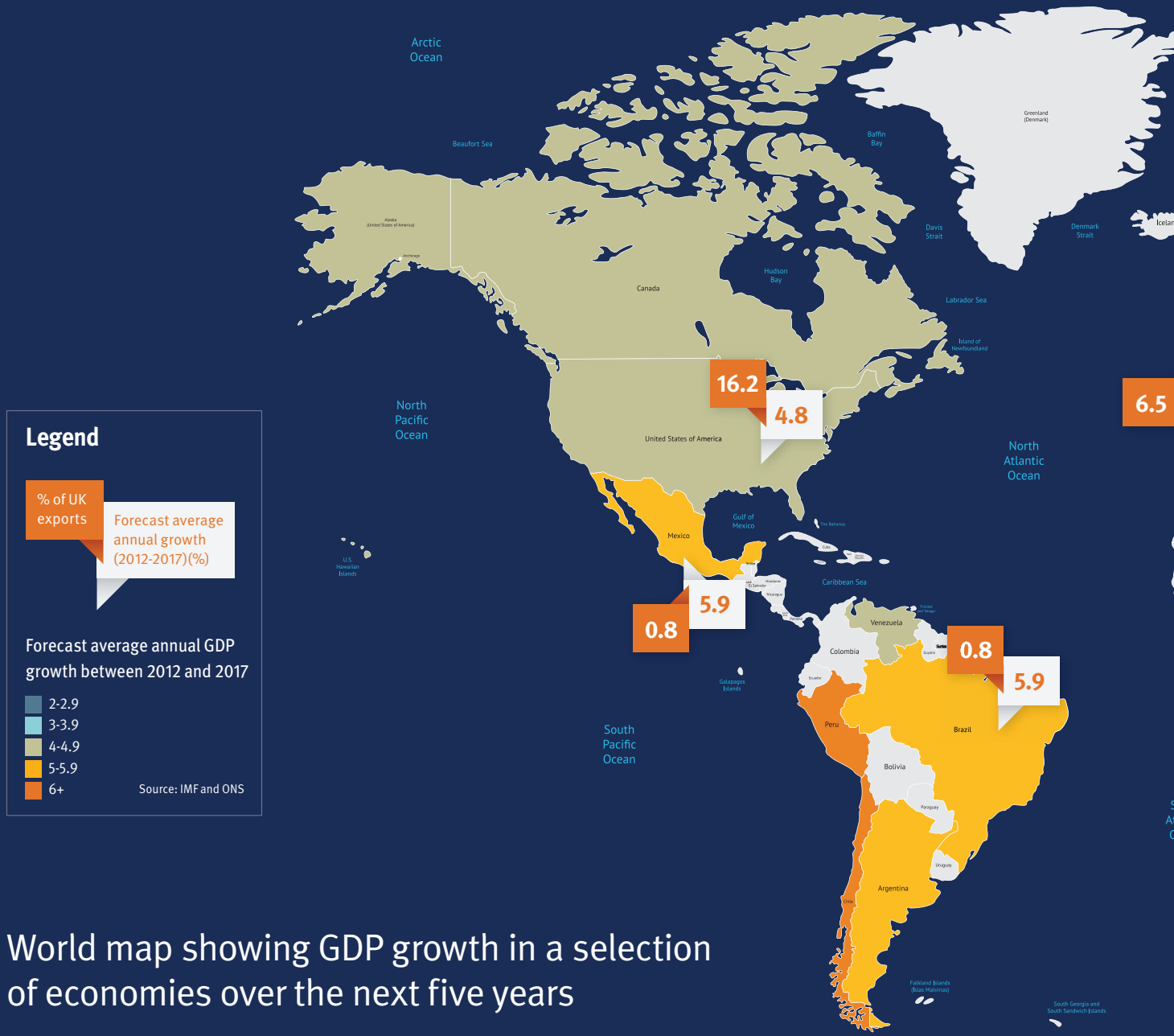
For Mark Spearing, Professor of Engineering Materials and Pro Vice Chancellor (International) for the university, a global outlook is essential for any successful organisation: *'working internationally is vital for the University of Southampton. It is at the core of our ambition to continue to be a world-class university that operates to the very highest standards. There are certainly challenges to operating internationally, not least ones of logistics and understanding and embracing cultural differences,'* Mark observes, *'but the imperative to succeed with the international agenda has never been stronger.'*

An important development of the university's international strategy has been its involvement with the EduCity campus development in Iskandar, Malaysia, where Southampton was invited to participate by the Malaysian government.

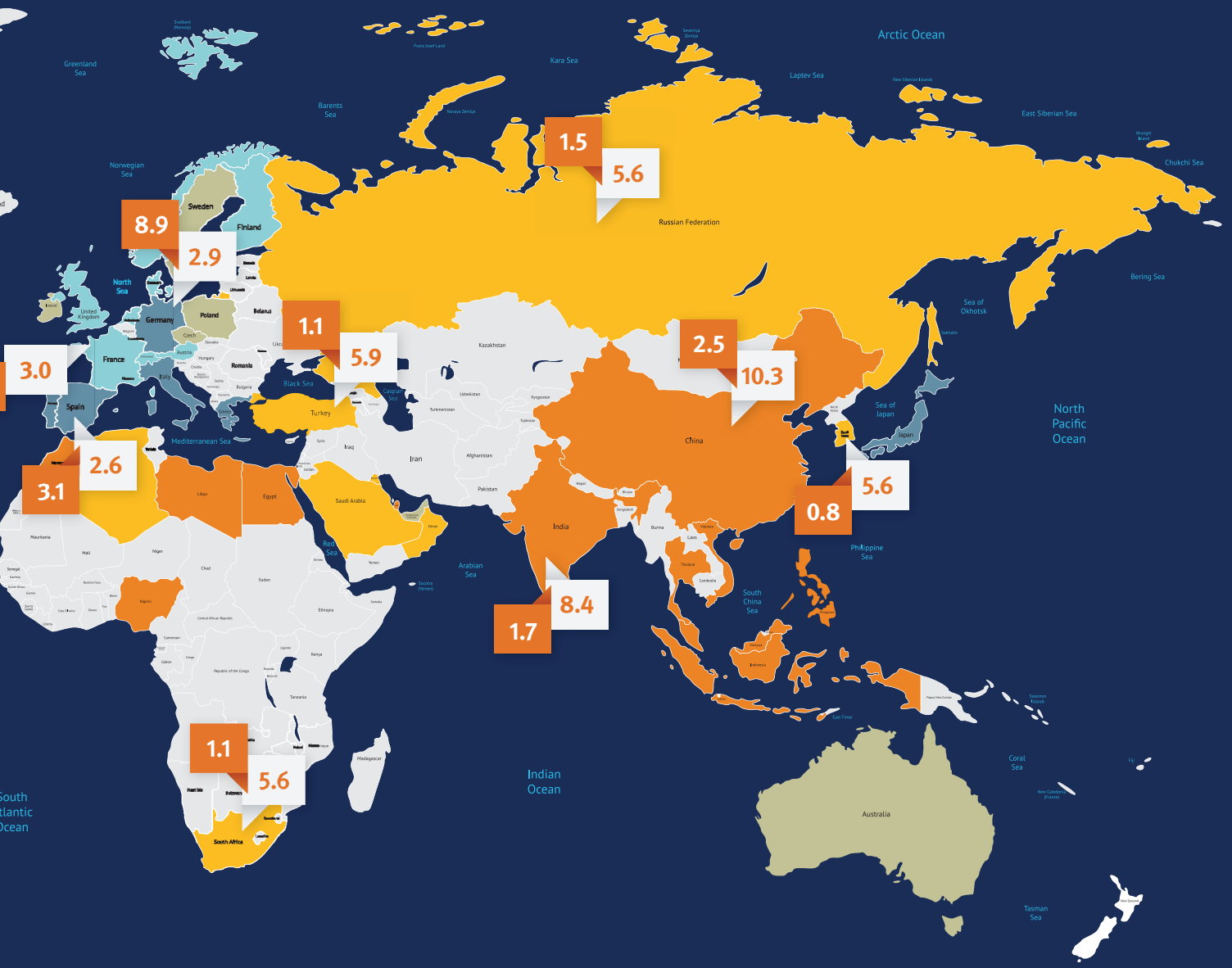
The university is initially delivering engineering programmes but expects to diversify into other areas, providing an education and research base for the university in an economically and culturally vibrant region, that will only grow in importance in the future.

The UK's current export markets will nonetheless remain important

While targeting high-growth emerging economies is paramount to securing stronger export performance, the UK's current export markets will also remain important. This is particularly so for firms looking to export for the first time. Such firms are more likely to break into markets that are geographically closer and have greater cultural similarity (most notably language), given the comparatively lower initial cost of exporting to these countries. Indeed, evidence suggests that the US is the most common destination for UK services exporters, followed by nearby European markets – Ireland, Germany, France and the Netherlands. Only after they have established a presence in these countries will the majority of firms look to distant, less developed or smaller markets.[13] As a result, opportunities in closer and currently more prominent export markets – notably the US and Europe – should not be overlooked.



World map showing GDP growth in a selection of economies over the next five years


Arctic Ocean
Greenland Sea
Kara Sea
Laptev Sea
Barents Sea
East Siberian Sea
Chukchi Sea
Norwegian Sea
Bering Sea
Sea of Okhotsk
North Sea
Black Sea
Caspian Sea
Sea of Japan
North Pacific Ocean
Mediterranean Sea
Red Sea
Arabian Sea
Philippine Sea
South China Sea
Indian Ocean
Coral Sea
Tasman Sea
South Atlantic Ocean
Russian Federation
Sweden
Finland
Norway
Germany
Poland
France
Spain
Italy
Romania
Turkey
Kazakhstan
China
India
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4 Putting exports at the heart of industrial strategy

Growing our exports depends on businesses identifying new opportunities and winning new orders. But government has a number of essential roles to play in supporting that activity. We need to learn from many of our competitors who are more active in supporting exporters through their industrial strategy, aviation links to markets and sending out the message that they are keen to do business across the globe.

- Boosting exports must be the keystone of the UK's industrial strategy...
- ...by learning from past mistakes and successes
- Exports and aviation links go hand-in-hand
- Businesses should be able to expect robust IP protection overseas
- The UK needs to be – and seen to be – a welcoming hub for global trade
- Perceptions and practical issues need to be addressed in tandem
- The campaign against global corruption needs to avoid unintended consequences.

Boosting exports must be the keystone of the UK's industrial strategy...

If the UK is to make the most of the available opportunities, it is vital the government underpins businesses' efforts by positioning the UK as a launch pad for export champions. This involves recognising and nurturing existing strengths through an effective industrial strategy, as set out in the CBI's report *Playing our strongest hand*.[14] The UK's international competitors are assertive about where their current and future strengths lie, and how they can be exploited within global markets. The UK needs to learn from their experience.

For example, South Korea's approach to industrial strategy has centred on support for high-tech manufacturing industries capable of delivering growth through exports. This has taken the form of proactively identifying future engines of growth and then ensuring the conditions are right for them to be globally competitive. This approach involves a focus on the shared capabilities required to underpin growth.

...by learning lessons from past mistakes and successes

For the UK to thrive in this environment, the government must consider what more it can do to underpin the overseas success of potential high-growth sectors. At the moment the UK is playing catch up with competitors like Germany who are better embedded in emerging markets. Learning from missed opportunities in the past, the UK must take extra effort so as not to miss out on the share of emerging market exports in future.

As a first step, the Department for Business, Innovation and Skills (BIS) should ensure exports are consistently prioritised in all of the government's work on industrial strategy, alongside other cross-cutting themes such as skills, technology, access to finance and procurement. This approach should also be reflected in economic strategies within the devolved nations.

The sector strategies currently being produced by the government in partnership with business should therefore identify where there are opportunities to boost exports and the concrete actions needed to achieve this (**Exhibit 30**). New initiatives must draw lessons from the exporting success seen in some industries, such as automotive, and adapt these for each individual sector.

There have been some encouraging signs so far, with the aerospace strategy focused on positioning the UK to compete in a global market for passenger aircraft worth £3.7 trillion between now and 2031.[15] Furthermore, in advance of the education strategy being published the government has announced tailored support for overseas activity through the establishment of Education UK (**Exhibit 31**). This is similar to Healthcare UK, the body set up to promote the UK's healthcare sector abroad. Each strategy will need to be different, but each must consider how a high level of support for exports can be replicated.

Exhibit 30 UK sector strategies

The government's sector strategies are intended to develop a vision for key aspects of the economy and help identify barriers and levers which have the biggest impacts on growth.

There will be 11 strategies in total:

- Aerospace
- Agri-tech
- Automotive
- Business and professional services
- Construction
- Education
- Information economy
- Life sciences
- Nuclear
- Offshore wind
- Oil and gas

Exhibit 31 Education UK

Education UK aims to underpin Britain's longstanding comparative advantage in the sector. It specifically targets high-growth markets, particularly India and the Middle-East, with a view to boosting the UK's £14bn of education exports to £21.5bn by 2020. A joint initiative of BIS and UKTI, Education UK aims to support UK providers to respond effectively to emerging international opportunities, for example by facilitating the development of UK consortia.

Recommendation 2

Plans to boost export performance in emerging markets must be embedded in all government strategies for sectors

Exports and aviation links go hand-in-hand

Rebalancing our exports towards high-growth emerging economies – both the BRICs and others – is central to restoring sustainable economic growth. But that requires exporters to have ready physical access to those markets (**Exhibits 32 and 33, page 44**). Building greater connectivity with these economies through improved aviation networks is important both to help open markets and reinforce the UK's position as a leading global trading nation.

Direct flights open doors to new trade. The importance of establishing the right air links with the right markets is demonstrated in *Trading places* – a recent CBI report – which shows how air links and trade links can form a virtuous circle.[16] The findings show that a new direct daily flight to just eight of the world's largest high-growth economies could be worth up to £1bn of new annual trade for UK business.

Exhibit 32 Bridge of Weir – winning exports through effort and commitment on the ground

Bridge of Weir Leather Company Limited has been exporting leather from the west of Scotland for over a century. Recently the company has seen export sales increase by 150%, representing 92% of the company's £70 million turnover in 2011-12.

Established in 1905, it operates one of Europe's largest leather production facilities, blending craftsmanship and advanced manufacturing techniques to produces high-quality upholstery leather that is exported to more than 60 countries worldwide.

This success is the result of exploiting their unique advantage. Bridge of Weir's low carbon footprint, the result of investment in sustainable manufacturing and sourcing domestic cattle hides, allows the company to market their products under a low carbon brand which captures the imagination of potential customers.

Winning business overseas has required effort and commitment throughout the company. Every aspect of the business is geared to the requirements of specific markets. Senior management time is spent developing relationships, recognising there is no substitute for face-to-face transactions and time spent on the ground in markets.

To take their exports up a level and compete for multinational automotive contracts, Bridge of Weir demonstrated a global manufacturing and supply chain management capability. Establishing joint venture manufacturing facilities in Mexico and China has given the company greater access to North America and the domestic Chinese market, supported by sales offices and supply chain managers on the ground.

Having a global footprint has encouraged the company to develop its products and strengthen the brand so that Bridge of Weir Leather Company is now a proactive design and innovation led company with a strong global manufacturing capability.

The benefit of export sales for Bridge of Weir is that the company can spread its risks and thereby build a more sustainable business. Operating in different geographical markets means that the company is less exposed to economic volatility and increases credibility with their customer base, which will continue to become ever more global.

Companies want frequent direct flights to the widest range of destinations at easily accessible airports. To meet this need, a diverse network of airports and operational models has grown up in the past 20 years. Hub-and-spoke (where airports pool transfer passengers with local demand to support more long-haul connections) and point-to-point (direct "A to B" flights) models both play equal and complementary roles in fuelling the expansion of connectivity. Both are needed to produce a thriving network that can underpin export growth.

Constraints on capacity and demand in recent years, however, have impeded our ability to grow new routes. Limits on hub capacity have constrained growth compared to other EU hubs – pushing the UK back into fourth and fifth position in provision of new flights to three of the four BRIC countries. Similarly, poor road and rail access to our non-hub international airports compounds the problem by limiting their catchment areas.

The UK needs an aviation strategy that meets passenger and business need across the UK's network of international airports, addressing key pinch points in the air and on the ground. The CBI wants to see the new Independent Aviation Commission chaired by Sir Howard Davies, set out workable and durable solutions to this capacity crunch by delivering a strategy for the short, medium and long term.

This means improving road and rail access in the short term to all UK airports and moving to flexible "mixed mode" operations at Heathrow to improve resilience there. In the medium term, we need new runway capacity to serve demand in the south of the UK, while in the longer term government should explore all options, including the development of a new hub airport for London.

Crucial to forging new trading links with high-growth markets is the ability to deliver goods and trade to the customer. Night flight capacity is particularly important for sectors where goods are time critical or of high value. It is therefore vital that the government works with industry to protect capacity for express freight links.

Recommendation 3

The Davies Commission must deliver a strategy for the short, medium and long term to boost capacity and promote investment in connectivity across the UK

Recommendation 4

The government must work with industry on the review of the current night flights regime to ensure it carefully considers the needs of the air freight sector and its delivery cycles in the future

Businesses should be able to expect robust IP protection overseas

Many exporters encounter IP regimes which jeopardise the return on their investment in creating IP, whether this is in the form of patented innovations, copyright material, branding, designs or IP of other kinds. Reflecting this, 54% of respondents to a recent CBI survey highlighted weak protection of IP rights as a major challenge to entering overseas challenge.[17] Smaller businesses which are entering overseas markets for the first time may be particularly at risk – especially if they lack in-house IP expertise or awareness.

The 2011 Global Intellectual Property Index compiled by Taylor Wessing ranks the UK's IP regime in second place after Germany, but many fast-growing export markets are in the bottom tiers: Brazil, China and India occupy the three lowest positions out of 24. World-wide cross-border trade in physical counterfeits alone is estimated at $250bn.[18]

The government has committed itself in the *Plan for growth* to providing practical support to help UK IP-intensive businesses exploit their IP in overseas markets, and some progress has been made, for example in the developing network of IP attachés.

Exhibit 33 Soil Machine Dynamics – making connections to break into new export markets

A world leader in the design and manufacture of subsea robotics, Soil Machine Dynamics (SMD) have seen impressive export growth since a private equity-backed management buyout in 2008 and the arrival of current chief executive Andrew Hodgson.

Founded in 1971 and headquartered in Wallsend in the North East of England, SMD's products are used around the world, principally in the oil & gas, renewables and telecommunications sectors. Since the management change took place alongside the surging turnover and staff numbers rising levels of exports means that overseas sales account for around 80% of sales, up from 50% in 2008.

The ambition of CEO Andrew Hodgson was clear: to give the business a true global footprint. Achieving this required commitment to making connections in the markets where opportunities were available. *'I talked to as many people as possible who had experience of different markets.'* Andrew explains how he achieved this, *'I spent two years travelling the world trying to pick up messages. The key is identifying those areas with fast-growing populations. For us, Japan, China, Russia, Brazil and Korea are the main markets.'*

This investment of time on the ground yielded a return of in-depth customer knowledge and strong relationships in key markets. In Andrew's experience, *'if you go there and just want to talk business with the people that you meet, you won't get very far. I'm not an advocate of business tourism, but it is important to enjoy yourself.'*

Establishing these connections gave SMD an edge in a competitive marketplace. *'The mind-set is particularly important among the customer base. For example, in Asia-Pacific you have to understand the importance of developing personal relationships in order to secure a sale.'* This allows SMD to adopt the nuanced approach that is essential to win business. *'We have to tailor what we do in each one. You have to think about the market need and react to it.'*

Recommendation 5

The government should ensure that the EU uses its economic weight to press for robust IP protection provisions in international trade negotiations. This requires active UK engagement on IP initiatives in Europe

The UK needs to be – and seen to be – a welcoming hub for global trade

Businesses that build international trading links are outward-looking and ambitious. But all too frequently businesses find their ambitions thwarted by an overly negative perception of the UK's visa system or practical problems that they, their clients or key workers experience at the borders. A CBI survey for this report found that a quarter of businesses identified cross-frontier mobility of people as one of their top constraints in accessing foreign markets.[19]

Reputations on the global stage matter. Given the fierce competition for investment and talent, businesses have been deeply concerned that the UK is not considered to be welcoming towards the international business partners or skilled workers that exporting firms require. A period of continual changes to the visa system, messages about tightening of the system and poor levels of customer service combine to create a perception that the UK is not open for business.

Perceptions and practical issues need to be addressed in tandem

To ensure that border processes are not a barrier to exporting or perceived to be so, the government must couple positive messaging with improved immigration and visa services. The merging of the functions of UKBA into the Home Office must not distract from a relentless focus on service and performance improvements in key business areas. During his trade mission to India in February the Prime Minister announced a one day processing service for visas. This was a welcome strep that was due to be rolled out in March. But the timetable must not be allowed to slip further if businesses are to be confident that better customer service is a priority.

As UK businesses seek to make connections across the globe, this one day service must be rolled out across all priority markets. The Home Office now needs to set out this year which other priority markets will have access to this service and when business should expect this to happen.

CBI analysis has benchmarked the competitiveness of the UK visitor visa against our international competitors (**Exhibit 34**). While this is in just one visa category, it is a vital route for exporters to use when they need to meet with contacts or business partners. The process highlighted areas where businesses need to see service improvements, in this and all visa categories: on the burden of the application process and the processing times. For example, while biometric data needs to be given in person, reducing waiting times for appointments or considering how to prevent people having to provide the same data multiple times – by partnering with trusted countries in the Schengen group – could help smooth the process without any reduction of security. The Home Office should look at how these, and other, processes can be either speeded up or streamlined to make the visa system easy for any business to navigate.

> "To ensure that border processes are not a barrier to exporting or perceived to be so, the government must couple positive messaging with improved immigration and visa services"

Exhibit 34 UK performance against business visitor systems in competitor nations

Duration	The short term visa is internationally competitive in allowing stays of 6 months, and longer business visitor visas are also available
Application process	Comparatively onerous, requiring biometric data to be given in person
Cost	50% more expensive than Schengen visa, but broadly in line with other competitors
Processing times	15 day processing time target is at the slower end, and does not include any wait for a biometric appointment
Application requirements	In line with international standards
Permitted activities	Similar to those of competitor countries

Source: CBI analysis

Recommendation 6

The UK needs to develop a reputation for being open to top talent, by streamlining processes and setting out which key markets are to have premium visa services

Recommendation 7

The government should review the practical impact of the Bribery Act on competitiveness, with a particular focus on small and medium-sized enterprises (SMEs)

The campaign against global corruption needs to avoid unintended consequences

Bribery is morally and legally wrong and the government is absolutely right to be at the forefront of the global campaign against corruption. There are growing doubts, however, around the practicality of the Section 7 corporate offence clause and its strict liability nature.

By holding individual directors personally responsible for the conduct of "associated persons," the corporate offence requires UK firms to have a level of knowledge of and control over their supply chains that few, if any, possess. Moreover, only half of UK businesses vet their suppliers for Bribery Act compliance, and only 6% would retender their contract if a supplier were not compliant.[20] This suggests that many businesses are unaware of the reach of the Act.

This also seems to place UK businesses at a competitive disadvantage. This is one of the main areas where the Act goes further than laws in other jurisdictions and affects not just UK incorporated businesses, but potentially the global operations of foreign businesses with a UK presence.

Under US law, for example, in some circumstances companies can legally make a facilitating or expediting payment. This clause does not exist in the UK Bribery Act, which leads to confusion over whether US companies with branches in the UK can be fined for making such payments in other countries.

In addition, feedback from CBI members increasingly suggests that the Bribery Act is responsible for a growing administrative burden. Nearly half the length of some UK Export Finance application forms arises from the Bribery Act.[21]

Boosting competitiveness and tackling corruption are not mutually exclusive. But the government should take the opportunity to reflect on how other countries have pursued these goals simultaneously and what lessons could be learned for UK legislation.

5 Setting the right resourcing framework

The five-point plan of the 2011 *Winning overseas* report called on government to provide the right policy framework to boost businesses' export capability. A renewed top-of-government commitment to this goal has yielded dividends for UK Plc. From the Chancellor's ambition to double UK exports to £1 trillion and raise the number of exporting companies by 100,000 by 2020 to the Prime Minister's personal facilitation of trade missions, UK exporters can see a clear commitment. This top-of-government commitment needs to be complemented by all-of-government action and the effective channelling of resources to support exporters.

- UKTI and UK Export Finance need greater flexibility in how they deploy their resources
- Government support can help manage the risks of exploring overseas markets
- Promised improvements in export finance must be swiftly delivered and intensively marketed.

UKTI and UK Export Finance need greater flexibility in how they deploy their resources

To make their full – and essential – contribution to boosting UK trade performance, the support provided by UKTI and UK Export Finance (**Exhibit 35, page 55**) needs to be tailored to exporters' needs. The five-point plan set out in *Winning overseas* advised UKTI to inject greater commercial focus into its operations to better underpin businesses' efforts.

Great strides have been made towards this goal in recent years: in particular the appointment of experienced board members from the private sector all underpinned by strong leadership and personal commitment from Lord Green. In 2011, CBI members had polarised views of UKTI[22] in particular, with most respondents to a survey having had either a very positive or very negative experience of the agency. New CBI survey data suggests the right direction of travel: 45% of respondents now describe their interaction with UKTI or UK Export Finance as positive, and only 13% report a negative experience.[23]

But while the quality of their services seems to have improved, their visibility remains a significant challenge. In all, 69% of SME exporters are unaware of UKTI[24] and two thirds of mid-sized businesses are unaware of UK Export Finance.[25] Restricting their ability to advertise their services under the blanket ban on government advertising is counter-productive.

The value of friendly faces on the ground in new overseas markets cannot be overstated. Six of the top eight major challenges businesses perceive when entering overseas markets concern local knowledge.[26] A lack of contacts in overseas markets was identified by a BIS survey as the leading reason given by those firms not currently engaged in exporting.[27] So the recruitment of international IP attachés is a good example of a resourcing decision which passes the growth test.

Improving the operation of UKTI and UK Export Finance requires additional flexibility, not additional spending. In his 2012 Autumn Statement, the Chancellor rightly returned UKTI to its pre-spending review level of resourcing. Moreover, UK Export Finance largely operates without recourse to public funds, generating £116 of export orders for each £1 of operating costs.[28]

Government support can help manage the risks of exploring overseas markets

If the UK is to successfully rebalance towards exports, doing business in overseas markets needs to become less intimidating and risky.

A number of the UK's international competitors help demystify exporting by offering tax credits to companies which explore foreign markets. For example, the US state of Michigan's State Trade and Export Promotion (STEP) programme helped 130 companies connect with 62 new markets, increasing the state's exports by more than $21m in the second half of 2012. This was achieved by rebating companies up to $25,000 of funding tied to trade missions, marketing research and other export-related activities.

The UK government does not provide similar support. While first-time exporters can access the Tradeshow Access Programme (TAP), for example, this is not the case for those seeking to expand their global presence. Moreover, grant funding is not effective at securing additional spend for those already convinced by the benefits of exporting. This requires an underwriting of risk, which a credit can provide.

The UK tax system should catch up with its competitors by incentivising exploratory export activity through a New Market Incentive. This credit should be targeted exclusively at SMEs and, where possible, should be specifically marketed towards existing exporters capable of scaling up their activities. The incentive should be payable against a range of exploration activities, albeit with clear procedures in place to avoid misuse. We would not anticipate conflict with EU state aid regulations.

Based on a high take-up, our estimates suggest a credit aimed at a restricted range of activity (such as trade show expenses only) at a return of 25% would cost £50m a year. At the upper limit, a credit that returns 50% of costs to a much wider range of activities would cost approximately £200m.

Recommendation 8

Prioritise increasing awareness of UKTI and UK Export Finance, with particular attention paid to communication with SMEs

Recommendation 9

To support high growth export champions, government should introduce a New Markets Incentive – a targeted tax credit to underpin exploratory export activity by SMEs

Promised improvements in export finance must be swiftly delivered and intensively marketed

There are huge prizes to be won by businesses and the wider economy if we can secure a bigger share of overseas markets. According to UKTI, over half of exporting firms report *'levels of growth not otherwise possible'* as well as significant improvements to their profile.[29]

A hurdle businesses face early in the exports race is obtaining suitable export finance. The *Winning overseas* five-point-plan called for business and government to work closely together in order to increase the availability of export finance. Progress has been made, with the CBI export finance taskforce inputting directly to UK Export Finance during 2012 as it diversified its product range.

But research among CBI members shows easily accessible finance remains an issue. In the survey conducted for this report, it was identified as the top business priority for government action to boost exports.[30] Since *Winning overseas* was published, fewer banks are perceived as actively providing export finance and those that are have to contend with the liquidity requirements of Basel III, leaving a finance gap that government can fill. Currently, 34% of SMEs do not feel they would be approved for finance by their bank, so they need the confidence UK Export Finance may be able to step in to help.[31]

While businesses of all sizes can find accessing appropriate export finance a challenge, the difficulties are most acute for SMEs. Without confidence that funding will be available to deliver on overseas commitments, their horizons are limited or they have to use conventional finance products – overdraft or revolving credit facilities – which carries much more for the business in cases of non-payment.

For UK exporters to be more competitive, the CBI called for the introduction of a direct lending facility by UK Export Finance. This will provide credit to the purchaser of UK exports and is widely used by our international rivals; as of 2012, 29 export credit agencies operated a direct lending facility.

Encouragingly, government has signalled its willingness to act. The 2012 Autumn Statement contained the promise of a £1.5bn direct lending facility for exporters to be in place by April 2013. It is vital that this facility is delivered swiftly and is publicised heavily. Banks need to understand what is available and how it can fit with their product range, so that they can offer it to exporters where appropriate. Businesses must be aware of UK Export Finance's direct lending facility to allow for informed discussions with their banks. In addition, UK Export Finance needs to ensure that the application processes are simple and swift.

A mechanism is also needed to improve the flow of finance for long-term export orders. One way of achieving this could be through the proposed £5bn Export Refinancing Facility, which would provide long-term loans for overseas buyers of UK exports at competitive rates by guaranteeing a series of short-term bank loans. Business understands that delivering such a complex product takes time and the government set an ambitious target for completion by the end of 2012, but there is a need for clarity about the likely outcome and delivery of this scheme.

Recommendation 10

The government must urgently deliver and then intensively market the UK Export Finance direct lending facility

Recommendation 11

Incorporating export finance into the planned business bank should create a 'one stop shop' for business finance

In March 2013, the strategy was announced for the government-backed Business Bank which will address gaps in the business finance market. The aim is for it to bring together all government funding schemes available to SMEs and some of the advice services. Rather than creating yet more initiatives, businesses need easy access to a simple and professional support service which, if delivered correctly, the Business Bank can provide. The strategy contained positive steps towards achieving this and was warmly welcomed by business.

Incorporating the available export finance and advice services into the Business Bank would help to mainstream exports for businesses and government. It would prevent disconnects between government support schemes as well as encouraging businesses to view exports in much the same way as any other sales.

While the current proposal to include UKTI advice in the Business Bank is a step in the right direction, it does not go far enough. If the Business Bank is to be a truly effective 'one stop shop' for firms looking for finance, it should include export finance. Placing all government funding support for SMEs under one roof will rationalise the array of schemes and advice and should also help address the visibility issues and provide an opportunity to mainstream export support. So, given its essential role plugging finance gaps for exporters, UK Export Finance would seem to fit naturally, if distinctly, within it and as the Business Bank continues to develop it should be incorporated.

Exhibit 35 UK Export Finance

UK Export Finance is the UK's official trade finance credit agency, providing government assistance to exporters and investors primarily through insurance policies and guarantees on bank loans.

Formerly known as the Exports Credit Guarantee Department, it was renamed in late 2011 as part of an organisational shift which saw the agency expand its product range and attempt to target support towards SMEs as well as larger-scale overseas projects.

Exhibit 36 Scottish Development International

Scottish Development International (SDI) is a government agency whose aim is to assist in the growth of the Scottish economy, by encouraging inward investment and helping Scottish-based companies access overseas markets.

SDI offers a blend of strategic and more tactical support. This includes official and private networks of mentors and contacts, such as GlobalScots, country research reports, international strategy development, trade missions, exhibitions, shared office space and free export training.

While Scottish businesses have indicated that SDI services are on the whole relevant and of good quality, the organisation cannot rest on its laurels and must continue to review its performance and the breadth of the programmes it offers and test this against the needs of business.

References

1 Current transfers refer to payments or receipts for which there is no corresponding exchange of an actual good or service (mainly taxes, subsidies and flows of money to and from EU institutions). The trade, income and current transfer balances together make up the current account of the Balance of Payments.

2 For example, recent analysis from the Bank of England suggested that growth in the UK's major trading partners (weighted by exports share) has been no worse than that of many other countries that have achieved stronger export growth (Inflation Report, Bank of England, February 2013).

3 From the Bank of England (*Inflation Report*, February 2013) and the CBI's Distributive Trades Survey.

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About the CBI's 'Boosting exports' project:

Boosting exports will be critical to driving growth. This project assesses how well the UK economy is rebalancing towards trade and the drivers of our performance to date, sets out recommendations for business and government on how to boost exports across the economy, and identifies export road maps for growth sectors that are central to realising our industrial strategy, with a twin focus on medium-sized businesses and public services. There will be further reports focusing on these areas later in 2013 in addition to CBI projects on the UK's global role in the new Europe, industrial strategy and medium-size businesses.

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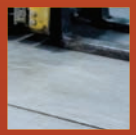

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