Evidence from the
Engineering and Machinery Alliance

BIS Select Committee Inquiry

Exports and the Role of UKTI

Agricultural Engineers Association
British Automation and Robot Association
British Compressed Air Society
British Fluid Power Association
British Paper Machinery Suppliers Association
British Plastics Federation
British Turned Part Manufacturers Association
Gambica
Gauge and Toolmakers Association
Manufacturing Technologies Association
Printing Industry Confederation
Processing and Packaging Machinery Association
UK Industrial Vision Association

The Alliance's 13 trade associations represent 1,900+ companies, mostly in mechanical and electronic engineering, with sales of £9+ billion into the main supply chains (including automotive, aerospace, food, medicine, pharmaceutical, defence, oil and gas, offshore wind etc.), providing equipment, components and services.

The mechanical engineering sector is very export oriented. It has to be because the UK customer base is relatively small. As a result of its exporting efforts, the sector runs a positive trade balance for the UK year after year of between three and five billion pounds Sterling according to ONS's Monthly Review of External Trade. The only other UK manufacturing sector to achieve the same sort of record is the chemicals industry (see annexes 1 and 2).

Summary

- In the main, global demand growth is going to be generated overseas and outside Europe. Although we have some excellent exporters and much has been accomplished over the last five years or so, the task to raise the UK's export ratio to GDP from one of the very lowest in the EU to even a middle ranking performance requires a culture shift. Without it we risk a declining standard of living because we currently import so much. (1-3)
- For many smaller machinery and component companies exporting is a necessity because their market in the UK is too small, so the required economies of scale can only be achieved by adding sales overseas. To substantially increase the number of firms exporting will require an infrastructure that's a) flexible enough to support very different types of exporters through very different 'exporter journeys' (some lasting several years) and b) sufficiently incentivised to encourage a company to tackle exporting wholeheartedly and maybe for the first time. (4-12)
- UKTI is a 'marmite' organisation that some firms love and some don't. In our opinion when it comes to exporting, its twinned objectives (for FDI as well exporting) and the frequent changes required of it don't help. A national export agency with a single focus and a consistent policy framework would go a long way to galvanising companies in their exporting effort. (13-18)
- For machinery and component makers trade shows are really important. (19-20)
- It may be that all the regulations piled on the banks mean that some of them really aren't able to serve SME exporters as they would wish and in those circumstances the best outcomes are going to be achieved searching for new solutions. Some may have arrived already. (21-24)

1. What policies are required to help meet the Government's headline targets of £1 trillion exports and 100,000 more companies exporting by 2020?

1. According to the EU Commission[1]
   - Over the next decade 90% of global demand is going to be generated outside the EU

[1] Reindustrialising Europe: Member States' Competitiveness Report 2014 SWD (2014) 278

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- 14% of manufacturer SMEs export to other Member States (MS) and only 10% export goods outside the EU
- MS support for SMEs is "often too generic and insufficiently focused on the most promising groups of export oriented SMEs"
- Most MS support services target China (and Ukraine and Turkey) with trade financing and market information
- UK exports 31.4% of GDP, which is one of the lowest ratios in Europe (EU average 44.9%)
- In 2011 the UK had slightly less than 20,000 SMEs exporting outside the EU, Italy had over 60,000 and Germany nearly 30,000

2. At the macro level our policies should:
   - Pursue deep and comprehensive trade agreements
   - Strengthen enforcement of declared standards for products entering the EU from elsewhere
   - At least compete with the policies of other EU Member States
   - Promote the UK as a force 'open to and engaged with the world' through our universities, cultural values, science and innovation base and enable companies to recruit the talent they need where it can be best found if not in the UK
   - Be designed across Government in the brutal competitive reality that although we do have some marvellous exporters, we aren't the world trading nation of our 'self image'. A major shift in perceived values is needed. Businesses selling abroad, bringing jobs back to the UK should be prized for the value added they bring to the UK nationally and locally. (The Britain is GREAT campaign is a useful starter for what is needed.)

3. At the practical level:
   - The policies should clearly demonstrate long term commitment to exporting (as opposed to short term expediency and confusing changes as in the recent past)
   - We agree that more firms need to be encouraged to export and that there is merit in making new exporters particularly welcome
   - However, we don't see the rationale of limiting visit support to companies new to exporting. It is widely observed that the real gains in exporting come not in the early stages of developing capacity, but in the capitalisation on links once established
   - The increasing involvement of LEPs in exporting requires some careful management so that the benefits of local delivery can be developed without causing confusion or undermining sector initiatives led by trade bodies and other agencies.

1.2 In particular, what further support should be provided to help SMEs meet their export potential?

4. The overall system needs to be much more flexible to successfully serve the different sector cultures. Selling fashion goods and million pound machines to run in someone else's factory are obviously different, but subtly so too. The system needs to flex accordingly.
5. Basically the three main imponderables for an SME exporting for the first time are:
   - The cost of sales in export markets is usually much higher than in the home market (e.g. cost of delivery, translation and maybe some local adaptation)
   - The sales price is often reduced by the local competition in the export market
   - Exchange rates.
6. Having learnt how to deal with them successfully in one market, the premise is that it will be somewhat easier for the company to tackle the next foreign market.
7. We recommend HM Treasury 'tests' the concept of offering a tax credit equivalent to certain export sales (e.g. SMEs, one contract, new to export, in excess of £25,000; three year exporter five different countries in one year over £25,000 in each)
8. Two other concerns that haunt some firms exporting for the first time are:
   - A lack of sector specific market intelligence and the costs associated with obtaining it - even through UKTI and the OMIS scheme which for many is too broad based
   - The generic nature of the outward missions to target markets – what SMEs need is a tailored approach that get's them in front of potential customers, e.g. production directors rather than heads of state

9. Both of these issues and the question of providing greater flexibility in the support services could be could achieved through better use of trade associations (TAs) and their specialised knowledge of their sectors' supply chain strengths.
10. As 'multipliers', TAs could be paid to undertake sector specific market studies and outward missions for their sectors. All funded data and market intelligence would of course also be shared with BIS and UKTI in return for their support. This would tie in well with the development of a three-year cycle proposed next.
11. Set a three-year rolling cycle of activity focused specifically on raising exports in markets agreed with business sectors so that export partners can plan activities in line with local capital equipment procurement practice, rather than according to HMG's budgeting cycle.
12. Based on the fact that embassies charge 'a fortune' in many cases if SMEs ask them for local help, Government could do more overseas 'local' support for SMEs - for example, monthly local updates of companies seeking agents and subsidised research into suitable customer groups.

2 Is UKTI fit for purpose? Are the indicators used to measure its performance the right ones? How could UKTI be better held to account?

13. UKTI does many excellent things despite having to adjust to erratic funding changes in recent years. With a secure long term funding plan, it surely would have been able to do an even better job in making a planned and sustained difference to companies that are relatively new to exporting.
    - For example last year, the country's commitment to doubling the number of SMEs exporting by 2020 was dealt an incomprehensible blow that seemed to clearly demonstrate Government policy was awry when UKTI slashed in-year TAP funding for imminent trade shows that companies and trade associations had made irreversible commitments to.
14. While the audit process seems more than adequate for Government's purposes, it focuses on measuring the bits Government wants to know about. Company-wise that's three categories (innovative businesses, expecting substantial growth and new to exporting). The time frames for complex measures such as jobs created or safeguarded and additional sales as a result of the intervention are all pretty immediate.
15. Not all exporting can deliver results that quickly and trade associations and other organisations involved in promoting export and developing links with UKTI would probably find other information more useful, e.g. breakdown of companies by size and sector, activity type and service rating. After all as partners working with UKTI, their members are the exporters.
16. We need better information (more granularity) to understand what works for companies and help UKTI ensure it delivers more of it.
17. For example significant research should be undertaken to understand the CBI's finding that 28% of medium sized businesses, probably the country's key vehicles for significant export growth in the short term, are put off exporting because of the difficulties in finding out where the real opportunities are.
18. The UK needs a one stop shop for exporters, a national agency with a single focus to champion UK exports and exporters and their status in the economy both nationally and locally.
    - To match the best in the world this agency should be separate from inward investment activities so that it can champion services such as finance packages for overseas customers purchasing UK goods
    - The regime should be far simpler, run with a national focus, and sectoral expertise
    - Apart from support to stimulate that first export experience, companies should only be supported when they show commitment and proper preparation, not on the basis of their exporting 'virginity'.

3. What UKTI activities are most effective at increasing exports? What more could it do?

19. For machinery makers trade shows are the foundations on which to build the confidence foreign prospects need before they'll commit to using new machinery in their factory or in their product. This isn't like a consumer purchase that may be fashion based. For an Investment Goods purchase, where the implications, relationships and allied service are all long term and that may take several years of painstaking preparatory work to develop, repeated presence at relevant Trade Shows is hugely relevant to buyers.

20. There are concerns that Chambers of Commerce overseas won’t have the prestige associated with embassy links which could be a real disadvantage in markets, where an upmarket ‘image’ counts. In all likelihood some deals, round defence or aerospace for example, may continue to be supported by Embassy staff creating an unfortunate apparent two-tier class of UK export.

4. What more can other bodies, such as the banks and UK Export Finance, do to provide financial assistance to companies seeking to export?

21. UK Export Finance has improved its offer markedly over the last four years, particularly for medium size and larger companies able to employ specialists to handle the paperwork.
22. Problems still remain for the smaller, highly specialised firms (employing fewer than say 70 people), particularly if those firms make high ticket items (£500,000 to £1 million) almost all of it for export.
23. Despite the progress, the system seems to fall down in terms both of product offering and of speed required to meet commercial deadlines in international markets.
24. For example the Direct Lending Scheme has been opened up to SMEs. The website promotes the scheme as a real solution with no upper or lower limits, but one member knows of four different companies that were all refused at the first hurdle each time.
25. An unfortunate weakness in UKEF delivery is that it's run through the banks, who impress member firms with their attempts to slough off risks, either back onto UKEF or if not onto the (SME) exporter.
26. It may be that some banks just aren't very keen to take on SMEs' export business with all the regulatory requirements that have been piled on them. If that's the case, then we need to look for solutions elsewhere rather than trying to force the banks to do something they're not really enthusiastic about (e.g. because it doesn't really fit their business model with all the regulations they now have to contend with).
27. It would be very helpful if UKEF could be tasked to develop more products specifically to meet SME exporter needs (e.g. speed, little paperwork, simplicity) rather than adapting schemes originally developed to support big contracts.
28. It may sound like heresy, but a small element of risk may be an inherent ingredient in (SME) exporting. We need to learn how to manage that risk competitively (e.g. how are the German firms dealing with the threats to their Russian contracts now and for the longer term).
29. Technology is making a difference. More generally peer-to-peer lending has been well received and has a following in some businesses.
30. Recently, the British Business Bank introduced a new service supply chain financing vehicle that is full of promise for firms of all sizes called URICA.
31. URICA is an early payment platform that gives SMEs control over how and when they get paid and customers the ability to support their supply chains by offering them early payment.
32. It gives companies financial flexibility to meet the financial inputs and outputs of their business whilst also minimising their working capital requirements. This technology platform uses credit insurer Euler Hermes for information to underpin the system.
33. More innovation of this type should be encouraged.

Annex 1

Top 35 Mechanical Engineering Markets by Country and Product 2014 (Source ISSB Customs Data for EAMA)

	COUNTRIES	Value in £ sterling		PRODUCTS	Value in £ sterling
	TOTAL	27,225,180,420		TOTAL	27,225,180,420
1	U S A	4,727,528,162		PARTS OF TURBO-JETS OR TURBO-PROPELLERS, N.E.S.	4,875,981,867
2	GERMANY	2,684,499,755		GAS TURBINE PARTS	1,150,870,284
3	FRANCE	1,378,424,774		VALVES NOT PRESS. REDUCING	1,098,398,763
4	SINGAPORE	1,372,775,178		TRACTORS	1,044,612,285
5	CHINA	959,855,156		SELF-PROPELLED MECHANICAL SHOVELS, EXCAVATORS	947,472,275
6	NETHERLANDS	850,226,871		MACHINES AND MECHANICAL APPLIANCES, N.E.S.	654,370,548
7	IRISH REPUBLIC	812,604,438		SELF-PROPELLED TRUCKS FITTED	555,347,369
8	CANADA	760,372,977		PARTS OF PUMPS FOR LIQUIDS, N.E.S.	495,255,287
9	ITALY	712,428,206		GAS TURBINES OF A POWER > 5.000 KW	487,510,453
10	NORWAY	707,854,319		PARTS OF MACHINERY OF HEADING 8426, 8429 AND 8430, N.E.S.	472,707,291
11	BELGIUM	641,859,024		PARTS OF VALVES AND SIMILAR ARTICLES FOR PIPES	469,166,742
12	HONG KONG	629,859,603		AIR PUMPS, AIR OR OTHER GAS COMPRESSORS AND VENTILATING	433,752,095
13	SAUDI ARABIA	556,174,356		PARTS FOR BORING OR SINKING MACHINERY	382,610,364
14	UTD ARAB EMIRATES	542,835,339		MACHINERY AND APPARATUS FOR FILTERING OR PURIFYING LIQUIDS	374,960,180
15	SOUTH KOREA	508,849,548		SELF-PROPELLED FRONT-END SHOVEL LOADERS	350,597,751
16	SPAIN	499,680,430		MACHINERY AND APPARATUS FOR FILTERING OR PURIFYING GASES	346,282,100
17	JAPAN	474,315,932		PARTS OF : AIR OR VACUUM PUMPS, AIR OR OTHER GAS COMPRESSORS	334,852,195
18	AUSTRALIA	460,938,034		PARTS OF MACHINERY AND APPARATUS FOR FILTERING	325,572,876
19	SWEDEN	424,213,583		SELF-PROPELLED MECHANICAL SHOVELS, EXCAVATORS	318,135,989
20	BRAZIL	419,961,888		CENTRIFUGAL PUMPS, POWER-DRIVEN	295,546,712
21	RUSSIA	408,576,796		PARTS OF MACHINES AND MECHANICAL APPLIANCES, N.E.S.	294,174,162
22	POLAND	379,470,102		SORTING, SCREENING, SEPARATING OR WASHING MACHINES	291,988,754
23	INDIA	362,414,651		VALVES FOR OLEOHYDRAULIC OR PNEUMATIC TRANSMISSION	257,508,931
24	SOUTH AFRICA	329,294,986		PRESSURE-REDUCING VALVES	239,095,330
25	SWITZERLAND	321,820,836		PARTS OF MACHINERY FOR WORKING MINERAL SUBSTANCES	230,894,585
26	TURKEY	301,353,151		OTHER NON ELECTRICAL PARTS	230,540,930
27	MALAYSIA	290,175,938		CRUSHING OR GRINDING MACHINES FOR SOLID MINERAL SUBSTANCES	227,197,429
28	DENMARK	245,162,211		HEAT EXCHANGE UNITS (EXCL. INSTANTANEOUS HEATERS, STORAGE WA	191,451,110
29	CZECH REPUBLIC	222,946,968		BALL BEARINGS	191,044,068
30	NIGERIA	219,758,703		RECIPROCATING POSITIVE DISPLACEMENT PUMPS, POWER-DRIVEN (	182,341,447
31	ANGOLA	216,090,286		HYDRAULIC POWER ENGINES AND MOTORS	176,646,170
32	THAILAND	201,217,044		MACHINERY AND APPARATUS FOR FILTERING OR PURIFYING WATER	169,300,086
33	QATAR	179,029,558		SAFETY OR RELIEF VALVES	163,164,239
34	HUNGARY	173,602,152		GEARS, GEARINGS, GEARBOXES	162,919,637
35	FINLAND	154,802,829		BEARING HOUSINGS, ETC	160,779,855

Annex 2
UK'S TOP 25 EXPORT AND IMPORT COMMODITIES IN 2014 (Source: September UK Trade Statistical Bulletin 6 November 2015)

	Exports					Imports			
	Commodity	Value £ million	% Total UK Exports	Cumulative percentage		Commodity	Value £ million	% Total UK Imports	Cumulative percentage
1	Mechanical machinery	39 965	13.5	13.5	1	Electrical machinery	51 887	12.4	12.4
2	Cars	25 918	8.8	22.3	2	Mechanical machinery	36 917	8.8	21.2
3	Electrical machinery	24 527	8.3	30.6	3	Cars	28 402	6.8	28.0
4	Medicinal & pharmaceutical products	21 190	7.2	37.8	4	Other miscellaneous manufactures	24 440	5.8	33.8
5	Crude oil	17 502	5.9	43.7	5	Medicinal & pharmaceutical products	23 916	5.7	39.5
6	Refined oil	15 186	5.1	48.8	6	Refined oil	21 755	5.2	44.7
7	Other miscellaneous manufactures	12 464	4.2	53.0	7	Crude oil	21 291	5.1	49.8
8	Scientific & photographic	11 148	3.8	56.8	8	Clothing	17 467	4.2	54.0
9	Aircraft	10 591	3.6	60.4	9	Road vehicles other than cars	17 424	4.2	58.2
10	Unspecified goods	9 111	3.1	63.5	10	Fuels other than oil	11 231	2.7	60.9
11	Beverages	6 639	2.2	65.7	11	Scientific & photographic	10 901	2.6	63.5
12	Organic chemicals	6 612	2.2	67.9	12	Aircraft	10 605	2.5	66.0
13	Road vehicles other than cars	6 277	2.1	70.0	13	Miscellaneous metal manufactures	8 308	2.0	68.0
14	Iron & steel	6 091	2.1	72.1	14	Plastics	8 031	1.9	69.9
15	Plastics	5 645	1.9	74.0	15	Unspecified goods	7 314	1.7	71.6
16	Clothing	5 541	1.9	75.9	16	Vegetables & fruit	7 119	1.7	73.3
17	Fertilisers & other chemicals	5 469	1.9	77.8	17	Organic chemicals	6 895	1.6	74.9
18	Miscellaneous metal manufactures	5 346	1.8	79.6	18	Paper & paperboard	6 024	1.4	76.3
19	Non-ferrous metals excl. silver	5 289	1.8	81.4	19	Beverages	5 925	1.4	77.7
20	Toilet & cleansing preparations	5 198	1.8	83.2	20	Meat & meat preparations	5 881	1.4	79.1
21	Works of art	4 736	1.6	84.8	21	Iron & steel	5 821	1.4	80.5
22	Metal ores & scrap	3 677	1.2	86.0	22	Non-ferrous metals excl. silver	5 561	1.3	81.8
23	Jewellery	3 384	1.1	87.1	23	Toilet & cleansing preparations	5 189	1.2	83.0
24	Fuels other than oil	3 184	1.1	88.2	24	Fertilisers & other chemicals	4 980	1.2	84.2
25	Textile fabrics	2 823	1.0	89.2	25	Textile fabrics	4 911	1.2	85.4