

HOUSE OF COMMONS INTERNATIONAL TRADE COMMITTEE – INQUIRY INTO SUPPORT FOR EXPORTS AND INVESTMENT

MEMORANDUM OF EVIDENCE FROM THE CHIEF ECONOMIC DEVELOPMENT OFFICERS SOCIETY (CEDOS)

Introduction

1. This Memorandum of evidence is submitted by the Chief Economic Development Officers Society (CEDOS). The Society represents Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary Councils. The Society carries out research, develops and disseminates best practice, and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

2. We welcome the opportunity to submit evidence to the International Trade Committee's Inquiry into support for exports and investment, which follows on from the Business, Innovation and Skills Committee's 2016 inquiry into Exports and the role of UKTI, to which we submitted written evidence and for which the Chair of CEDOS took part in an oral evidence session.

3. For this Inquiry, as with the previous one, in framing our submission we have consulted with our members across the country. Our evidence focuses on the questions set out under 'terms of reference of the inquiry'.

Our overall view

4. We strongly support the Committee's very timely decision to undertake this Inquiry. With the decision for the UK to leave the European Union, the need for effective support for exports and investment has never been more important. This is underlined in the Government's Industrial Strategy Green Paper, which says: "The creation of the new Department for International Trade is an opportunity to upgrade dramatically support for investors and exporters"¹.

5. For this, International Trade and Investment (ITI) and UK Export Finance (UKEF) have a pivotal role, the local dimension of which is critical. In the context of Brexit and the challenges ahead, it is vital that ITI has more visibility in local areas throughout this country. As we set out below, from the soundings we have taken with our members, the indications are that many in local areas do not know who their appropriate contact is and are not aware of what they can do to help local sectors and businesses to get into global markets. In our view, this is a very opportune time for ITI to clarify its offer in local areas, and who it is that can offer practical help and support. Equally, local authorities and local enterprise partnerships are well-placed to help guide what inevitably will be limited resources, in the right direction.

¹ *Building our Industrial Strategy* HM Government Green Paper January 2017

The Inquiry terms of reference

What progress have International Trade and Investment (ITI, formerly UKTI) and UK Export Finance (UKEF) made on their performance since the Business, Innovation and Skills Committee finished work on its inquiry in 2016?

6. In our evidence to the Inquiry by the Business, Innovation and Skills Committee, we welcomed the progress that UKTI had been making in supporting UK exporters through its national and regionally delivered services and through the Foreign and Commonwealth Office overseas posts. We are not aware of any subsequent formal evaluation of progress made by International Trade and Investment (ITI) and UK Export Finance (UKEF) of the sort carried out independently on UKTI performance in the past under the PIMS system².

7. It was only towards the end of November 2016 that the Business, Innovation and Skills Committee decided to draw its Inquiry to a close and in our view, it is too early to make any definitive assessment of progress made by ITI and UKEF. This will be affected, inevitably, by the impact of Brexit and the time it is likely to take to negotiate new trading arrangements with the EU and the fact that under its treaty obligations, the UK cannot begin formal trade talks with other countries until the process of leaving the European Union has been completed.

8. Looking ahead, as regards exports, we said in our previous evidence that the challenging Government targets of doubling the UK's exports to £1 trillion pounds by 2020 and increasing the number of small and medium sized enterprises (SMEs) that export by 100,000 would require UKTI to step up its performance and that this would require significantly increased resources. Citing several sources, including the Office of Budget Responsibility, the International Monetary Fund, the House of Commons Foreign Affairs Committee and the British Chambers of Commerce and evidence from the Government's Small Business Survey, we concluded that on current trends the Government would miss its targets.

9. Since then, this has been underlined further. Last month, giving evidence to the International Trade Committee, the Secretary of State, Dr Liam Fox said of the £1 trillion export target "I think it's unlikely to be achievable by 2020"³, although he went on to say that he thought it would be an achievable target in the years thereafter. As regards the target for increasing the number of SMEs that export, research by ICAEW (the Institute of Chartered Accountants in England and Wales)⁴, with survey work undertaken between 29 September – 24 November 2016, has indicated a lack of progress since 2014, with figures that show: 53% of businesses are exporting – no change from 2014; and 5% of SMEs starting exporting in the last 2 years - down from 11% in 2014.

² Performance and Impact Monitoring Survey

³ Liam Fox, Secretary of State for International Trade giving oral evidence to the International Trade Committee on 1 February 2017

⁴ *Business Opinion – Export research* ICAEW 2016 Strategic Insight

How has the absorption of UKTI into the new Department for International Trade affected its performance?

10. It was only on 14 July 2016 that the creation of the Department for International Trade was announced by the Prime Minister, which involved, *inter alia*, absorbing the functions of UKTI and bringing together trade policy and frontline delivery functions. Moreover, it was less than four months ago that the move of UKTI into the new Department took place. Given this and the degree of structural organisational change involved, it is too early to assess the extent to which its performance has been affected.

11. However, as with any major organisational restructuring, this is almost certain to have had an adverse impact on performance – in this case, even more so because of the impact of Brexit on the workload of staff not only in the new Department but generally throughout government and the civil service. The Permanent Secretary of the Department gave an indication of this when he said “From the outset, I agreed with the Secretary of State that we would take a structured approach to capability and capacity-building rather than rushing things” – referring to a phased approach to establishing the Department⁵.

12. Within Government, bringing trade policy and frontline delivery functions closer together in a single Department is claimed to be a great opportunity to build synergies and streamline engagement with business stakeholders⁶. However, in the context of Brexit there is clearly a strong focus within the Department of International Trade on trade policy and building capacity in trade deal negotiations and with the overall level of current resources this could be to the dis-benefit of exporters and investors and the support they receive.

13. For our part, we have real concerns about the decision to bring UKTI into the Department for International Trade or indeed any Government Department. The lack of a separate or arms-length specialist trade and investment organisation reduces the ability of Government to have *independent* advice and guidance. As part of a Government Department, ITI will be less flexible and more susceptible to political interference, change and re-structuring and less able to represent the views of exporters and investors to Government.

14. The Government’s approach contrasts with that of many western developed nations who benefit from trade and investment agencies that are either at arms-length or wholly separate from Government as, for example, in the Republic of Ireland (IDA), France (Business France) and Germany (GTAI – Germany Trade & Invest).

Are the Department for International Trade's export and investment services fit for purpose and sufficiently resourced?

15. In our evidence to the Business, Innovation and Skills Committee Inquiry, whilst we welcomed the progress that UKTI was making, we were concerned

⁵ *Establishing the Department for International Trade – balancing the urgent and the important* Sir Martin Donnelly, Civil Service Quarterly 1 November 2016

⁶ See, for example, *Establishing the Department for International Trade – balancing the urgent and the important* Sir Martin Donnelly, Civil Service Quarterly 1 November 2016

that without significantly increased resources, it would not be able to meet the challenging targets being set for it by Government. With the added pressures of Brexit, we are even more concerned about the ability of the Department for International Trade to deliver effective export and investment services. From the soundings we have taken with CEDOS members, there are clearly concerns that, ITI is neither fit for purpose nor sufficiently resourced. Indeed, for the reasons given above, we doubt that as part of a Government department, ITI will be capable of being fit for purpose.

16. As to the current position, we are aware of reports in the media that the Department for International Trade is struggling to perform key duties. In our consultations with CEDOS members, we have heard of concerns that the policy focus due to Brexit is pulling resources away from the front-line export and investment activity and generally that re-structuring has resulted in uncertainty on the ground with a lack of cohesion, direction and communication, and of effective business planning and resource allocation. From the soundings we have taken, the indications are that many in local areas do not know who their appropriate contact is and are not aware of what they can do to help local sectors and businesses to get into global markets.

17. CEDOS members also make the points that ITI export services are better resourced than investment services, which have a lower profile and have comparatively little contact with local partners; and that they are not seeing a join up of inward investment and export activity by the Department of International Trade. This, together with a patchy level of engagement with local areas means there is a real risk that opportunities could be missed.

18. For front-line activity, ITI services in England are delivered via nine regional offices covering North East, North West, Yorkshire & Humber, East Midlands, West Midlands, East of England, South East, South West, London. These are responsible for both trade and investment services with different delivery contracts for each. As we said in our evidence to the Business, Innovation and Skills Committee Inquiry, we believe that for ITI to be successful, there will need to be greater devolution to local areas, including devolved funding to enable a more pro-active approach to promoting trade and investment opportunities through local understanding of business strengths, key sectors and growth markets and allowing export and investment services to be tailored to meet local needs and opportunities. In our view, success for ITI will depend fundamentally on tapping local knowledge and understanding of business needs and investment opportunities.

19. At Whitehall level, the effectiveness of the promotion of exports and investment is not just a matter of internal arrangements within the Department of International Trade. It requires improved cross-governmental alignment on policy and services that affect export and inward investment. An example is the need to make a strong connection between product development and export success, which underlines the need for close working between the Department for International Trade and the Business Department. In addition to BEIS and the Foreign Office, there will need to be effective working arrangements with other Departments, such as Defra in relation to food exports and with the Home Office and the Department for Education in relation to student visas and the

efforts/needs of our educational institutes to increase the numbers of foreign students.

20. On the issue of funding, in our previous evidence we called for a Government commitment to increasing the funding available to UKTI over the long-term to enable a step change in performance. This is even more important for ITI in the context of the challenges ahead as a result of Brexit. The Chancellor announced in the Autumn Statement that additional resources will be provided to strengthen trade policy capability in the Department for International Trade and the Foreign and Commonwealth Office, totalling £26 million a year by 2019-20. This is clearly an important provision but it is not just a matter of increasing trade policy capability. It is also a matter of providing sufficient resources for front line activity.

In the light of the Secretary of State's admission that £1 trillion export target will not be met, are the Department's export and investment targets transparent, appropriate and achievable? How should the performance of ITI and UKEF be measured?

21. Although the Secretary of State has admitted that the target of increasing the value of the UK's exports to £1 trillion will not be met by 2020, so far it is by no means clear what the Department's targets for exports and inward investment are. At the front-line local level, we have been told that it has proved difficult to gain clarity on the targets both by region and by LEP area. In our view, targets need to be clear and transparent and shared with and be the subject of discussion with local partners to ensure they are appropriate, robust and achievable. Currently this appears not to be the case.

22. Whatever broad level targets are put in place in terms of the level and value of exports and inward investments, it must be recognised that their achievement is subject to a wide variety of influences both national and international. Monitoring the performance of ITI and UKEF must be based on measures that relate directly to their activities. For this, the performance measurement tool that has been used for UKTI, developed to cover both trade and investment, can be a starting point. It will be important that performance is looked at not only from a national perspective but also has a clear regional and local dimension.

What standard of advice do ITI and its International Trade Advisers provide?

23. We dealt with this in some detail in our evidence to the Business, Innovation and Skills Committee. As regards International Trade Advisers, the Business, Energy and Industrial Strategy Committee Chair has said that in its Inquiry the Committee had heard evidence of mixed performance and had mixed reviews about third party providers of export support. This accords with the soundings we have taken. As one of our members told us: "International trade advisers do in general provide good advice. They vary a lot as to expertise in different markets, different sectors and in the different elements of the export journey. As long as they are able to draw on the knowledge of colleagues, it works well. They all need constant training on new and emerging area of export".

24. We have also heard concerns about the apparent move away from face-to-face advice towards a greater reliance on online support, which echoes what the Business, Energy and Industrial Strategy Committee heard in its Inquiry. The Chair of that Committee has said “Many companies place high value in face-to-face advice and are concerned that online support is often too generic and high-level. Some evidence has argued that if Government is genuinely committed to increasing the number of exporters then UKTI must continue to ensure that companies continue to have timely access to a human adviser who can provide practical and bespoke advice and support to help its customers on their export journeys”⁷.

What standard of support does UK Export Finance provide to companies seeking to export?

25. In our evidence to the previous Committee Inquiry, we said that whilst we welcomed the progress that UK Export Finance had made, the Government needed to enable UKEF to step up its support for exporters and in particular for SMEs so that it is able to match the performance of the best of the overseas export credit agencies. We are, therefore, pleased that in his Autumn Statement, the Chancellor doubled UK Export Finance’s capacity to support exports.

26. Whilst managing foreign currency risks is a main challenge when selling goods or services overseas, access to finance is a particular issue for SMEs. As well as export credit guarantees, there is a case for introducing selected financial incentives for SMEs to export, which could include export vouchers to be used against chargeable UKTI services and a system of export tax credits.

⁷ *Exports and the role of UKTI* Letter from Chair of Business, Energy and Industrial Strategy Committee to Chair of International Trade Committee 23 November 2016