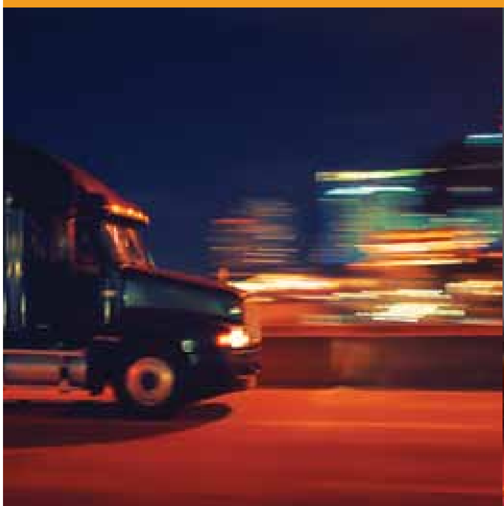
Turning the dial on UK exports

An independent, industry-led review into
how we can unlock the UK's export potential



Foreword from Graham Cole

I was delighted to be asked by the Rt Hon Ed Balls MP and Chuka Umunna MP to chair this Commission for one very simple reason: I believe passionately in improving Britain's export performance. For many years at AgustaWestland UK, exporting helicopters around the world has been my day job. I strongly believe that the UK as a whole needs to make exporting its day job. We need to re-balance our economy through an export-led recovery.

This is the nub of this interim report. It calls for nothing less than a cultural revolution in our economic thinking. Exporting, of services and goods, needs to be embedded in our business culture starting from early school days. We need a national consensus on the importance of exports. The post-2008 crisis has retaught us that the world does not owe us a living. We have to earn our way in a much tougher, more competitive environment. Greater entrepreneurial thinking will be required. The global economy is changing dramatically and Britain needs to keep up.

This report illustrates ways in which we are already doing and can in future do precisely that. There are some very positive changes in policy-making and corporate activities taking place. But we can and must do more. So, the report makes some radical proposals, including a shake-up within government stretching into the Cabinet. It is designed to help the new government that will emerge from the May 7 general election - regardless of who will form that administration. As Chairman, I have worked hard to ensure that our analysis and our proposals are non-partisan – politically. We are only partisan about raising the UK's economic standing.

Our aim is to produce a final report after the general election, in June. This will expand upon our thinking and our ideas for change. These initial findings are based upon an enormous amount of dedicated hard work from my fellow commissioners who have freely given their time because they, too, care immensely about the UK economy. They have agreed to give up even more of their precious time to help produce the final report.

My thanks, too, go to all those organisations and individuals who have contributed to this Commission. We have received over 70 submissions representing the views of thousands of small, medium and large exporters. This is what makes our report unique.

I would also like to thank everyone in the secretariat team. Their tireless efforts in ensuring that this report was researched, written and produced on time were exemplary.

We all hope that the report, its analysis and conclusions, will prompt a new national debate on exports in the coming months. Between now and the final report, we welcome further submissions from interested parties. I, for one, have no intention of letting the issue rest here. Exporting is, after all, my raison d'être. I hope you share my passion.

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Executive Summary and Recommendations

Britain must be serious about rebalancing its economy if it is to prosper as a country and people in a world of volatile change. The rest of the world is not waiting for us to catch up; it is forging ahead with new markets, new goods, new services, new skills and new knowledge. One key way to rebalance our economy is to expand our exports.

While the Government's target of doubling UK exports to £1trn by 2020 has focused minds, projections indicate that we are still a long way from reaching that target (as we explain in Part 1 of this report). Current arrangements in Cabinet and across Whitehall are simply failing to give the export agenda the urgent attention it requires. A joined up approach, across Whitehall, is desperately needed. That's why **we recommend in Part 2 of this report, that the next government turn the dial on exports by significantly enhancing the focus and co-ordination of exports across Whitehall. This should be done by the Prime Minister chairing a Cabinet committee dedicated to exports, and by the appointment of a senior, elected Minister of Trade who would attend Cabinet and be subject to scrutiny by a newly formed Commons select committee on international trade. This would send a clear message to all government departments that export promotion is a key priority of government**.

The submissions we have received make clear that while the UKTI and UKEF do offer critical support services, improvement is needed to keep pace with our major competitors. Tailored advice, faster response times, better outreach to SMEs, a greater risk appetite and a more coordinated approach are all common demands. For the reasons we explain in Part 2 of this report, **we recommend that the UKTI and UKEF be brought together under one roof, to be overseen directly by the Trade Minister under the auspices of a Cabinet Committee chaired by the Prime Minister. This would ensure Whitehall has a central hub from which to coordinate and drive the export agenda across government**.

The road to export success must pass, increasingly, through our SMEs. They must be encouraged, including with greater support, to embrace overseas markets: they are more likely to innovate and grow if they do so. Yet our submissions made clear that, at present, there is a scattergun approach to government support, resulting in many SMEs not knowing where to seek help, or that help is even available.

As we set out in Part 4 of the report, **SMEs should be offered a 'One Stop Shop' both at home and abroad to simplify export support and enable them to reach new overseas markets. We identify the British Chambers of Commerce as an appropriate channel through which to do this, inspired by the success of this approach in Germany. This would also allow the UKTI/UKEF to focus more on the high end, big ticket ventures while SMEs get enhanced, local support**.

Developing a workforce with export skills is also critical if we are to have a pipeline of young people ready to take the UK's world-class products abroad, and available for hire to ambitious firms. To this end, in Part 4 we also **raise the idea of education providers offering both vocational and higher education qualifications in exporting**.

The UK has a lot to celebrate – whether it be cars, planes or pharmaceuticals. But the fact remains that UK firms do not always make the most of the supply chain opportunities our major exporters present. Our submissions make clear that riding on the coat tails of a major exporter can be a 'road to export' for smaller firms. As a result, in Part 3, we explore whether **public authorities could set a lead in redeveloping Britain's local supply chains by making an export plan, including for SMEs, mandatory in all public procurement bids that have export potential**.

Going digital can turn a small local supplier into a global exporter overnight, and with very few barriers to entry, it is surprising that many small firms have not seized this opportunity. Digital is the shop window to the world. While our retailers lead the world in eCommerce, too few businesses are digitally savvy and the UK is experiencing a severe IT skills shortage. For the reasons we discuss in Part 5, **the next government must spearhead a digital agenda, including a drive to make all businesses 'go digital' by taking advantage of existing online eCommerce tools key to exporting. Further, the next government should put digital literacy on a par with reading and writing from the earliest school days**.

Britain remains home to an abundance of creative energy. We need to harness and nurture this in the years ahead. Only by doing so can we substantially improve our export performance, rebalance the economy and make it fit for globalized competition.

This report does not assume that the UK is simply past its prime; indeed, it urges the government and civil society to talk up the UK as a vibrant place that is a welcoming, tolerant home to multiple ethnicities, communities, talents and skills. We should do more to nurture these and foster export roles for our diaspora community, both at home and abroad. For the reasons set out in Part 6 of the report, **we recommend that the next government reviews the system of post-study work visas and aims to reverse the downward trend in overseas students choosing our world-class universities. We further recommend that the country draws more consistently and pro-actively on the skills, talents and networks of its growing diaspora community here and abroad**.

These are our key recommendations at this interim stage but there are a number of other emerging themes we address in the report. These range from reaffirming the target of doubling UK exports to £1trn by 2020 (or soon thereafter) to encouraging companies to overcome the fear factor that holds them back from even thinking of exporting. We also examine how businesses should seek more openings in high-growth economies without neglecting traditional markets (such as the EU and US). Here the goal would be to focus more readily on customer demands and needs in these high growth markets.

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Our Approach

Terms of reference

This *independent* review of British exports was commissioned by the Rt Hon Ed Balls MP, shadow chancellor, and Chuka Umunna MP, shadow business secretary, in September 2014. They asked it to report in 2015. They set its focus as *"how we can tackle the UK's more than 30 year trade deficit."*

The original terms of reference were set around five themes:

1. The UK's current performance in exports, highlighting areas of strength and weakness, and comparing our performance against major competitors.
2. How government export schemes and bodies can be simplified and streamlined to provide more effective support for exporters.
3. How government can support small and medium sized high growth businesses to take advantage of growing global export markets.
4. How to better marshal the underutilised diaspora links to reach new markets, encourage city-to-city links, and make more effective use of expat communities.
5. How to better utilise the UK's major exporter strengths and dynamic approach to new markets.

Methodology

Our methodology was simple: gathering evidence from businesses on the ground. To this end, over the last five months, the Cole Commission has consulted widely with the UK's leading exporters, industry groups, and wider civil society. The Commission has received over 70 submissions, representing thousands of organisations and covering goods and services, from aerospace to universities.

The Commission has held initial round tables and interviews with numerous trade associations, business leaders and think tanks. This has taken us as far as Japan, Germany, Belgium and China (as part of the GREAT Festival of Creativity in Shanghai). As such, this report is unique: it is not only informed by the views of our commissioners, but also, predominantly, the views of those businesses engaged in exporting on the ground. An appendix of submissions received and consultations held is at page 40.

We have consulted SMEs and large companies, with a strong – but not exclusive – focus on the first. They and their future are at the heart of this review but do not dictate its outcome. The report also draws extensively on published data from UK and international sources. Earlier reviews such as Rt Hon Lord Heseltine's *No Stone Unturned*, the Wright Report on advanced manufacturing and the CBI's reports on exports have proved helpful. Though, this review's conclusions are entirely our own.

Next steps

The intention of this document is to spark debate and show the direction of our travel. This is the Cole Commission's interim report. A final report will be produced in June, after the general election.

In producing our final report for June, we will:

- Hold a series of in-depth round tables and interviews with subject matter experts and major participants to test our recommendations and emerging themes.
- Build policy detail around our core recommendations, such as the reporting, governance and funding arrangements for the UKTI, UKEF and One Stop Shop led by the British Chambers of Commerce (BCC).
- Further explore ways government can enhance exports through major procurement contracts, the digital landscape and diaspora links.
- Discuss with higher education and vocational course providers how a fledgling export qualification could work in practice.

We welcome input from interested parties during this process. As a disclaimer, it is important to set out what this report does not cover (though these topics are, by their very nature, inter-related with trade). This includes industrial policy, foreign direct investment, import substitution, broader education policy and immigration policy. Whilst we have touched on the UK's place within the European Union, we have been careful to merely present the views of business from an international trade perspective.

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Introduction

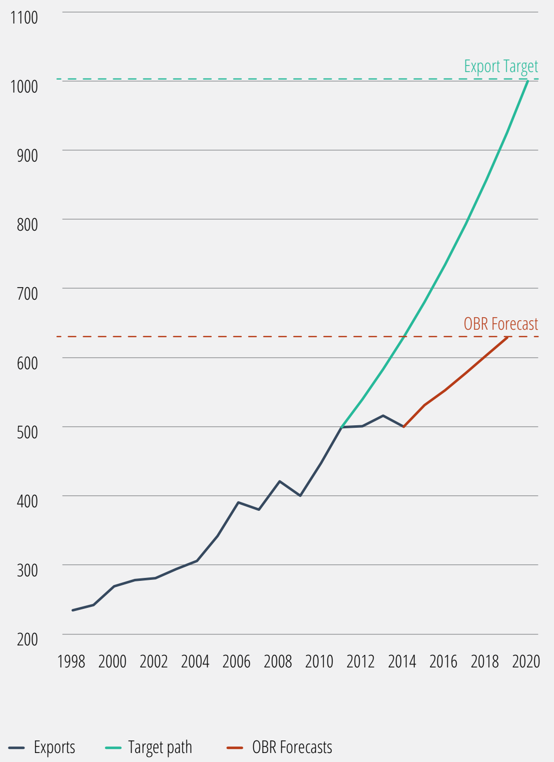
> An export strategy is an essential component of a state competitiveness agenda in the 21st century and a critical element of job growth in the immediate term...More exports mean more and better paid jobs."[1]

The UK, suffering from a chronic trade deficit, needs to raise its export game significantly if it is to ensure prosperity. It needs to export more and sell a greater variety of products to more places if its economy and people are to thrive in a competitive world. All political parties are committed to rebalancing the economy after the prolonged financial crisis exposed our over-reliance on unsustainable debt-fuelled consumer spending. Exports are *the* key to reaching that goal.

The Coalition Government has set a highly ambitious target of doubling UK exports to £1 trillion by 2020.[2] If one in four instead of the current one in five firms were pro-active exporters, this would add approximately £40bn to total UK exports.[3] These are laudable targets; the incoming government, whatever its colour(s), should re-assess them. Cabinet ministers, led from the top by the Prime Minister, have won plaudits for their efforts to promote UK exports. There have been innumerable success stories: not just Rolls-Royce and Jaguar Land Rover but creative industries, new tech start-ups and many more. They reflect one of our greatest strengths as a modern, tolerant, liberal multi-ethnic and multi-cultural society.

However, it has not been plain sailing. Indeed, we are nowhere near reaching that £1trn target five years out. The OBR forecasts exports will reach £636bn in

UK exports of goods and services (£bn)



Source: PR; OBR; House of Commons Library

1 Bruce Katz & Emilia Istrate, 'Boosting Exports, Delivering Jobs and Economic Growth' (Brookings Institution, 2011) p.2 <http://www.brookings.edu/~/media/research/files/papers/2011/1/26-exports-katz-istrate/0126_exports_katz_istrate.pdf>.

2 See Rt Hon George Osborne MP Budget Speech, delivered 21 March 2012. For full text of the speech, see 'Budget speech 2012: full text', The Guardian, 21 March 2012, <http://www.theguardian.com/uk/2012/mar/21/budget-speech-2012-full-text>; see also UK Export Finance, 'Making Exports Happen' (UK Export Finance, January 2015), <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/393051/Making_exports_happen_Economia_supplement_January_2015.pdf>.

3 See Rt Hon George Osborne MP, 'Speech by the Chancellor of the Exchequer, Rt. Hon George Osborne MP, to the EEF Manufacturers' (HM Treasury, 6 March 2012) <https://www.gov.uk/government/speeches/speech-by-the-chancellor-of-the-exchequer-rt-hon-george-osborne-mp-to-the-eef-manufacturers-dinner-2012>.

2019-20 or 36% below the Chancellor's objective.[4] Net trade continues to act as a drag on the UK economy that has had the highest current account deficit – 6% – for 60 years, according to the ONS.[5] Britain's share of world trade has halved in the past 35 years to just 3%, according to the CBI, as the BRIC and MINT countries have emerged – and taken on the world.[6] Our exports to those countries have grown exponentially in recent years but we do not figure in the top five destinations for many Commonwealth countries.

Embracing a cultural revolution

The main message, then, of this report is: We need a serious step change to meet the challenges of the future head-on. This sentiment underlines all of our proposals. Progress has been made in recent years but it has been too piecemeal and too intermittent. We need to make real and tangible the promises about an export-led recovery to re-balance the economy. Being fit for the future requires a fundamental and coherent shift in our economic thinking and activity.

Britain needs no less than a *cultural revolution* to make exports embedded in business life and, even, education. We need to overcome the fear factor that holds back too many firms (often SMEs) from even contemplating looking overseas – let alone going there. This is what our respondents, individual firms, business bodies, trade associations, have all told us. So, as well as a change in thinking, we require improvements in the mechanisms available for helping exporters, be it financial, technical or advisory. That's why we propose a better and simpler blend of government export schemes – for both existing and new exporters.

Equally, our respondents want the UK to stay a member of a (reformed) EU but to look beyond Europe too; these are not contradictory goals. We need to boost our language skills, raise our understanding of and immersion in other cultures and be engaged locally. And, they say, we must keep our doors open to overseas students and others bringing sorely needed skills; we should encourage them to stay and set up or work for businesses exporting back to their home country.

We need a serious step change to meet the challenges of the future head-on. This sentiment underlines all of our proposals.

The evidence we have received confirms that successive governments have expanded the services and aid available to actual and potential exporters. Core bodies such as UKTI and UKEF have, in many ways, raised their game and are given substantial, on-the-ground support by the BCC. For example, UKTI and BCC have been working together on an 'overseas chamber' initiative that we believe has been helpful and should be expanded.[7] "The aim [of this public-private project] is to increase the range of practical, business to business support on the ground where businesses need support the most, starting in 41 high growth and emerging markets," the BCC says.[8] It works on the ground with UK embassy officials and UKTI staff working in-country.

A smoother, coordinated export promotion

Many, if not most, of our respondents want these bodies to be more pro-active in reaching out to businesses and to be power brands via an extensive media and marketing campaign. Awareness of their work and activities is simply too patchy. So, there is an overall urgency required in *thinking outside the silo*: getting the disparate bodies to work together with industry, government and the City. Companies and others want our overseas embassies to expand their commercial awareness – and bang the drum for UK exporters.

That's why we recommend that the next government turn the dial on exports by significantly enhancing the focus and co-ordination of exports across Whitehall. This should be done by the Prime Minister chairing a Cabinet committee dedicated to exports, and by the appointment of a senior, elected Minister of Trade who would attend

4 See Ben Chu, 'Osborne will miss target of doubling exports', The Independent, 5 December 2014 <http://www.independent.co.uk/news/business/news/osborne-will-miss-target-of-doubling-exports-9907273.html>; for full OBR statistics, see Office for Budget Responsibility, 'Economic and Fiscal Outlook – March 2015' (Office for Budget Responsibility, 18 March 2015) <http://budgetresponsibility.org.uk/pubs/March2015EFO_18-03-webv1.pdf> and accompanying underlying charts 'Economic and fiscal outlook supplementary economy tables - March 2015 > (Office for Budget Responsibility, 18 March 2015) <http://budgetresponsibility.org.uk/pubs/150318-Economy_Supplementary_Tables_March_2015.xls> .

5 Office for National Statistics, 'Statistical bulletin: Balance of Payments, Q3 2014 23 December 2014' (ONS, 23 December 2014) <http://www.ons.gov.uk/ons/rel/bop/balance-of-payments/q3-2014/stb-bop-q3-2014.html#tab-Key-points>.

6 See Confederation of British Industry, 'Winning overseas: boosting business export performance' (CBI in association with Ernst & Young, 2011), <http://www.cbi.org.uk/media/1168467/cbi_exports_report_summary__2_.pdf>.

7 See Rt. Hon. Lord Heseltine, 'No stone unturned: in pursuit of growth' (Department for Business, Innovation & Skills, report ref: BIS/12/1213, 31 October 2012) <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34648/12-1213-no-stone-unturned-in-pursuit-of-growth.pdf>.

8 British Chambers of Commerce, 'Trading Internationally' (BCC, 2014) <http://www.britishchambers.org.uk/business/international-trade/>.

Cabinet and be subject to scrutiny by a newly formed Commons select committee on international trade. The Trade Minister would oversee a united UKTI and UKEF and roll out a new 'One Stop Shop' approach to export support for SMEs at home and abroad. Under the direction and sponsorship of the Prime Minister, the Trade Minister would oversee a more coherent structure and campaign for export-led growth.

If Britain is serious about pursuing its goal of getting a quarter (or more) of firms to export then the focus has to be squarely on our SMEs – 100,000 new exporters.[9] Small and medium firms account for more than 99% of private sector businesses in the UK.[10] The issue here could be as relatively simple as enabling smaller firms – financially – to attend overseas trade fairs via an enhanced Trade Access Programme. But, more generally, if *small is indeed to be beautiful* then it does need some support from outside. It needs help in overcoming perceived and actual barriers. Our respondents suggest creating a single front door portal for SMEs. In this report, we explore the option of achieving this through a one stop shop led by the BCC and its network. The value of the chamber network has already been recognised by Lord Heseltine as a compelling vehicle for providing sage and helpful export support for small businesses both at home and abroad – in its extensive domestic network and an expanded overseas network-in-the-making. Of course, any such approach needs to be tempered with an appreciation of the critical role other organisations and industry bodies play in export advice and promotion.

Go digital now

Digital is the shop window to the world. The growing digital dimension to exports now and in future needs to be high on the agenda. Our evidence is that British firms are leading the way, certainly in Europe but also globally, in eCommerce. Online retailers are overcoming once-prevalent consumer resistance to online purchases, with sales expected to more than double to £70bn by 2020, according to OC&C Strategy Consultants. And it is predominantly *small* businesses that are out in front of this digital revolution: they are winning almost 50% of online searches.[11]

At the same time, our Higher Education institutions are also spearheading this digital UK outreach. It's often forgotten that the Open University, with a quarter of a million students, is one of the world's biggest. By 2020 there could be more than half a million overseas students 'at' UK universities via online or distance learning.[12]

The power of 'Brand Britain'

Promoting – and expanding – exports must mean *talking up the UK brand*. For instance, Britain may not be home to Palo Alto but we should not under-estimate the role that is or could be played by hi-tech, digital start-ups – many of them co-run by foreign nationals attracted to the UK offering of a strong cultural environment and relative ease of creating a business. Our creative industries punch well above their weight, with the arts making an enormous contribution to our overseas reputation and revenues.

> *"British music, along with British football and British film and TV opens doors. It creates a common bond between people and countries. The global understanding of what is meant by 'The Beatles' or 'Adele' is similar to that of 'David Beckham' or 'The Queen.' The death of Lord Grantham's dog Isis might have diplomatic as well as storyline implications."*[13] *UK Music*

UK TV programme exports netted £1.3bn in 2013, making Britain the second largest exporter after the USA – with Chinese purchases, albeit only £17m, up 40% year-on-year according to the British Screen Advisory Council.[14]

We must examine how the UK can draw more upon its enormous, often unique strengths as a liberal, multi-cultural society, open to many talents. The UK has a vibrant, multi-ethnic diaspora community, which could be harnessed to act as UK business eyes and ears in those countries of origin. This is a view held across the board by the scores of bodies that have contributed to the Cole Commission.

9 Federation of Small Businesses, 'Billions could be pumped into the economy if more small firms exported, says FSB' (FSB, News Release 27 June 2013) <http://www.fsb.org.uk/news.aspx?rec=8108>.

10 Federation of Small Businesses, 'Small Business Statistics' (FSB, November 2014) <http://www.fsb.org.uk/stats>.

11 OC&C Strategy Consultants, 'Britain's Retail E-Empire - A Study on the Internationalisation of Britain's ecommerce Businesses' (OC&C, 30 April 2014), p.6 <http://www.occnl.com/sites/default/files/britains_retail_e-mpire_30_04_13.pdf>.

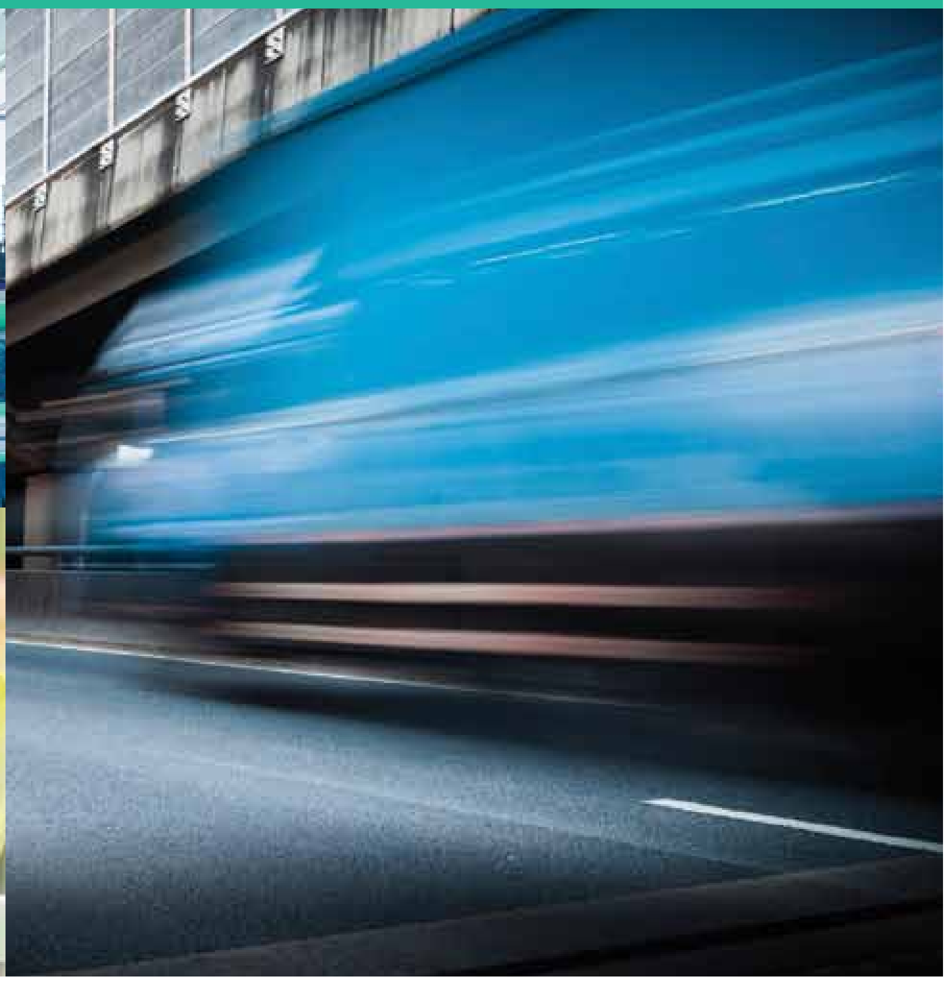
12 OC&C Strategy Consultants, 'Britain's Higher Education Empire - A Study on the Internationalisation of Britain's Universities' (OC&C, 11 December 2013) p. 16 <https://think.storage.googleapis.com/intl/ALL_uk/docs/britains-higher-education-empire_research-studies.pdf>.

13 UK Music, Submission to the Cole Commission, January 2015.

14 British Screen Advisory Council, Submission to the Cole Commission, January 2015.

Part 1: The UK’s Export Performance

While we are losing ground, it is not all doom and gloom: we are increasingly active in high growth markets, have a booming creative exports industry, great digital potential, and a wealth of creative SMEs capable of looking beyond the channel.

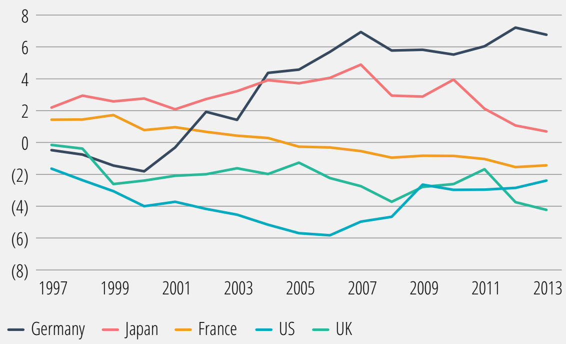


> The UK needs to be more ambitious and consider the broader global market, both in the EU and further afield, with the two being mutually complementary."[15] Aviva

Losing ground

Britain remains one of the world's biggest exporting countries by volume and value (fourth in 2013; second for services, eighth for goods), according to the WTO.[16] However, overall performance in the current decade has so far been disappointing: we are certainly not experiencing export-led growth. Net trade is likely to have dragged down GDP by around 1ppt in 2014 and has been a brake on the economy for at least three years, according to the CBI.[17] Services exports in Q3 2014 remained below their Q4 2007 peak; goods exports marginally above their Q2 2008 one. The trade deficit for the year as a whole was £34.8bn, the highest since 2010.[18]

International comparisons of current account balance
% GDP



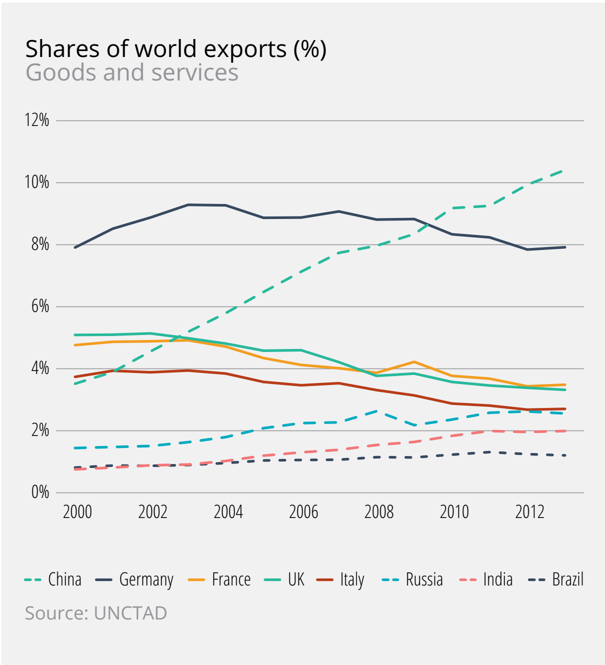
Source: OECD

In 2014, the UK's goods deficit was a staggering £120bn; this was the worst gap since records began in 1998.[19] This continues to reflect the UK's appetite for imported consumer goods, the decline in manufacturing goods, the relative strength of sterling and, not least, the fall in indigenous oil and gas production. While, as reported in the 2015 Budget, the UK's trade deficit in the 3 months to January 2015 was £4.4 billion, the lowest deficit since October 2000 (reflecting a fall of £1.2 billion in UK imports and an increase in exports of £2.4 billion), the overall trend apparent for the past three decades has not been reversed and the economy remains unbalanced.[20]

Not all doom and gloom

There are some bright spots, however, with the share of UK exports going to non-EU countries rising from 48% pre-crisis to 57% in Q3 2014, according to the ONS.[21] The share of exports of goods and services going to the BRICs has increased to 7.2% in 2013 (up from 4.6% in 2007), the CBI says.[22] The UK is now the second largest trading partner with China in the EU after Germany, with exports up 300% in that same period, according to ONS. Those to India have risen 51% while the UK is that country's biggest G20 investor and India's investments in the UK amount to more than in the rest of the EU-28 combined. The reverse side of that coin is that these two countries – likely to be the world's largest and second largest economies respectively within the next 30 years – have seen their exports rise 400% in the decade to 2013, according to the WTO.[23] They are leaving us behind.

15 Aviva, Submission to the Cole Commission, January 2015.
16 World Trade Organisation, 'Modest trade growth anticipated for 2014 and 2015 following two year slump' (WTO press release, 14 April 2014) <http://www.wto.org/english/news_e/pres14_e/pr721_e.htm>.
17 Confederation of British Industry, 'The only way is exports' (CBI, 2013) <http://www.cbi.org.uk/media/2021144/The_only_way_is_exports_April_2013.pdf>.
18 Ferdinando Giugliano, 'UK trade deficit hits four-year high' Financial Times, 6 February 2015 <http://www.ft.com/intl/cms/s/0/669ef2d0-ade4-11e4-919e-00144feab7de.html#axzz3SfhVOIf9>.
19 Trading Economics, 'United Kingdom Current Account to GDP - 1980-2015' (Trading Economics, 2015) <http://www.tradingeconomics.com/united-kingdom/current-account-to-gdp>.
20 See HM Treasury, 'Budget 2015' (HM Treasury, 18 March 2015) <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413949/47881_Budget_2015_Web_Accessible.pdf>, p. 14.
21 See Office of National Statistics, 'Statistical bulletin: UK Trade, September 2014' (ONS Press Release, 7 November 2014) <http://www.ons.gov.uk/ons/rel/uktrade/uk-trade/september-2014/stb-uk-trade--september2014.html?format=print> and HM Revenue & Customs, 'Overseas Trade Statistics – Non EU latest release, January 2015' (HM Revenue & Customs, UK Trade Info, 12 March 2015) <https://www.uktradeinfo.com/Statistics/NonEUOverseasTrade/Pages/NonEuOTS.aspx>.
22 Confederation of British Industry, 'The only way is exports' (CBI, 2013) <http://www.cbi.org.uk/media/2021144/The_only_way_is_exports_April_2013.pdf>.
23 Cited by EEF, Submission to the Cole Commission, January 2015.



Similarly, over the decade to 2013, UK goods exports rose 77%; services exports by 88%, according to the WTO. But *global* goods exports grew by 148% and services exports by 151% in that period. So the UK's share of global trade has declined substantially. The CBI says the share of global exports has gone down from 6.2% in 1980 to 3.3% in 2012.[24]

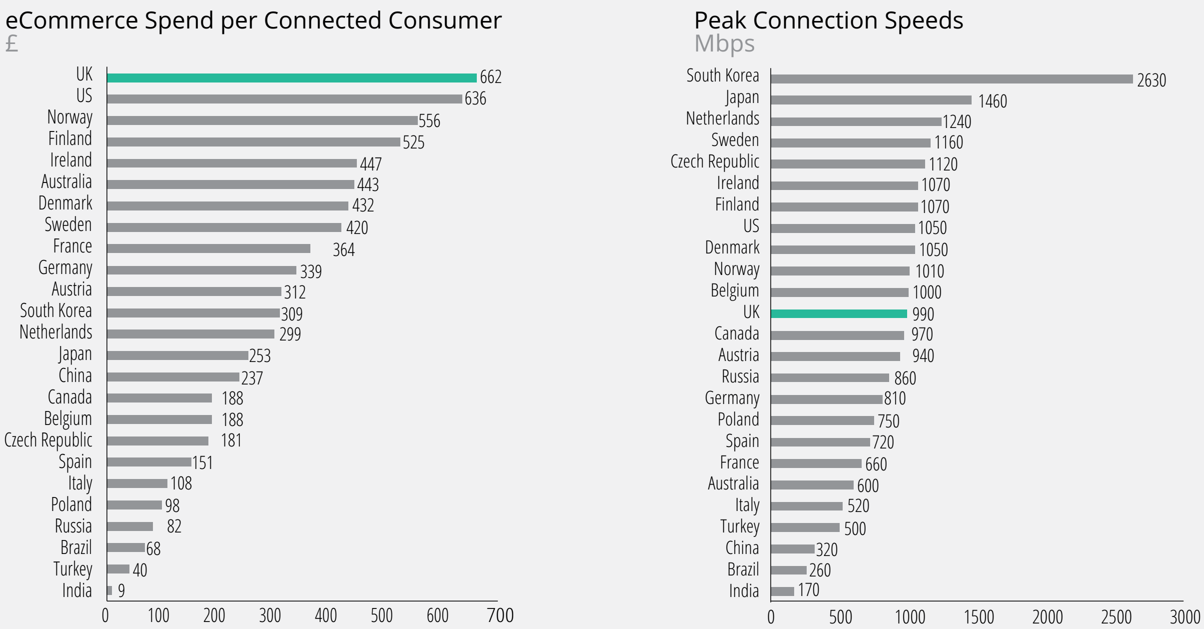
The overwhelming response from the bodies we have consulted is that we should stop being what one calls "myopic" and look ambitiously beyond traditional markets (without, of course, neglecting these). EEF, in evidence to the Cole Commission,[25] point out that this benefits not only exporters themselves but makes the economy as a whole more resilient. As the Government's 2012 Small Business Survey highlights, exporting firms are more likely to increase turnover and employment and a diversity of export markets is better for sustainable growth.

We can see this in the remarkable turnaround of the UK auto industry in recent years. In 2013, according to the SMMT, it accounted for 10% of UK exports of goods.[26] More than 77% of the vehicles built in the UK that year went overseas, with the EU taking just under half (49.2%) of exports but China and Russia, for instance, taking some 10% each. The industry has 100 export markets across all five continents.[27] But there are other, less-trumpeted success stories.

Creative exporting

Britain's creative industries, for instance, have bucked the gloomy trend elsewhere: between 2008 and 2012, during the deepest economic depression for 80 years, their GVA rose 15.6% or almost three times that of the overall economy, according to BSAC.[28] It notes that the total GVA of the high-performing games industry alone is £1.72bn while one game alone, Grand Theft Auto V, grossed $1bn in just three days. UK Music says their industry exports £2.2bn annually or almost 60% of the segment's GVA.[29] The BFI points to a £890m trade surplus for the film industry. Overseas sales of UK television programmes are generating an annual £1.3bn, with the fastest growing market China where they cannot get enough of *Sherlock*.[30] Graduates, indigenous and foreign, from our thriving Higher Education institutions produce many of these.

24 Confederation of British Industry, 'The only way is exports' (CBI, 2013) <http://www.cbi.org.uk/media/2021144/The_only_way_is_exports_April_2013.pdf>.
25 EEF, Submission to the Cole Commission, January 2015.
26 SMMT, Submission to the Cole Commission, January 2015.
27 SMMT, Submission to the Cole Commission, January 2015.
28 British Screen Advisory Council (BSAC), Submission to the Cole Commission, January 2015.
29 UK Music, Submission to the Cole Commission, January 2015.
30 British Film Institute (BFI), Submission to the Cole Commission, January 2015.



Source: World Bank, Eurostat. BMI , Euromonitor, Statista, Econsultancy, Ystats, World Bank, OC &C Modelling, OC&C analysis

It is estimated that the UK's higher education sector generated £10.7bn worth of export earnings in 2011-12; education exports as a whole were £17.5bn.[31] Unfortunately, numbers of overseas students starting courses in the UK began to decline in 2011-12, and only started to recover again two years later, partly reflecting greater opportunities at home, partly the greater attractiveness of the offer from, say, Australia, and largely due to changes to the student visa regime.[32]

We've already highlighted the growing contribution of eCommerce to the UK's export performance and our research suggests that eCommerce exports (retail, content, leisure, travel) could be worth £45bn by 2020. The *connected* UK consumer spends more via online purchasing than even his/her US equivalent, or the highest amount in the world, even though broadband speeds are less than half of, say, those in South Korea.[33]

But in the future, these success stories need to become the norm for all sectors of the economy if we are to grow sustainably. The Chancellor, George Osborne, set that challenging target of doubling UK exports to £1 trillion by 2020 in his 2012 Budget. That, says the SMMT, would require an *annual* rise of £70bn in our exports but the actual level reached in the decade to 2013 was well short at £25.6bn.[34] That sets the level of ambition we need to reach if we are not only to achieve that target but, more important, genuinely rebalance the economy and overcome the failings of the past decades. The fact that it is ambitious is all the more reason for reaffirming it and redoubling efforts to achieve it. The slippage so far is, indeed, an extra spur for consistently and single-mindedly performing better.

Emerging Themes

- The £1trn target for 2020 should be re-examined by the next government.
- Small and medium-sized businesses need to be at the heart of our export cultural revolution.
- British exporters should do more to explore opportunities for sales in high growth economies, including the BRICs and MINTs, as well as the traditional markets of the EU and North America.

31 Universities UK, Submission to the Cole Commission, January 2015.
32 Universities UK, Submission to the Cole Commission, January 2015.
33 OC&C, Submission to the Cole Commission, January 2015.
34 SMMT, Submission to the Cole Commission, January 2015.

Part 2: Government Support and Access to Finance

Industry wants a joined up approach to government support, with greater clarity, coherence and focus. With enhanced agility, a greater risk appetite and better links to the City, our support offerings could rival the world's best export advice and finance offerings.

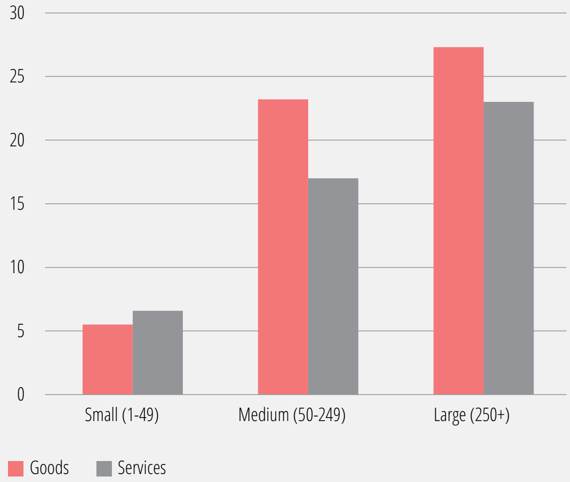
2.1 Current and future export schemes

> There are too many initiatives from different organisations... a more focused/coordinated effort is required to improve effectiveness and ensuring there is a 'joined up' approach."[35]
> Institution of Mechanical Engineers

It's clear by now that a major focus of this report is on SMEs. The UK should enhance the quality and scope of support it gives to SMEs if we are to reach that ambitious £1trn of exports by the end of the decade or soon thereafter. This reflects views set out in the vast majority of submissions and by our own commissioners. SMEs, especially medium-sized firms, according to Grant Thornton UK LLP, have contributed disproportionately to jobs and growth since 2008. Their *Agents of Growth* report suggests that measures to promote growth and productivity, especially in boosting exports, could add £50bn to the UK economy by 2020.[36]

But only 29% of medium-sized firms have overseas operations compared with 45% of the German 'Mittelstand' and 55% of Chinese. And, sadly, only 20% have expansion plans.[37] They alone, even with the step change we demand, won't deliver the required export growth; large as well as small firms need to join the party if we are to re-balance the economy. "It is also important that government programmes go across the customer spectrum from large companies to growing SMEs and this cross business support should be retained," the BBA tells us.[38]

Proportion of businesses exporting goods and services
2013



Source: ONS Annual Business Survey, 2013

35 Institution of Mechanical Engineers, Submission to the Cole Commission, January 2015.
36 Grant Thornton UK LLP, 'Agents of growth- the power of mid-sized businesses' (Grant Thornton UK LLP, UK Mid Sized Business Report 2014) < http://www.grant-thornton.co.uk/Documents/Agents-of-growth-power-mid-sized-business-report.pdf>.
37 Grant Thornton UK LLP, 'Agents of growth- the power of mid-sized businesses' (Grant Thornton UK LLP, UK Mid Sized Business Report 2014) < http://www.grant-thornton.co.uk/Documents/Agents-of-growth-power-mid-sized-business-report.pdf>.
38 British Bankers Association (BBA), Submission to the Cole Commission, January 2015.

A common thread running through the evidence we have accumulated is that, while government and private sector bodies may be doing more, often a lot more, to help exporters, there is a glaring lack of co-ordination or coherence among their activities. Some of these may not even be widely known. A survey by trade association ADS found that recent use of export schemes by companies in the defence and security sectors has been low.[39] The plethora of bodies - such as LEPs, Chambers of Commerce, BIS, UKTI, FCO – may be counter intuitive and their overlapping activities are off-putting. There's *too much information* from too many sources.

Joined up approach

Overall, there is a strong sense that we should inject a cultural change that makes all parts of the support machinery row together – what one of our commissioners calls 'turning the dial.' Bodies such as UKTI and UKEF (see below) need to work more closely together, become much more flexible, agile and proactive, shedding a 'departmental', risk-averse culture that can at times hold our exporters – both existing and potential – back.

We would, therefore, see UKTI and UKEF united under one roof presided over by the Trade Minister in order to promote a '*Whole of Whitehall*' approach across government. The work of the combined organisation would be led by the Trade Minister under the auspices of the Cabinet Committee chaired by the Prime Minister. The direct involvement of the Prime Minister would ensure Secretaries of State across Government maintained their commitment and involvement in the cross Whitehall policy making process to drive trade and exports. In terms of broader accountability, the Trade Minister and new body would also be answerable to a new Commons select committee on international trade.

Our proposal would envisage UKTI largely dealing with high-profile opportunities, big corporate exporters and foreign direct investment whilst contracting even more of its activities downwards – not just at home in the UK but also overseas. Our view, which we outline in greater detail in Part 4 of this report, is also that we need a single 'export network' delivered through the British Chambers of Commerce for SMEs. Other organisations must continue to play a critical role in export support for SMEs, but be encouraged to work within this more joined-up framework.

At home, the UKTI's devolution of export support services in the regions should be extended. This would be achieved via a strengthened BCC. Acting as a one stop shop, it would encompass the breadth of services, including guidance, mentoring, business intelligence, from whichever source these emanate. It would promote - via a significant, comprehensive marketing campaign - export opportunities overseas. This would not be 'yet another layer of bureaucracy' as it would be slim and come out of existing structures, with finance coming from both private and public sectors. The current Overseas Business Networks Initiative (OBNI) provides the base for the help and advice hubs in key markets, most of them emerging ones. This is one way of overcoming the 'fear factor' we discuss below.

As the BCC puts it, we should seek to gradually develop an institutional model that is widely understood and embraced by businesses. While the UK model would not fully reflect the German model – as it would not contain any compulsory membership requirement – it should aspire to its spread and depth. The German model operates in 80 countries and 120 overseas locations but has been built up over many decades. Tellingly, it enables Germany to earn 40% of its GDP overseas,[40] according to the BCC. The British version needs to help persuade more SMEs that they should pro-actively look overseas for new markets and growth. That includes those who are hesitant or fearful as well as those that have already dipped their toes in overseas markets.

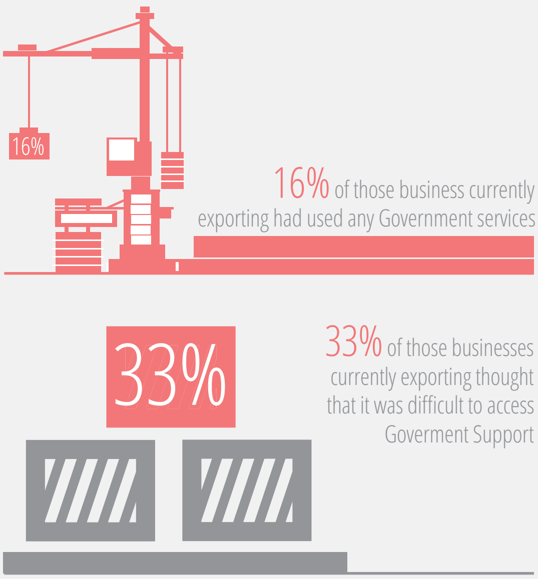
39 ADS, Submission to the Cole Commission, January 2015.
40 British Chambers of Commerce, Submission to the Cole Commission, January 2015.

Raising awareness

One very clear message emerges from our research and consultations: actual and potential exporters need to be made far more aware of what's on offer, even down to aid to attend overseas trade fairs. The BFI tells us: "UKTI funding for schemes such as the Trade Access Programme (TAP) is available for all screen sectors and is consistently referenced by trade bodies and other stakeholders as the most valued part of UKTI's support for the screen sector."[41] ESCO, the Electronic Systems Community, added: "Current Government funding levels are putting UK participation at Trade Shows at risk and limiting their effectiveness."[42]

Another message is that companies need to overcome what the China-Britain Business Council calls the 'fear factor' of exporting.[43] This is how the BCC puts it: "While many exciting business opportunities await overseas, some businesses are daunted by the barriers that exist before they have even begun exporting."[44] Our firms should recognize that, even as its economic growth softens, China's growing sophistication and domestic demand offers great opportunities for UK firms. This applies to many emerging markets.

A recent FSB survey of 565 small businesses found that:



Source: May 2014 FSB Survey of Small Business

Clarity, coherence, focus

Overall, it's clear that there is a lack of coherence in the current UK offer, with EEF, the Institution of Mechanical Engineers and others urging more "joined-up government" and the Food and Drink Federation underlining a "lack of clarity" about who does what in government "for export policy and for the provision of export support."[45]

Our view is that coherence and focus are, indeed, vital, especially in delivery. We believe that the model outlined above would bring more focus and more efficient delivery. It relies upon closer collaboration between public and private sectors, and in particular, ensure support is available close by to SMEs operations. This has begun to take effect but needs to be pursued both rigorously and relentlessly.

41 British Film Institute (BFI), Submission to the Cole Commission, January 2015.
42 ESCO, Submission to the Cole Commission, December 2014.
43 China-Britain Business Council, Submission to the Cole Commission, January 2015.
44 British Chambers of Commerce, Submission to the Cole Commission, January 2015.
45 Food and Drink Federation, Submission to the Cole Commission, January 2015.

2.2 Funding the Future

We found the application process for ECGD support (Complex Buyer Credit insurance) straightforward. The evaluation process on the other hand, was torturous...the process added almost a year to reaching contract effectiveness, threatening the viability of the project." UK SME

Both UKTI and UKEF have been given new tasks by the coalition government and many of our respondents, welcoming this, also pay tribute to the manner in which they have embraced these. But we have also been told of a widespread desire to see UKTI concentrate its activities more effectively. Similarly, the role and function of UKEF is generally seen as fit for purpose and bodies such as BExA applauds "the improvements since 2011 to the range of products made available by UKEF and its re-engagement with short term credit insurance and focus on SMEs," bringing its product range in line with those of other Export Credit Agencies (ECAs).[46]

Speed, risk, agility, the City

But other evidence we have been given is that UKEF services and products are not widely understood or as agile, responsive or flexible as those of our main competitors. The BBA, in evidence to us, states: "In comparison to some other ECAs that are able to move very quickly when there is market gap and help identify solutions to close this, historically UKEF has been slower to be able to adapt."[47]

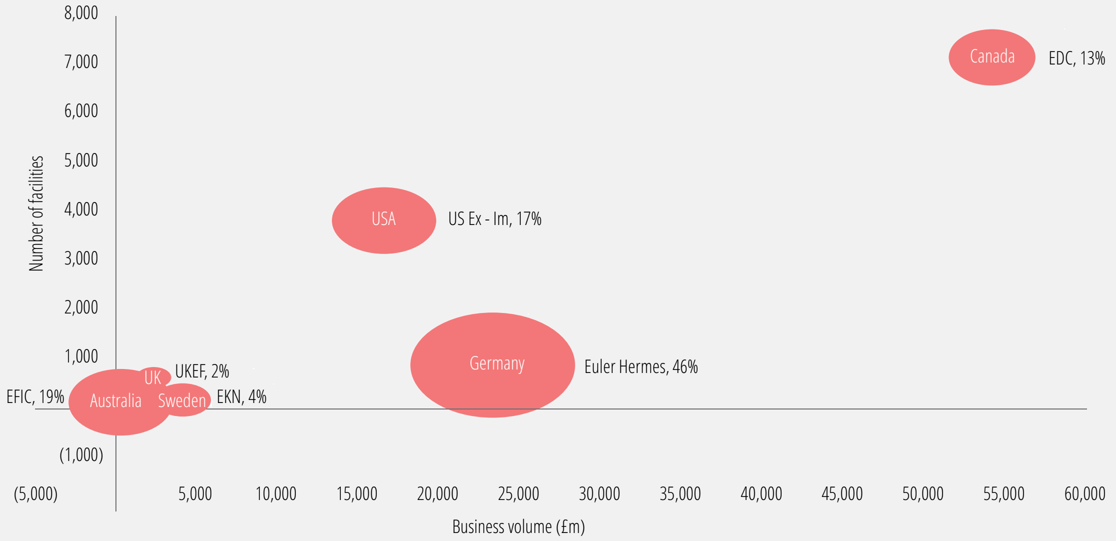
A special gap of knowledge occurs with the role that is and could be played by the City – the world's most renowned financial centre. Our competitor ECAs on the other hand recognize and utilize this expertise more readily. Equally, one of the biggest failings of the UK is that industry, banks and government have not been brought together to work to improve our export performance. But the BBA gives warning that, while banks are ready to help customers export, new regulations can produce some unintended consequences for export transactions.

"Some of the greatest potential for growth will only be realised through the provision of greater access to finance to support overseas expansion."[48] *techUK*

There is a low take-up of UKEF schemes (especially in the SME sector, see below) and this is said to be compounded by the body's cumbersome, process-driven products and services. Many new and/or small exporters find the process stacked against them. Clearly, its execution and delivery needs to change with challenging KPIs being set for all aspects of its business, not the least of which should be speed of response and risk appetite. Barclays tells us, "Existing government and industry export supports have to be more visible and understood by potential exporters. Many businesses are unaware of the quality and depth of help available to them." It urges improved quality and accessibility of advice, banks and advisors give to businesses.[49]

46 British Exporters Association (BExA), Submission to the Cole Commission, January 2015.
47 BBA, Submission to the Cole Commission, January 2015.
48 techUK, Submission to the Cole Commission, January 2015.
49 Barclays, Submission to the Cole Commission, January 2015.

Total business volume compared to number of facilities issued/approved for a range of ECAs
(size of the bubble shows support given to SMEs compared to overall support, %)



Source: BExA UK Export Finance Supporting the National Export Challenge October 2014

As BExA submitted, UKEF has improved its range of products and begun to focus more on SMEs after seriously under-estimating, until relatively recently, the potential of SMEs to contribute to export growth.[50] But, while these improvements have brought the body into line with top tier ECAs in some respects, vital aspects such as risk cover for exchange rate fluctuations for SMEs are still absent. The BCC says that much of the progress made by UKEF in recent years will take time, maybe as much as a decade, to help larger numbers of SMEs – and, obviously, overall economic conditions need to improve for take off to occur seriously.[51]

Competing with the best ECAs

The evidence is that the UKEF is too heavily weighted towards big-end sectors, with one defence order accounting for £2bn of support in 2012-2013 when turnover almost doubled to £4.3bn.[52] Its business was static between 2007 and 2013 when rival ECAs in the US, China and Germany saw theirs grow. UKEF now has an explicit mandate to expend more effort on support for SMEs but it is starting from a low base with £70m of support in 2012-2013.[53]

Barclays tells us: “The UKEF process could be more efficiently designed to be accessible to smaller businesses. At the moment, the transactional costs of lending under the UKEF scheme make it uneconomic for smaller borrowers. Policy makers should consider introducing versions of these products with lower costs to allow their use further down the chain.”[54] Several respondents make the case for export tax credits – available in other countries, including the US – to enable a greater number of SMEs operating overseas.

One solution to better co-ordination of government support is place the UKEF and UKTI under the same roof, and ensure this joined-up entity has the ability to recruit private sector staff with more global experience paid closer to prevailing market rates. It would then be overseen by the reinvigorated Trade Minister, who would report directly to the Cabinet committee on exports chaired by the Prime Minister. We will address this in more detail in our final report.

50 British Exporters Association (BExA), Submission to the Cole Commission, January 2015.
51 British Chambers of Commerce, Submission to the Cole Commission, January 2015.
52 British Exporters Association (BExA), ‘UK Export Finance - Supporting the National Export Challenge’ (BExA, October 2013), p.4. <http://www.bexa.co.uk/docs/eca%20benchmarking%202013%20final.pdf>.
53 British Exporters Association (BExA), ‘UK Export Finance - Supporting the National Export Challenge’ (BExA, October 2013), p.6. <http://www.bexa.co.uk/docs/eca%20benchmarking%202013%20final.pdf>.
54 Barclays, Submission to the Cole Commission, January 2015.

More broadly, both the UKTI and UKEF faced criticism when staffing skills and cross-collaboration were considered. Some respondents suggested that there was a lack of commercial nous, and that a way of remedying this could be through greater interactions with the City and professional services firms, including ongoing secondments. Both the UKTI and UKEF need to be more inclusive and structured, drawing on all areas of expertise available (which means leveraging the experience of banks, insurers, lawyers and other professional services firms, and trade bodies).

Emerging Themes

- While the UKEF works well, there is clear scope for improvement – in terms of risk appetite, SME support, and volume financing. The UKEF needs to benchmark and adopt the competitive practices of other ECAs.
- Greater cross-pollination between industry, banks and government in a structured way: whether through secondments, competitive salaries within government, or greater working-groups between all sectors. The experience of the City as a major financial hub must be better utilised.

Key Recommendations

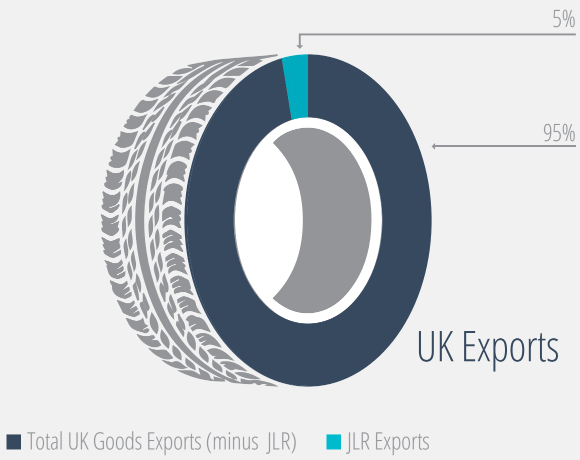
- A significantly enhanced Trade Minister. The Minister would be responsible for driving a 'Whole of Whitehall' approach to exports: s/he would attend Cabinet, report directly a new Cabinet committee on exports chaired by the Prime Minister, and would be answerable to a new Commons select committee on international trade. S/he would oversee a united UKTI and UKEF, and roll out a 'One Stop Shop' approach to export support for SMEs at home and abroad.
- The UKTI and UKEF be brought together under one roof, to be overseen directly by the Trade Minister under the auspices of a Cabinet committee chaired by the Prime Minister, ensuring Whitehall has a central hub from which to coordinate and drive the export agenda across government.
- Focus to be increasingly on SMEs, with the one stop shop network operated by the BCC, backed by government. This would provide practical and timely help for SMEs (further details discussed in Part 4 below).

Part 3: Major Exporters

Cars, planes, pharmaceuticals – our major exporters are a roaring success. But the potential lies in the supply chain: our major exporters can help carry their suppliers into international markets with greater success.

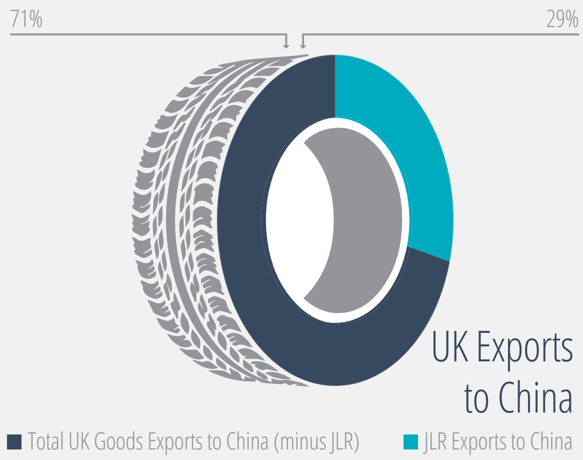
> The British Government must 'drink their own champagne' to have a significant positive impact on export sales."
> UK manufacturer

Jaguar Land Rover's contribution to total UK goods exports, % (2013)



Source: Blue Book; Company Acocunts

Jaguar Land Rover's contribution to total UK goods exports to China, (2013)



Source: JLR Accounts; Pink Book

Some of the biggest firms operating in the UK are world-class exporters: Jaguar Land Rover, part of India's Tata Group, is just one example that, nowadays, goes without saying. JLR accounts for 5% of the total value of UK goods exports and a staggering 29% of the UK's exports to China (see chart above).[55] What is less certain, however, is what role such model firms should play in encouraging and/or helping smaller and medium-sized companies to step up to the exporting plate.

Drinking our own champagne

One of the key messages we have received is: the UK needs to *drink its own champagne*. A number of our submissions have explained that one of the key questions potential purchasers ask when an export deal is in the pipeline is whether the product is used, or being procured, within the UK. As a result, the more we as a country rely upon home-built components/products the more likely our goods and services will achieve export success, because they have the high quality stamp of UK public or private sector approval.

We are, therefore, examining the case for all major procurement projects to include an export plan indicating how bidders for contracts at or above a significant value would bring UK companies – small, medium and large – into their supply chains.

Industrial strategy has become a dirty word in UK economic policy, with its overtones of 'picking winners' and 'state intervention.' Lord Heseltine put it thus: "The very words [Industrial Strategy] are controversial. With them comes the baggage of past attempts and past failures."[56] However, as the CBI says, "boosting exports must be the keystone of the UK's industrial strategy."[57]

55 Grant Thornton UK LLP, Submission to the Cole Commission, February 2015.
56 Rt Hon the Lord Heseltine, 'No Stone Unturned – in Pursuit of Growth', (above), p.4.
57 Confederation of British Industry, 'The Only Way is Exports - Renewing the UK's Role as a Trading Nation' (CBI on Exports, April 2013), p. 7. <http://www.cbi.org.uk/media/2021144/The_only_way_is_exports_April_2013.pdf>.

This has now been taken on board in Westminster and Whitehall. But a long-term vision still needs to be developed which puts the position of UK exports on global markets at its heart. The UK India Business Council suggests: "The many foreign businesses that are already succeeding, there are in India for the long-term; those that wait until 'conditions are right' will find that their competitors from the United States, Germany, Australia and the rest of the world have beaten them to the market."[58]

Opening doors for the supply chain

Either way, we do need to see a clearer government lead on persuading smaller businesses to export. That must involve support for domestic supply chains such as we have seen in the automotive and aerospace industries. This is not the place to debate import substitution but suffice to say that many of our respondents favour local sourcing – provided the product is world-class. The Automotive Council, we're reminded by the SMMT, has found that 80% of all components required for car assembly here could be produced in the UK – a 're-shoring' policy favoured by Unite which says it could bring in at least £3bn extra in revenues.[59]

Some of our biggest exporters such as BAE Systems, the defence, aerospace and security contractor, argue that many SMEs prefer to 'coat-tail' primes in overseas business, including exports, as they lack the resources themselves to develop certain markets.[60] There is some scepticism around this, with the China-Britain Business Council alluding to 'limited success'[61] and Carillion suggests that the British predilection for short-termism limits such a strategy from working – unlike in Germany and France.[62] However, from our consultations we have concluded that 'coat-tailing' can, when appropriately calibrated, significantly help SMEs to get their foot in the export door. EEF, indeed, argues that large companies can exert a 'pull of demand' providing the first route to export for SMEs – such as the one it cites that began by 'default' and now exports to almost 20 markets.[63] Surprisingly, it says more than a quarter of its SME members export more than half of their turnover. Reform points to 10,000 SMEs operating within advanced manufacturing export supply chains alone.[64]

The Cole Commission has heard from a range of major exporters, and the key message is: for major exporters to remain operating in the UK, and therefore opening up their supply chains to UK SMEs, maintaining the benefit of EU membership is critical. EU trade agreements, from which the UK benefits, significantly remove barriers to trade, open new markets and make the UK an attractive destination for business. On the flip side, the absence of trade agreements and the presence of tariffs and taxes may be punitive for exporters, particularly SMEs, discouraging entry into new markets. As the CBI states in their submission to the Cole Commission that UK exports to South Korea have increased 115% during 2012-13 following the entry into force of the EU-South Korea Free Trade Agreement.[65] Indeed, the Centre for Economic Reform calculates that UK trade with the EU-27 is 55% higher than one would expect given those countries' size; UK membership, it adds, boosts its goods trade overall by 30%.[66]

"We now sell our products to 43 territories...most have been hugely successful but occasionally we have hit barriers to trade. For instance, we have now withdrawn from Brazil as the numerous tariffs and taxes involved with exporting a bike into Brazil led to a RRP of 3x the price of the UK. This positioned our bike in the luxury market, which is far from what Brompton represents as a lifestyle product, offered to as wide a demographic as possible."[67] Brompton Bicycle

Both major companies and SMEs view air connectivity as vital for export success and there are growing fears over capacity constraints in the UK. Virgin Atlantic and Heathrow point out that London has lost its place as the world's busiest airport (to Dubai) and serves fewer destinations than CDG, Frankfurt and Schiphol.[68] Heathrow says its carries 26% of all UK goods exports by value but Schiphol could ship twice as much freight as LHR by 2030.

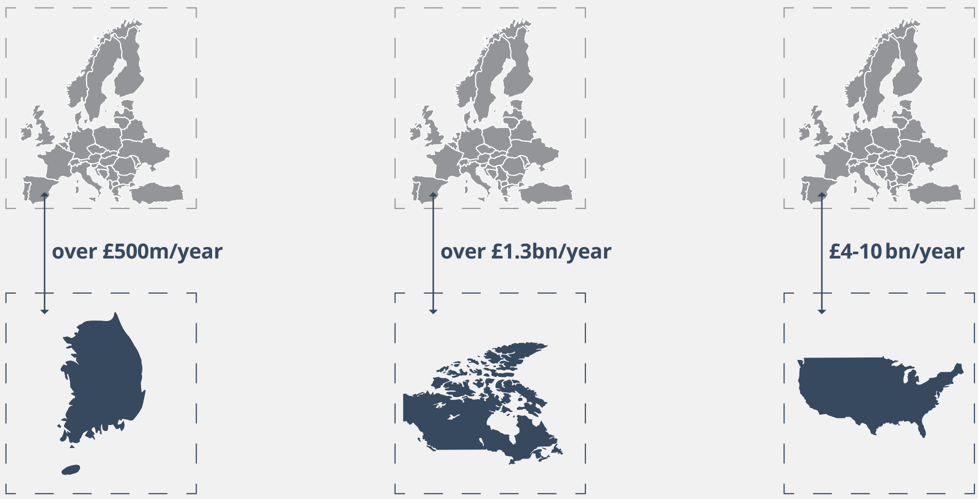
58 UK India Business Council, Submission to the Cole Commission, February 2015.
59 Unite, Submission to the Cole Commission, January 2015.
60 BAE Systems, Submission to the Cole Commission, January 2015.
61 China-Britain Business Council, Submission to the Cole Commission, January 2015.
62 Carillion, Submission to the Cole Commission, January 2015.
63 EEF, Submission to the Cole Commission, January 2015.
64 Andrew Haldenby, Lauren Thorpe & Clare Fraser, 'Delivering the UK Export Ambition' (Reform, November 2013), p. 16. <http://www.reform.uk/wp-content/uploads/2014/10/Delivering_the_UK_export_ambition.pdf>.
65 CBI, Submission to the Cole Commission, January 2015.
66 John Springford & Simon Tilford, 'The Great British Trade-off - The Impact of Leaving the EU on the UK's Trade and Investment' (Centre for European Reform, January 2014) p. 10. <http://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2014/pb_britishtrade_16jan14-8285.pdf>.
67 Brompton Bicycle, Submission to the Cole Commission, March 2015.
68 Virgin Atlantic, Submission to the Cole Commission, January 2015; Heathrow, Submission to the Cole Commission, January 2015.

Estimated benefits to the UK of EU Free Trade Agreements

Concluded:
EU-South Korea FTA

EU-Canada Comprehensive Economic and Trade Agreement (CETA)

In Negotiation:
EU-USA Transatlantic Trade and Investment Partnership (TTIP)



Source: gov.UK

Source: gov.UK

Source: Centre for Economic Policy Research

"We risk history repeating itself if we fail to build on our strengths, take strategic long-term decisions and build for the future," it says in an allusion to the decline of London's ports.[69]

The Commission will not comment on which option is most preferable when it comes to enhancing our air connectivity capacity. But its view is that a resolution that keeps the UK competitive needs to be found, and the process of implementing that solution should be taken as quickly as possible.

Key recommendations

- All major public procurements that have export potential (over a certain financial threshold) should contain an export plan as part of the bidding process. The export plan should demonstrate how the bidder will bring UK SMEs into its supply chain and then assist them to export their products.

Emerging Themes

- Setting the right financial threshold for an export plan is critical. We would like to hear from interested parties what the appropriate limit should be.
- Major exporters should adopt long-term strategies for supporting SMEs to take them on the export journey.
- Free Trade Agreements are of enormous benefit but the UK needs the clout of the EU to conclude favourable ones, such as TTIP, whilst continuing to benefit from existing ones.
- Once a decision has been made regarding the UK's air-connectivity, the process to implement that solution should be taken as quickly as possible.

69 Heathrow, Submission to the Cole Commission, January 2015.

Part 4: Exporting SMEs

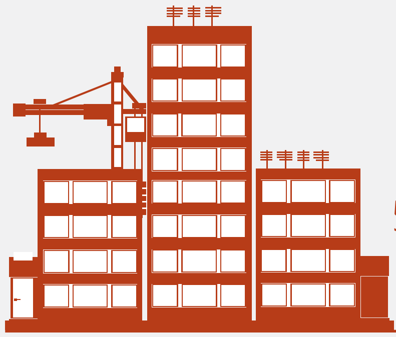
Busy, creative SMEs are waiting for the export call: with greater government outreach and more tailored support offerings, our SMEs could be the secret to our export future.

> A common challenge that many SMEs face to begin with is knowing where to go to start. Again this comes back to improving outreach in the UK and finding ways to make it even easier for such companies to access the support that already exists."[70] China-Britain Business Council

The UK has more than 5 million small and medium-sized businesses. However, in February 2014, according to the BIS Small Business Monitor, just 21% of SMEs said they sell goods or services or license their products overseas.[71] For many, exports are not on the agenda: they're either content with current turnover or uncertain about the implications of launching into overseas markets. As many as one in three medium sized businesses, according to the CBI, still have problems identifying overseas opportunities.[72] We need a cultural revolution to overcome barriers to export or what the BCC calls "a global mindset instilled in people from a much younger age."[73]

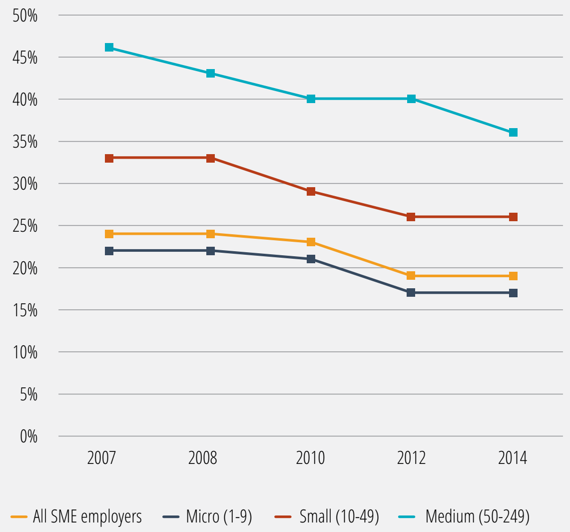
As many as one in three medium sized businesses, according to the CBI, still have problems identifying overseas opportunities.

Previous evidence and our own research highlight the 'untapped potential' for exporting among British SMEs. Indeed, as the CBI underlines, 11% of businesses are more likely to survive if they export.[74] Yet, recently, the number of SME exporters has been going down (below the EU average of 25%[75]) with only 20% having international expansion plans.[76]



70 China-Britain Business Council, Submission to the Cole Commission, January 2015.
71 Department of Business Innovation and Skills, 'SME Business Barometer – February 2014' (BIS, A Report by BMG Research, March 2014), p. 28. <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/298773/bis-14-p75a-sme-business-barometer-february-2014.pdf>.
72 Millward Brown, 'Mid-Markets Research Study' (CBI, December 2014) <http://news.cbi.org.uk/index.cfm?LinkServID=E32460A3-3D17-4B02-A2D7F45A7FDD6B20>.
73 British Chambers of Commerce, Submission to the Cole Commission, January 2015.
74 Confederation of British Industry, 'SMEs and exporting' (CBI, 2015) <http://www.cbi.org.uk/business-issues/smes/exporting/>.
75 Barclays, Submission to the Cole Commission, January 2015.
76 Grant Thornton UK LLP, Submission to the Cole Commission, January 2015.

SMEs trading internationally



Source: BIS Small Business Survey 2014

This approach could easily consist, certainly in its initial stages, of reaching out to companies via the Internet. One channel already available and that could be more widely promoted is the BCC's Export Britain site which helps, inter alia, identify new market opportunities in, say, Brazil, Malaysia or Vietnam. It could be expanded to link and promote mentors in individual countries. Face-to-face mentoring and guidance could then follow. Barclays tells us there should be a dedicated government website which collates and rationalizes all the support schemes available and this should be publicized to raise awareness.[79]

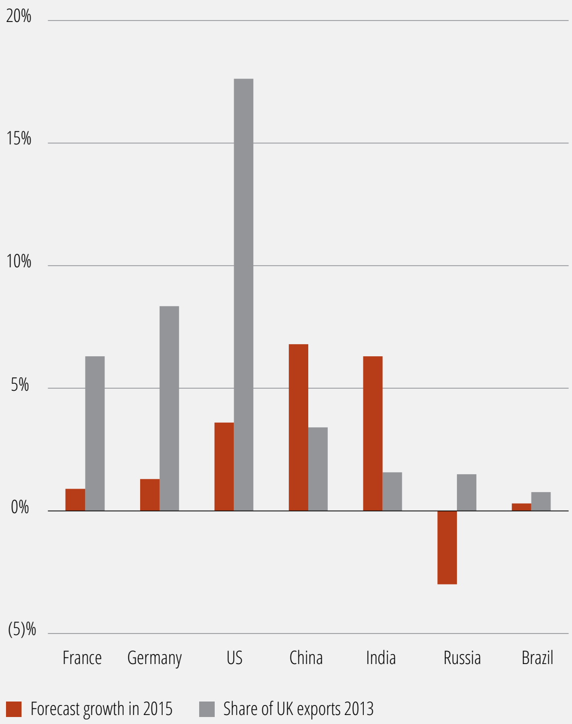
It is the uniform view of our respondents that SMEs also need to think outside the silo of Europe and North America. Opportunities are increasingly elsewhere. The CBI, in its Winning Overseas report (2014), says: "UK businesses should be thinking about how to tap into the 'Next Eleven' – Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, South Korea, Turkey and Vietnam."[80]

A greater readiness to look at exporting is already under way in some sectors, but overall culture change is vital if Britain is to remain in the economic premier league. SMEs are the key to unlocking that long-term potential because of their propensity to innovate and because relatively few of them export now but they need support – from other businesses above all, but also from government, the financial sector and education.[77] It's clear that many of the required facilities exist; what's lacking is coherence.

Outside the silos

Our research underlines earlier findings that the barriers often are largely founded upon a simple lack of knowledge (as well as, obviously, shortage of working capital, lack of funding for trade fair visits or exchange rate cover). The challenge, according to the China-Britain Business Council, is "knowing where to start."[78] That's why we recommend a 'One Stop Shop' for advice, mentoring and even audit, both at home and overseas.

Selected UK export markets
% of UK exports; forecast GDP growth



Source: ONS and IMF

77 The EU says 80% of the 750,000 firms exporting beyond its borders are SMEs but they are just the "happy few" among millions more. See European Commission, 'Chief Economist Note' (EC, Issue 3, September 2014), <http://trade.ec.europa.eu/doclib/docs/2014/september/tradoc_152792.pdf>.
78 China-Britain Business Council, Submission to the Cole Commission, January 2015.
79 Barclays, Submission to the Cole Commission, January 2015.
80 See Confederation of British Industry, 'Winning overseas: boosting business export performance' (CBI in association with Ernst & Young, 2011) (above), p 6.

An export education

The role of education is vital. Many of our busy entrepreneurs, preoccupied with daily management chores, have little time to research potential export opportunities overseas. Similarly, getting to grips with the cultural norms of potential export markets can prove difficult. Sadly, we lack language skills and the BFI says that, while the film industry earns some £800m in net trade, it is held back by, inter alia, a dearth of Mandarin skills among the British.[81] Yet there are tens of thousands of British Chinese people with those very skills – and 90,000 Chinese students come to the UK each year.[82] There are synergies here that we are failing to utilize, something we explore further in Part 6.

We are examining the case for recommending that education authorities adopt provision for awarding a specific 'export' qualification. This could be achieved at a vocational and higher education level. It would train and examine in topics such as cultural understanding, the role of international politics, trade policy and marketing skills as well as foreign language proficiency – and help those firms wanting to export by ensuring there is a pipeline of export-ready graduates emerging from our higher education institutions.

One stop shop

An overwhelming message we have received is the need for a stable, coordinated approach from government. EEF says: "Ultimately, there is no one thing that will make the UK a more successful exporting economy. In order to grow more successful exporting companies the UK needs a business environment that enables companies to invest, innovate and grow." This is especially true for SMEs. This would, in our view and at this stage of our thinking, be best served by the BCC and its network of chambers of commerce but they would have to enhance their modus operandi, raising their game to meet the new challenges of globalization and increased competition, developing best practice learning from the German model. That includes an outreach campaign to contact and encourage potential exporters, including SMEs reluctant to dip their toes in the water. This might best be done via online services.

Lord Heseltine spells out what is at stake: "Our competitor economies have been more successful. They have achieved a far more coherent and consistent approach to the organization of private sector-led business advice and approach."[83] The BCC oversees 52 domestic chambers with just over 100,000 business members among the UK's 5m private sector firms while the Paris Chamber alone has 400,000. Germany, on the other hand, while it has compulsory membership (which we do not recommend replicating), has 3.6m businesses covered by 82 local chambers (IHKs) and 117 overseas chambers (AHKs).[84]

81 British Film Institute (BFI), Submission to the Cole Commission, January 2015.
82 UK Council for International Student Affairs, 'International student statistics: UK higher education' (UKCISA, 27 January 2015) <http://www.ukcisa.org.uk/Info-for-universities-colleges--schools/Policy-research--statistics/Research--statistics/International-students-in-UK-HE/>.
83 Rt Hon the Lord Heseltine, 'No Stone Unturned – in Pursuit of Growth', (above), p. 131.
84 Rt Hon the Lord Heseltine, 'No Stone Unturned – in Pursuit of Growth', (above), p. 131.

While acknowledging the lack of continuity in UK business support, Lord Heseltine says the chambers provide constancy, have a unique international status, are locally based, independent, led by business and can deliver via an extant infrastructure.[85]

So far, we share his view that the network of one stop shops we outline should be provided by chambers both here in the UK and in overseas markets. Working with our overseas embassies, as they do in 21 countries now, they could be best placed to provide on-the-spot services in key emerging markets, including connections and practical advice on getting products to market. But other options exist and these will be considered in more detail in our final report.

Support can also be as simple as enabling businesses, including SMEs, to travel overseas for important trade fairs and the like which can be gateways to export success. The Trade Access Programme (TAP) run by UKTI has seen its grant funding cut and many of our respondents would like to see the previous level restored – at least, if not increased. ESCO tells us: "The UK is in a global race to boost exports, break free of economic stagnation and put the UK back on the road to prosperity."[86] TAP helps achieve that by championing industry, it declares.

Key Recommendations

- Create a 'One Stop Shop' for SMEs – via a strengthened British Chambers of Commerce – to provide SME export services to all current and potential SME exporters. Other organisations and industry bodies have an important role to play, but must be encouraged to work within this more joined-up framework.
- The One Stop Shop must conduct an outreach campaign, finding new SMEs that are capable of exporting, and encouraging them to explore the idea. It must also work with the valuable, yet disparate, number of export-support originations to deliver a truly coherent 'one stop' option for the busy SME.
- Nurture an entrepreneurial export culture from school via university to new business, including the creation of a new export qualification at vocational and higher education levels.

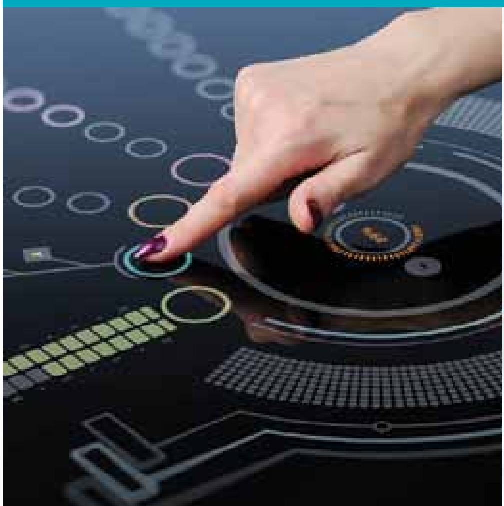
Emerging Themes

- Consider the use of web-based services and products to connect with busy business owners and/or managers, and promote the use of rapidly growing low cost online export tools for SMEs.
- Continue funding schemes like the Tradeshow Access Programme (TAP), and do this through the One Stop Shop for SME support, to ensure the continuity is not broken.

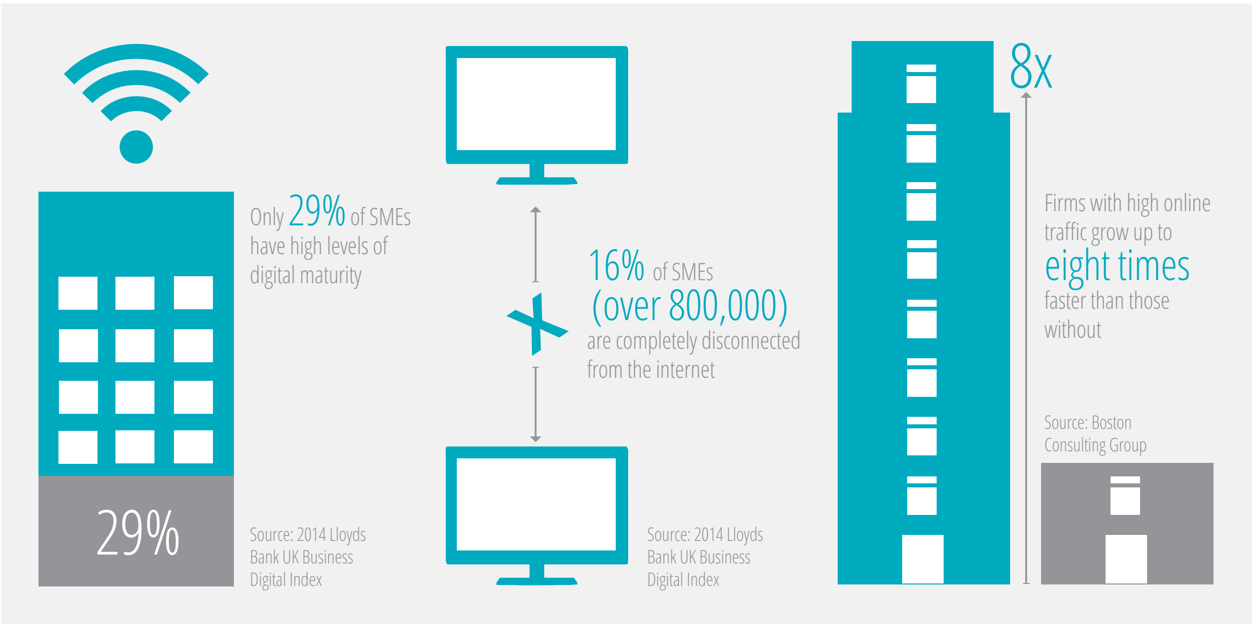
85 Rt Hon the Lord Heseltine, 'No Stone Unturned – in Pursuit of Growth', (above), p. 131.
86 ESCO, Submission to the Cole Commission, January 2015.

Part 5: The UK's Digital Future

The UK is an eCommerce behemoth: our local brands are pioneering the digital dimension to exports. But to make the most of this untapped opportunity, we need a digital mind-set from day one.



We were born digital. This has enabled us to gain exposure and investment from both within and beyond the UK. Exporting our service to Paris and Istanbul in the coming months seems like a natural progression for a start-up like Dojo."[87] Dojo

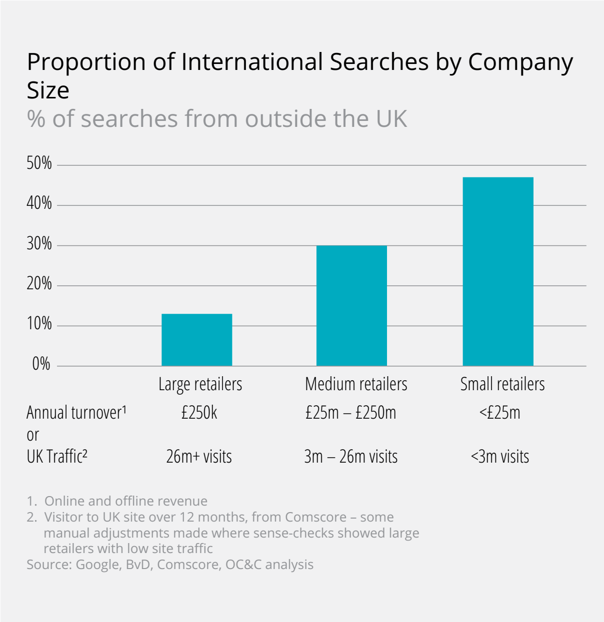


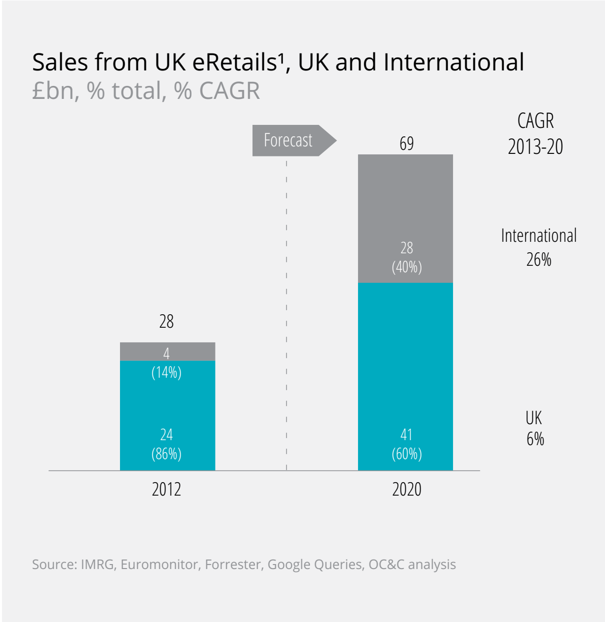
The next generation of entrepreneurs don't know what it's like to live in an analogue world; they learned to be digital before primary school; they tend to think and act globally. The Internet enables them to converse with customers and partners around the clock in all time zones. Placing eCommerce and tech innovation at the centre of a renewed focus on exports will help to accelerate growth among new and existing entrepreneurs. By very virtue of 'going digital' and opening up 'shop-online', a small local supplier becomes a global exporter with the click of a mouse. Digital can be your shop window to the world.

Untapped opportunities

The UK is well positioned to take advantage of opportunities arising from international trade, enabled by the digital revolution. The UK is a strong protagonist of completing the EU's digital single market, a move that could create hundreds of thousands of jobs and add €250bn to the European economy.[88] It ranks sixth among the EU-28 in a new economy and society index developed by the European Commission to measure Europe's digital readiness (behind Denmark, the Netherlands and Belgium but ahead of Germany and France).[89] A recent Tech Nation report says Britain's digital industries employ almost 1.5m, with 15% of new companies formed 2013-2014 digital. It highlights UK specialisms from artificial intelligence to video games development.[90]

87 Dojo (dojoapp.co), Submission to the Cole Commission, February 2015.
88 Jean-Claude Juncker, 'Opening Statement in the European Parliament Plenary Session' (15 July 2014), <http://ec.europa.eu/priorities/docs/pg_en.pdf>.
89 European Commission, 'How digital is your country? New figures reveal progress needed towards a digital Europe' (EC Press Release, 24 February 2015), <http://europa.eu/rapid/press-release_IP-15-4475_en.htm>.
90 TechCity, 'TechNation - Powering the Digital Economy' (TechCity, 2015), p. 12. <http://www.techcityuk.com/wp-content/uploads/2015/02/Tech%20Nation%202015.pdf>.





Boston Consulting Group, commissioned by Google, found that the UK digital economy was already worth 8% of GDP or £100bn in 2010; this share had risen to 12% last year.[91] However, as the 2014 Lloyds Bank UK Business Digital Index reported, there is a significant variance in the extent to which businesses use online tools. Only 29% of SMEs are classified as having high levels of digital maturity whereas 16% of businesses (over 800,000) are completely disconnected from the Internet.[92] Given that firms with high online traffic grow up to eight times faster than those without, this represents a significant opportunity for the UK.[93] Indeed, Strategy& (formerly Booz & Co.) suggest that SMEs can unlock an additional £18.8bn of incremental revenue growth by optimising their use of digital technologies.[94]

The UK is already demonstrating considerable and growing strengths in eCommerce. No other country in the world does as much online retailing as we do. Similarly, tech clusters on the lines of TechCity in Old Street, London, and in other cities such as Manchester and Edinburgh are showing the world that we are incubating our very own Palo Alto. The EU digital single market could be tailor-made for UK enterprises to scale up and lead it. As statistics from OC&C show, Britain is well positioned to do more eCommerce than the rest of the EU-28 combined.[95]

91 Boston Consulting Group, 'The Connected Kingdom – How the Internet is Transforming the U.K. Economy' (BCG, Commissioned by Google, October 2010), p. 5. <http://www.bcg.com/documents/file62983.pdf>.

We show above how, within the UK, it is our small firms rather than our large firms that are spearheading the rush towards global eCommerce. While some of our respondents believe that the fixed costs of acquiring digital technology may be too high for some SMEs, many of these problems can be overcome simply by using online export hubs (e.g. eBay, Amazon). Indeed, Amazon public data shows it is outpacing the growth rate of overall e-Commerce by nearly 3 times whilst eBay has over 200,000 UK businesses selling on its platform, with UK businesses exporting to an average of 39 countries.[96] The way forward is to be innovative, flexible and agile.

UKTI has pointed out that British online cross-border retail sales alone will be worth £28bn by 2020 but the real prize may be bigger: China and its ambitious middle class will help boost the online consumer market to $400bn by then.[97] As many as 5bn global citizens may be consuming online by 2020. So, there needs to be a concerted push by government and business to take greater advantage of this enormous opportunity.

92 Lloyds Bank, 'UK Business Digital Index 2014' (Lloyds Bank, April 2014) <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Lloyds-Bank-UK-Business-Digital-Index-2014.pdf>.
93 Boston Consulting Group, 'The Connected Kingdom – How the Internet is Transforming the U.K. Economy' (BCG, Commissioned by Google, October 2010), p. 5. <http://www.bcg.com/documents/file62983.pdf>.
94 Booz & Co. 'This Is for Everyone - The Case for Universal Digitisation' (Booz & Co., November 2012) <http://www.go-on.co.uk/wp-content/uploads/2013/12/The-Booz-Report-Nov2012.pdf>.
95 techUK, Submission to the Cole Commission, January 2015.
96 techUK, Submission to the Cole Commission, January 2015.
97 See, for instance, this OECD Observer blog, <http://www.oecdobserver.org/news/fullstory.php/aid/3681/An_emerging_middle_class.html>

Skills for the digital age

However, the overall digital sector is already suffering from a chronic UK disease: a shortage of skills. The British Screen Advisory Council (BSAC) told us it is "deeply concerned" at the gap between demand for high-end digital skills and local labour supply.[98] Its cry is echoed across the sector. A study for O2 carried out in late 2013 found that Britain will need a minimum of 745,000 additional workers with digital skills over the 2013-17 period (an average of nearly 150,000 per annum) – and failing to achieve that growth in skills could cost the country up to £2.4bn per annum in GVA by 2017.[99] Yet the UK produces barely 50,000 computer science graduates a year and few students opt for IT subjects at advanced level at school.

The House of Lords digital skills committee is blunter still: "The UK is at a tipping point: The country is not addressing its significant digital skills shortage and an incoming government urgently needs to resolve this."[100] Baroness Morgan, the committee chairman, described the findings as "a wake-up call" to the next government.[101] They include a warning that 35% of British jobs are at risk of being automated over the next 20 years.

The Commission is pleased to see a turn to digital strategies in both government and business, with recent announcements of funding for digital 'clusters' in cities outside of London, and Google's plans to create 'the digital garage' to help SMEs grow online. More of these initiatives are needed.[102]

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We discuss in the next section the wider role that the 'diaspora' can play in enhancing the UK's export performance but here we point to the need to make it easier for foreign students and skilled engineers to come and stay here. "We recommend smart migration; let's actually get the people we need to get the things done for our economy and for our citizens and society," is how Julian David, CEO of techUK, puts it.[103]

Key recommendations

- Companies should be encouraged to 'go digital now', with a special emphasis on enabling smaller businesses to acquire the key skills needed to take advantage of online eCommerce tools for export.
- The incoming government should urgently adopt a 'digital agenda' and make digital literacy as important as reading and numeracy in schools, complemented by enhanced digital infrastructure.

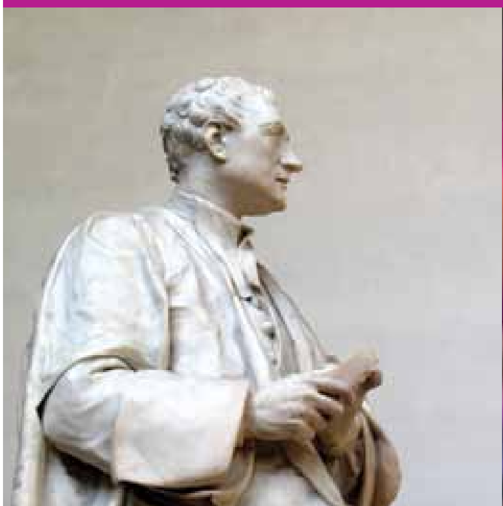
Emerging Themes

- Government and employers need to work together to address the mounting skills gap in the digital and IT sector as an urgent priority.
- Government should work closely with its EU partners to make the digital single market a reality.

98 British Screen Advisory Council (BSAC), Submission to the Cole Commission, January 2015.
99 See O2 and Development Economics, 'The Future Digital Skills Needs of the UK Economy' (O2 and Development Economics, 2013), p. 3. < http://cdn.news.o2.co.uk.s3.amazonaws.com/wp-content/uploads/2013/09/The-Future-Digital-Skills-Needs-of-the-UK-Economy1.pdf>.
100 House of Lords Select Committee on Digital Skills, 'Lords say digital skills will make or break the UK' (Select Committee on Digital Skills, 17 February, 2015) <http://www.parliament.uk/business/committees/committees-a-z/lords-select/digital-skills-committee/news/report-published/>; see also House of Lords Select Committee on Digital Skills, 'Make or Break: The UK's Digital Future' (Select Committee on Digital Skills, Report of Session 2014-15, HL Paper 111, 17 Feb 2015).
101 House of Lords Select Committee on Digital Skills, 'Lords say digital skills will make or break the UK' (above).
102 On the Digital Garage, see Google, 'the Digital Garage' (Google Europe Blog, 13 March 2015), <http://googlepolicyeurope.blogspot.co.uk/2015/03/the-digital-garage.html>
103 Julian David as quoted in Roland Moore-Colyer, 'UK needs talented IT migrants to help fill tech skills gap', (V3.co.uk, 30 January 2015) <http://www.v3.co.uk/v3-uk/news/2392968/uk-needs-talented-it-migrants-to-help-fill-tech-skills-gap>.

Part 6: Harnessing High Growth

The UK is home to an incredibly diverse diaspora community. The challenge is to harness this, for export success.



Diaspora communities provide important and immediate links into their countries of origin, allowing not only personal relationships to be maintained, but providing a strong foundation for professional and business relationships to form."[104] BCC

Britain, despite being the epicentre of the Commonwealth (53 countries, 2.2bn citizens), is failing to capitalize on high growth markets. Compounding this, the UK is under-utilizing the skills and talents of its foreign-born citizens (up from 3.8m to 7.8m in two decades to 2013) and foreign residents (up from 2m to almost 5m).[105] One in eight of the UK's swelling population is foreign-born; 5.5m British people live permanently abroad.[106]

Britain, despite being the epicentre of the Commonwealth, is failing to capitalize on high growth markets. Compounding this, the UK is under-utilizing the skills and talents of its foreign-born citizens.

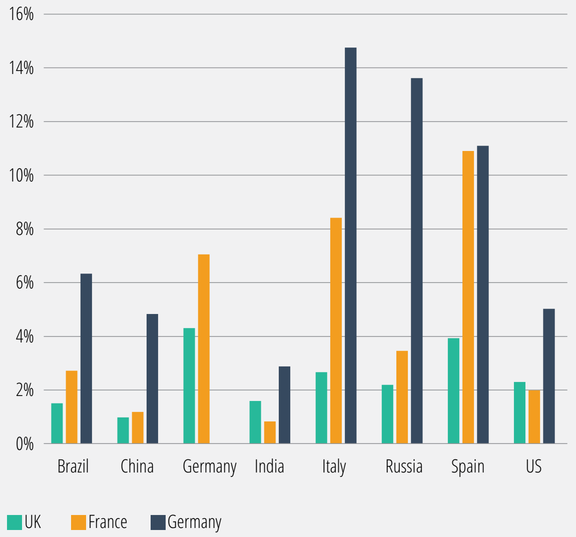
This report is not about immigration policy. But the overwhelming evidence we have received is that the country and its political class is creating a rod for its own back by discussing arbitrary caps on migration and failing to discuss instead how best to attract and retain foreign skills – and, most critically, develop and nurture its own home-grown talents.

104 British Chambers of Commerce, Submission to the Cole Commission, January 2015.
105 See Dr Cinzia Rienzo & Dr Carlos Vargas-Silva, 'Migrants in the UK: An Overview' (The Migration Observatory at the University of Oxford, 19 December 2014), <http://www.migrationobservatory.ox.ac.uk/briefings/migrants-uk-overview>.
106 BBC, 'Brits Abroad - World Overview' (BBC, 2014) <http://news.bbc.co.uk/1/shared/spl/hi/in_depth/brits_abroad/html/default.stm>.

Changing the compass

Put bluntly, for its exports Britain is still heavily dependent on traditional markets (especially the EU and North America) and not on high growth markets. This needs to change. Our competitors, including Germany, France and Italy, not to mention the US, are focusing on Asia, which will account for a third of global GDP before the end of this decade, according to the IMF, PwC and others.[107] The BRICs alone already account for a quarter of global economic output. PwC forecasts that only one European country will be in the top ten (GDP, measured by PPPs) in 2050 – in tenth position behind China, India, the US, Indonesia, Brazil, Mexico, Japan, Russia, and Nigeria.[108] The UK and France will have been relegated. JP Morgan says emerging markets' share of global GDP was well over 30% last year and, in PPPs terms, surpassed 50% in 2013 already (IMF World Economic Outlook)[109].

Shares of various export markets
% of goods exports to various countries accounted for by UK, France and Germany , 2013

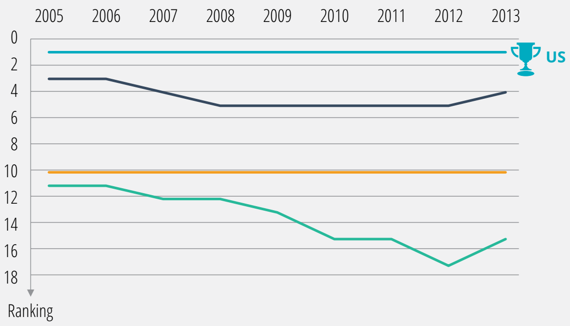


Source: UNCTAD

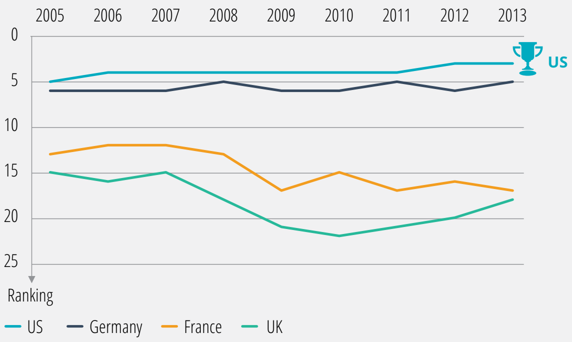
Yet Britain's medium sized businesses, even when internationally focused (only 29% export), are still looking to low-growth Europe and North America, according to Grant Thornton UK LLP.[110] One of our respondents says: "It needs to be more natural for UK companies to seek to expand into Asia, Latin America and other regions."

The size of the 'global middle class' will increase from 1.8bn in 2009 to 3.2bn by 2020 and 4.9bn by 2030. The bulk of this growth will come from Asia: by 2030 Asia will represent 66% of the global middle-class population and 59% of middle-class consumption, compared to 28% and 23%, respectively in 2009, according to the OECD.[111] Yet, as the fourth largest exporter in the world, the UK does not feature in the top five exporters to any of the most promising emerging markets. This, of course, partly reflects the emergence of strong regional markets in the 'global south' but the UK simply exports the wrong kind of goods and services or too narrow a range as we have highlighted before.

Ranking of US, Germany, France and the UK by goods exports to MINT economies



Ranking of US, Germany, France and the UK by goods exports to BRIC economies



Notes: Data is presented in current prices. Data refers to trade in goods only. Units: Ranks, Billions of US$
Source: UNCTAD

107 See, for example, European Central Bank, 'Emerging economies' (European Central Bank, 2014) <https://www.ecb.europa.eu/ecb/tasks/international/emerging/html/index.en.html>.
108 See John Hawksworth and Danny Chan, 'The World in 2050: will the shift in global economic power continue?' (Pricewaterhousecoopers, Economics in Business Blog, 10 February 2015) <http://pwc.blogs.com/economics_in_business/2015/02/the-world-in-2050-will-the-shift-in-global-economic-power-continue.html>.
109 See James Saunders Watson, 'Emerging Markets – an Option for the Faint-hearted' (J.P.Morgan Asset Management, Investor Insights, 16 January 2015) <http://insights.jpmorgan.co.uk/investment-trusts/investor-insights/emerging-markets-an-option-for-the-faint-hearted/>.
110 Grant Thornton UK LLP, 'Agents of growth- the power of mid-sized businesses', (above).
111 Mario Pezzini, 'An emerging middle class' (OECD Observer, 2012) <http://www.oecdobserver.org/news/fullstory.php/aid/3681/An_emerging_middle_class.html>.

Unleashing the diaspora

What's more, the UK is failing to draw upon both its historic (economic and cultural) links to all of these regions and its reservoir of migrant talent at home. Our respondents point out that diaspora communities "provide important and immediate links into their countries of origin" (BCC) which can form the basis of sustained professional and business relationships.[112] They provide skills, knowledge, experience and networks. Higher Education is one such gateway to the world, as it fosters natural diaspora communities and lasting links between the home institution and the foreign student. The UK remains the second-highest destination after the US and, in 2012-2013, one in eight students enrolled in UK higher education institutions came from outside the EU.[113] Yet, while the number of foreign students globally is expected to reach 7m by 2020 (up from 4.5m in 2012), the UK's share is declining. We are increasingly losing out to the US, Australia and Canada.

Encouraging (genuine) students to study in the UK is a vital instrument for boosting our long-term export performance. Arguably, encouraging them to stay is equally important. The Law Society wants measures to encourage overseas graduates to undertake placements with UK legal firms and for these firms to be encouraged to recruit overseas.[114] Without exception, our respondents urge the government to re-introduce post-study work visas for foreign students, particularly for STEM (science, technology, engineering and maths) graduates. Other countries, says Universities UK, are setting ambitious targets for international students while ending the post-study work visa route in 2012 preceded a reduction in the number of students enrolled here: down 1% a year later.[115] Migrants are already filling one in five jobs in sectors such as aeronautics and oil and gas extraction because of skills shortages while four out of five engineering firms are held back by recruitment problems.[116]

Year-on-year change in the number of foreign student entrants in the UK and its competitors, 2009-2013

Source: UUK (2014) International students in higher education: the UK and its competition, p25.

112 British Chambers of Commerce, Submission to the Cole Commission, January 2015.
113 Universities UK, Submission to the Cole Commission, January 2015.
114 The Law Society, Submission to the Cole Commission, January 2015.
115 Universities UK, Submission to the Cole Commission, January 2015.
116 See Brian Groom, 'Lack of engineers threatens UK recovery, say industrialists', Financial Times, 16 March 2014, <http://www.ft.com/cms/s/0/f3448602-aa1e-11e3-8bd6-00144feab7de.html#axzz3Sm9DaXlb>.

Enduring global connections

But the culture change required goes well beyond that: we need to view such graduates as future contacts or even ambassadors for the UK when they return home. They can be our on-the-ground eyes-and-ears for business intelligence and, naturally, work for or undertake work experience placements in the overseas operations of British firms.

We also need concerted efforts to raise the educational and professional expectations of ethnic minorities at home in Britain. Research from the University of Manchester demonstrates that all major ethnic groups are more likely to be unemployed and less likely to reach senior levels of corporate life than the host population.[117] But they face uphill struggles as government reports and think tanks acknowledge, both in employment and in business. Dr Omar Khan, Runnymede Trust Head of Policy Research, commented: "Black and Asian businesses have long felt that they're not treated fairly by lenders. We hope that government also engages in further initiatives to better understand why racial inequalities persist, not only to improve the lives of ethnic minorities, but also to grow the UK economy." (Cited by Mark Williams, The Start Up Donut)[118] These firms could, with proper, targeted encouragement, use their networks to become successful exporters. This is a huge resource we neglect at our peril.

Key Recommendations

- The next government should review the system of post-study work visas with a view to better harnessing links between foreign students and UK firms looking to export, as well as overcoming gaps in skills critical to export success.
- The government must work with Higher Education providers to reverse the downward trend in overseas students choosing our world-class universities, as this has a knock-on effect on our ability to market the UK to the world.

Emerging Themes

- A strategy at the UKTI/UKEF level, and the 'One Stop Shop' SME level, must be developed to encourage firms to explore export opportunities in high growth markets.
- Government and business must find a way to more systematically draw upon and nurture the assets of both foreign-born UK nationals and UK nationals working overseas.

117 See University of Manchester, 'Ethnic minorities 'better qualified'' (University of Manchester Press Release, 11 March 2014) <http://www.manchester.ac.uk/discover/news/article/?id=11724>.

118 Mark Williams, 'Why don't more people from ethnic minority backgrounds start businesses?' (The Start Up Donut, 27 May 2014) <http://www.startupdonut.co.uk/blog/2014/05/why-dont-more-people-ethnic-minority-backgrounds-start-businesses>.

Acknowledgments

We are grateful to all the organisations, big, medium and small, which responded to our request for information, gave advice and guidance about a topic that has bedeviled British economic policy at least since 1945. All their inputs have proved to be invaluable.

It is often invidious to single out individual bodies but we are especially grateful to the House of Commons Library and Grant Thornton UK LLP, the professional services firm, for their hard work in rooting out and analysing the statistics that underpin the case(s) we make here. Google and OC&C Strategy Consultants also gave excellent support with research on the digital market.

We had over 60 submissions full of evidence and ideas. We particularly welcome those from players such as the British Screen Advisory Council, Music UK, PACT and techUK, which drew our attention to the potential of SME exports. We drew extensively on work done by Universities UK and were impressed by the broad perspective presented by many of the submissions.

The CBI, BCC and EEF proved extremely helpful in providing a wider horizon and greater depth based on decades of experience. Smaller bodies such as BExA gave us incisive insights as did the China-Britain Business Council.

This report owes a great deal to the extraordinary and tireless efforts of Tom Elliott, of PwC Consulting, and Cal Viney, a doctoral candidate at the LSE, who were instrumental in the research, analysis and writing of the report.

They were ably abetted by George Hutchinson (StockWell Communications), Philip Cole and Tony Watts who acted as sherpas for individual commissioners and liaised effectively and efficiently with the rest of the team.

David Gow, former European Business Editor of The Guardian and editor of Social Europe, wrote the report.

Appendix 1: About the Commissioners

Graham Cole

In February 2011, Graham became Chairman of Westland Helicopters Limited, now called AgustaWestland Limited, and also appointed to the Board of the parent Company Finmeccanica UK. He is also Chairman of Vix Global Board and main Board Director of Utilico. Graham lived in South America for 7 years and has since held a number of roles in the wider export community, including Regional Chairman of the CBI, as well as serving on various Ministerial Committees. Graham was appointed a CBE in 2004 for his contribution to Aerospace and in 2008 the Commendatore dell' Ordine della Stella della Solidarietá Italiana by the President of Italy for his work on Anglo Italian businesss. In 2015, Graham was awarded an honorary Doctor of Laws by the University of Exeter.

Gabriel Buck

Gabriel is Managing Director and Global Head of the ECA and CAPEX Financing Solutions Group at Barclays Investment Banking. He is responsible for the structuring and execution financing of major CAPEX projects around the world. Gabriel has over 35 years of banking experience of which 25 years has been spent specialising in structuring Trade and Export Finance which includes financing ECA transactions, having project managed over US$10bn of ECA transactions since 2000. In January 2011, Gabriel was elected Chairman of the British Bankers' Association's Export Finance Committee.

Nora Senior

Nora is Executive Chair UK Regions and Ireland of global consultancy, Weber Shandwick. She is responsible for planning and implementing communications and brand programmes across the UK and internationally (North America, Middle East and Pan-Asia). A former Businesswoman of the Year, she currently holds the elected post of President of British Chambers of Commerce and Chair of Scottish Chambers of Commerce.

Nick Baird

Nick has been Group Corporate Affairs Director of Centrica plc since March 2014. Before this, Nick had a long and varied career in Government. He was CEO of UK Trade and Investment from June 2011 to December 2013. Before this, Nick was the Director General in the Foreign and Commonwealth Office (FCO) leading its work on Europe, the Global Economy and Consular issues (2009-11) and the British Ambassador to Turkey (2006-2009).

Angela Maxwell

Angela achieved prominence as a dynamic entrepreneur by powering espresso machine manufacturer Fracino, from a £400,000 turnover in 1995 into a world-class leading brand. In 2007 Angela was one of just 200 businesswomen honoured by the Queen in recognition of her outstanding contribution to UK trade and industry. Angela was also a finalist in Businesswoman of the Year 2005 and received an OBE for Services to Business in 2010. Angela is a non-executive director of University Hospitals Birmingham, a member of the Birmingham Business School Advisory Board and is Chair of the Birmingham REP. Acuwomen, her latest enterprise, is the UK's first consultancy company to bring an all-women group of entrepreneurs under one roof.

Paul Cleal

Paul is a Partner at PwC. Paul joined PwC in 1996 from Croydon Council and became a partner in 2001. During his career in the firm, he has served clients in infrastructure finance and international development, as well as leading the firm's Government & Public Sector practice. Paul also founded and currently leads the UK firm's Africa Business Group which seeks to develop opportunities in the emerging markets of sub-Saharan Africa. He was previously PwC's Board member for people strategy, leading the HR function for the UK firm and has been a member of various other UK and global leadership teams.

Appendix 2: Submissions Received and Consultations Held

- Association of the British Pharmaceutical Industry (ABPI)
- Aerospace Defence Security (ADS)
- Airbus
- Australian High Commission to the United Kingdom
- Aviva
- BAE Systems
- Barclays
- British Bankers' Association (BBA)
- British Film Institute (BFI)
- Bremont Watch Company
- BritishAmerican Business
- British Chambers of Commerce
- British-American Business Council
- Brompton Bicycle
- British Screen Advisory Council (BSAC)
- BT
- Business West
- Campaign Against Arms Trade
- Cambridge Satchel Company
- Campaign to Cut Tourism VAT
- Carillion
- Confederation of British Industry (CBI)
- China-Britain Business Council
- Cohort
- Corner House
- Council of British Chambers of Commerce in Europe
- Dojo
- eBay
- Engineering Employers' Federation (EEF)
- Electronic Systems Community (ESCO)
- Federation of Small Businesses (FSB)
- Food and Drink Federation
- GMB
- Google
- Grant Thornton UK LLP
- Heathrow Airport
- IPPR
- Jaguar Land Rover
- Kingfisher
- London Chamber of Commerce
- Mabey Bridge
- Metail
- Miller International
- Northern Ireland Chamber of Commerce and Industry
- NMS International
- OC&C Strategy Consultants
- Producers Alliance for Cinema and Television (Pact)
- Pinewood Studios
- Reform
- Railway Industry Association (RIA)
- Rolls-Royce
- Santander
- Scotch Whisky Association
- Scottish Chambers of Commerce
- Society of Motor Manufacturers and Traders (SMMT)
- Sponsors Alliance
- Standard Chartered
- Sullivan & Worcester
- techUK
- The British Exporters Association (BExA)
- The Institute of Export (IOE)
- The Institution of Mechanical Engineers (IMechE)
- The Law Society
- The Institute Of Export
- The Independent Games Developers Association (TIGA)
- UK India Business Council
- UK Music
- Unite
- Universities UK/UK Higher Education International Unit
- UPS
- Virgin Atlantic
- Yull Shoes

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This *independent* review of British exports was commissioned by the Rt Hon Ed Balls MP, shadow chancellor, and Chuka Umunna MP, shadow business secretary, in September 2014.