

17 November 2009

Secretariat  
Business, Innovation and Skills Select Committee  
House of Commons  
7 Millbank  
London SW1P 3JA

Dear Sir/Madam

**Re: Exporting out of Recession**

I hope that we are not entirely too late to submit the attached for this important inquiry.

Sincere apologies for being so behind with this.

Yours faithfully



*(signed electronically 17 November 2009)*

Martin Walder  
Chairman

Cc Peter Luff MP  
Alliance Associations

## Exporting out of Recession

### 1. Background

1.1 The Engineering and Machinery Alliance (EAMA) is a grouping of ten like-minded trade associations:

- British Automation and Robot Association
- British Paper Machinery Suppliers Association
- British Plastics Federation
- British Turned Part Manufacturers Association
- Confederation of British Metalforming
- Gauge and Toolmakers Association
- Manufacturing Technologies Association
- Printing, Papermaking and Converting Suppliers Association
- Processing and Packaging Machinery Association
- UK Industrial Vision Association

1.2 These ten associations represent 1,400 firms, mostly SMEs in mechanical engineering, with total sales of approximately £7 billion, split pretty evenly between capital goods and components for capital goods.

1.3 UK mechanical engineering turnover is some £37 billion, with 70% of it derived from sales overseas. According to the Office for National Statistics (ONS), mechanical engineering is one of only two manufacturing sectors that regularly contribute a positive trade balance to the UK economy -- over £3 billion in 2008. (The chemicals sector contributed over £5 billion.)

1.4 Mechanical engineering companies typically supply 'enabling technologies' to other sectors (e.g. automotive, aerospace, medical, power and food industries) in the form of machinery or packages combining services and products tied up as solutions. This is not just the preserve of the large company. There are also many innovative entrepreneurial SMEs pushing the boundaries of factory performance, extending the envelope of the physically feasible to new levels in terms of speed, precision and migration into novel technologies and materials.

### 2 The current business environment

2.1 The recession isn't over in our sector. Real business to business demand remains depressed.

2.2 As a result companies' primary concerns are to find new customers and access to finance. The finance is doubly important, not just for them, but for their customers. Lack of availability has hit their sales as well as their ability to invest.

2.3 In June, alongside our monthly survey monitoring whether activity rose, fell or remained unchanged compared with the previous month, we asked firms how sales compared with a year ago.

Of the 80 firms that replied to this portion of the survey, 9% reported increases (from 2 to 200%), 11% no change and 80% falls (from 10 to 75%). Amongst the 'fallers', over a third had recorded declines of 30-35% and over a quarter said business had dropped 50% or more.

#### Turnover compared with a year earlier

<b>% fall on year ago</b>	10	15	20	25	30	35	38	40	50	54	56	60	75
<b>Number of firms</b>	1	1	11	5	15	8	1	4	11	1	1	4	1
<b>% of all 'fallers'</b>			17	8	23	13		6	17			11	

Source: EAMA Monthly Business Monitor (June 2009)

2.4 Our monthly Business Monitor continued to show a declining balance for export orders until a stuttering lift off the bottom in September and October. This came after some depressingly

negative data in our August Monitor which were also subsequently reflected in ONS manufacturing reports for the month.

### Orders % firms compared with month earlier

	UP		SAME		DOWN		UP/DOWN Difference	
	UK	Export	UK	Export	UK	Export	UK	Export
January	18	20	20	32	62	48	-- 44	-- 28
February	18	21	31	29	51	50	-- 33	-- 29
March	11	18	28	42	61	40	-- 50	-- 22
April	21	30	23	33	56	37	-- 37	-- 7
May	20	5	35	46	45	49	-- 25	-- 44
June	39	19	28	49	33	32	+ 6	-- 13
July	37	22	26	42	37	36	0	-- 14
August	33	22	23	41	44	37	-- 11	-- 15
September	51	34	26	43	23	23	+28	+11
<b>October</b>	<b>40</b>	<b>23</b>	<b>43</b>	<b>56</b>	<b>17</b>	<b>21</b>	<b>+23</b>	<b>+2</b>

Source: EAMA Business Monitor

## 3 Exporting – finding and developing new customers

3.1 This is the area where there should be major potential to rebalance the economy and exit the recession.

### 3.2 *Practical measures*

3.2.1 Exporting is very hard work.

3.2.2 The UK used to have an export promotion service that fitted in well with the mechanical engineering sector's way of doing business. It can take several years and even many visits to establish market credibility before a company is prepared to try your machinery in their factory for the first time. Visibility and confidence development were central to the scheme, helping firms take their equipment to shows where they could display it and if it all went well make that initial sale.

3.2.3 Budgetary pressure on UKTI has reduced this capability, just as global competition is increasing and the UK is more dependent on trade than ever before (55% of UK GDP depends on trade according to the World Trade Organisation). Sometimes the pressure is so extreme that UK exporters are asked to pay for Embassy or Consulate room hire, as well as for market information, while major competitor economies have a more supportive and less penny-pinching relationship with their exporters.

Luckily, several EAMA associations have their own offices overseas to support their members' export activities.

3.2.4 There is a view that the UK lags both in its promotion of the UK brand and in the range of different services to involve companies of different sizes in exporting across the world as a positive benefit to the economy as a whole. Work is progressing, but:

- The UK needs a national agency that champions UK exports and exporters. To match the best in the world this agency should be totally separate from inward investment activities and staff.
- The regime should be far simpler, run with a national focus, not subservient to regional priorities.
- Companies should be supported when they show commitment and proper preparation, not on the basis of their exporting 'virginity'.
- The Export Credit Guarantee Department's cover needs to be remodelled to be competitive across a far wider range of business.
- Following the recent consultation on the letter of credit guarantee, we have urged the Government to implement it as soon as possible.

### 3.3 Trade Credit Insurance Top-Up

3.3.1 A main concern for all manufacturers, the withdrawal of trade credit insurance, has also hit mechanical engineering, because firms supplying into a particular sector have had to suffer the same conditions imposed on them as on their customers. This action, by German, Swiss and French based insurers, is affecting the home market as well as exports.

3.3.2 The Government sponsored Trade Credit Insurance Top-Up Scheme was very welcome in this regard, but was designed to help domestic business exclusively and not exporters.

3.3.3 However, take-up has been very limited. Certainly for our members with 70+% of their turnover derived from sales overseas, this will be the reason why they haven't used it.

3.3.4 But unfortunately that's not the only damage. Invoicing discount houses and factors will refuse to make payment on goods as they leave the country for the export customer if there is no credit insurance cover. So the lack of cover cuts extra deep into cash flow as payment will be further delayed – creating a further drag on the upswing.

- The scheme should be amended so that it works for exporters. As a start it might be used for customers in the EU and the European Economic Area and some other well established markets, where the financial reporting systems are easily accessible to the insurers.

### 3.4 Guaranteeing the customer's deposit and the Enterprise Finance Guarantee Scheme

3.4.1 In mechanical engineering it is standard practice for a customer to pay a 30% deposit to confirm their order. It happens all over Europe and in the USA. In return for the deposit, the customer expects to receive a guarantee, normally from a bank, that they will receive the machine they have ordered or their money back.

3.4.2 If the company making the machine is any good, this is all very low risk, for which the banks make a charge.

3.4.3 Whereas French, German and US banks provide the guarantee for a small (sometimes no) charge, UK banks often deduct the deposit from the company's overdraft at the bank, so that the manufacturer is no better off for having received the deposit. There's no benefit to company cash flow. Just think of the impact if your SME firm is regularly building £million+ machines!

3.4.4 And now some banks have doubled the interest they charge (to 3½%) and increased their administration charges. Others have placed ceilings on the total amount they will guarantee for any one manufacturer, effectively slapping a cap on the size of the firm's order book, or forcing them to forego the benefit of the deposit, which opens them up to increased risk.

3.4.5 Faced with so much uncertainty, some companies report trying to use the Enterprise Finance Guarantee Scheme, which was conceived to help improve the availability of working capital for SMEs.

3.4.6 However, despite its conception to help innovative firms, the terms specifically exclude support for 'individual export orders'. If a firm is 100% export, all their activity is excluded. In mechanical engineering it is quite common to find firms that are 90% export, which in practice means they too are excluded.

3.4.6 Apparently such difficulties do not arise in other countries, because they run a 'Bond Support Scheme' with government backing, so that any orders where the deposit may be too big to be handled by the usual channels, can be covered competitively.

- If the UK is to develop a strong offer internationally it must be able to compete in the provision of such guarantees without putting its own manufacturers at a disadvantage.