19 October 2009

The Rt Hon Alistair Darling Esq MP
Chancellor of the Exchequer
HM Treasury
1 Horseguards Road
London SW1A 2HQ

Dear Chancellor

Re: Engineering and Machinery Alliance Pre-Budget Submission

Please find attached the Pre-Budget Report briefing paper from the Engineering and Machinery Alliance, which represents 1,400 firms, mostly SMEs in the mechanical engineering sector.

1. We show there has been a pick-up in activity recently, after an exceedingly steep decline in business, which, based on member firms' reports, is estimated to be on average down 30-35%.
2. It is far too early to say whether the improvement will be sustained and turn into a trend. It could be a stock readjustment after the summer break. Matters are delicately balanced. If Government withdraws its underpinning measures too early, confidence and the small gains made will quickly slip into reverse. The next two quarters are going to be crucial. Trading up puts pressure on cash flow.
3. According to a Gallup Organisation survey, UK banks have not been as supportive of business over the last six months as banks in France, Germany and Italy, where they also seem to have products that are more likely to be used for fixed investment.
4. Our members' priorities are to find (new) customers and have access to finance.
5. We recommend action in three areas, to:
    a. Help firms maintain liquidity/cash flow so that they can trade through the volatility that is certain to come: hold corporation tax level for at least two years; re-introduce empty property relief for industrial buildings; a technical amendment to accounting standard FRS 5 so that firms servicing Just-in-Time contracts aren't subject to the huge increase in Corporation Tax liability when work in progress and stocks are grossed up and added to sales; maintain pressure on the banks to fulfil the undertakings they gave as part of the rescue package they received, e.g. to lend an extra £40 billion to SMEs.
    b. Kick-start investment, especially to increase higher value-adding productive capabilities, so that firms can come out of the recession competitively stronger: increase the Annual Investment Allowance to £250,000; an incentive for automation along the lines of the incentives for energy saving plant; clarify eligibility so that the R&D tax credit applies to engineering firms researching solutions that will ultimately be part of a customer package.

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Company number: 5974924; Company limited by guarantee

c. Encourage exporters in practical ways: being bolder and more professional in the subsidised use of the UK representative network in foreign markets; amend financial instruments such as the Trade Credit Insurance Top-Up Scheme and the Enterprise Finance Guarantee Scheme so that they actually do support all types of exporters which they don't at the moment. In fact both in their different ways exclude exporters or exporting. This hardly makes sense. If UK manufacturing is to help rebalance the UK economy, it needs to be competitive on world markets. And given that UK mechanical engineering is 70+% export, these current schemes are of very limited use. We explain what we think is needed.

Yours sincerely

(signed electronically 19 October 2009)

Martin Walder
Chairman

cc Rt Hon Lord Mandelson – Secretary of State -- BIS
Ian Pearson MP – Economic Secretary – HMT
Ian Lucas MP – Minister for Business -- BIS
Marie-Anne Mackenzie/Brian Greenwood/Sandy Grom -- BIS
Katherine Green/Samrita Sidhu/Karen O'Brien – HMT
Member associations

Pre-Budget Report

Briefing Paper from

Engineering and Machinery Alliance

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Company number: 5974924; Company limited by guarantee

Background to the Alliance

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

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.

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.)

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.

Innovation and R&D are important ingredients in the success of many firms in the sector.

The current business environment

Company view

For our members, the recession isn't over. Real business to business demand remains depressed.

As a result their 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.

Sales and inquiries

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

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

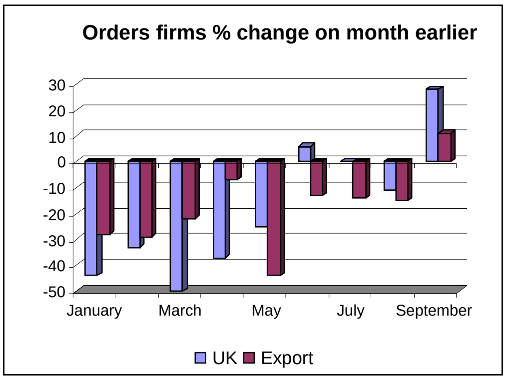
Source: EAMA Monthly Business Monitor (June 2009)

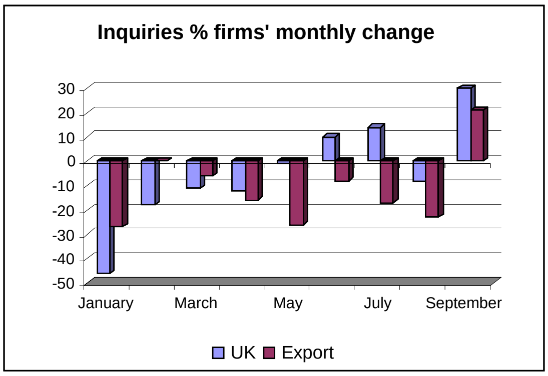
Our Business Monitor continued to show a declining balance for export orders and only a tentative lift off the bottom for UK business until the latest data for September. This came after some depressingly negative data in our August Monitor which were also subsequently reflected in ONS manufacturing reports for the month.

Orders % firms compared with month earlier

	UP		SAME		DOWN		UP/DOWN Difference	
	UK	*Export*	*UK*	Export	UK	*Export*	UK	Export
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**

Since January, the EAMA Business Monitor had only recorded one positive monthly balance before our most recent results. That was in June when UK orders scored a positive +6.





At the time, we were concerned by the continuing weakness in exports, which make 70% or more of the sector's sales. We were therefore surprised when the National Institute for Economic and Social Research and others were reported to have called an end to the recession in June, a move we felt was premature and which they qualified recently, noting that there may still be some way to go before all sectors stop 'receding', and that even then the UK economy will still have to establish a growth trend before it is no longer 'depressed'.

Business inquiries and prospects have followed a similar path as far as exports are concerned, turning positive for the first time this September. UK inquiries on the other hand have fluctuated with the balance turning positive in June and then negative for the month of August before returning to positive territory last month.

This volatility must remain a concern, particularly if, as many forecasters predict, domestic demand retrenches somewhat, albeit temporarily in Q1 2010.

Exports

The current exchange rate should be an advantage for exporters, although it does not seem to have played a big role so far, because demand in many foreign markets has been as depressed as the UK. But it isn't all bad news.

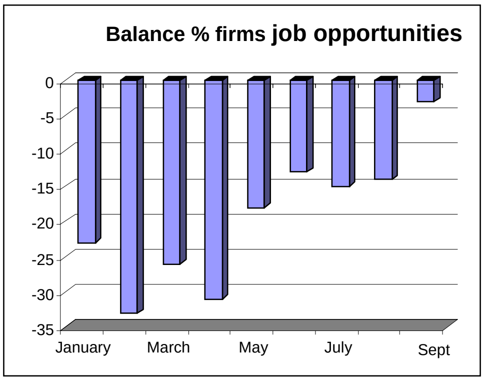
Using HM Customs latest available data, we looked at mechanical engineering's top 50 export markets. Over the eight-month period January to August, there are 21 risers and 29 fallers. The risers include seven markets in both the Far East and very broadly the Middle East. But also four in the Americas, including Canada and the USA.

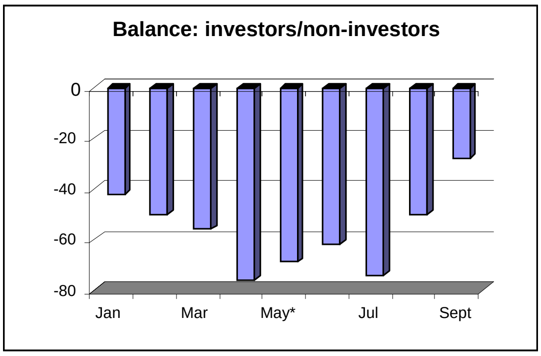
The 29 fallers are mostly in Europe (17) and again very broadly the Middle East (4).

Jobs and investment

Many firms have acted swiftly to reduce their overheads, cutting employee numbers and factory space so that they are right-sized to be flexible when facing further challenges. These firms have not only planned prudently, they have been able to meet their redundancy obligations.

An increasing worry in some supply chains is that there are firms that have kept trading in the hope that they can survive the downturn, because they don't have sufficient assets to pay redundancy and keep trading.





These pressures are going to encourage companies to be under-resourced in employment terms and in acting defensively to have more cash available than would otherwise be usual.

At base, to protect their gains to date, firms have to prepare themselves for the worst, insulating themselves from the unreasonable risks that would destabilise the company.

In the EAMA Monitor we track monthly attitudes to investment through a bank of six questions. These can be grouped very broadly as 'non-investors' in the first three questions and 'investors' in questions 4 to 6. Although the numbers have improved over the last couple of months, non-investors have outnumbered investors since the beginning of the year.

Investment	**Jan**	**Feb**	**Mar**	**Apr**	**May***	**Jun**	**Jul**	**Aug**	**Sep**
All investment activity stopped	*10*	*27*	*31*	*28*	*22*	*25*	*22*	*30*	*12*
Investment plans deferred	*28*	*31*	*22*	*28*	*28*	*34*	*30*	*19*	*22*
Developing projects, but not committing	*40*	*17*	*25*	*32*	*35*	*22*	*35*	*26*	*30*
Investing in all areas of the business	*6*	*4*	*10*	*5*	*6*	*9*	*6*	*11*	*20*
Investing in staff development and training	*8*	*17*	*6*	*2*	*4*	*9*	*4*	*5*	*12*
Other	*8*	*4*	*6*	*5*	*6*	*1*	*3*	*9*	*4*
Non-investors	78	75	78	88	85	81	87	75	64
Investors	22	25	22	12	16	19	13	25	36
Balance: investors/non-investors	**-42**	**-50**	**-56**	**-76**	**-69**	**-62**	**-74**	**-50**	**-28**

*** Note: over 100% due to rounding**

Other uncertainties

The impact of the VAT reduction on purchases over the year so far is an imponderable.

However, as its re-introduction gets nearer many think that it may encourage consumer spending in December, for it to fall away in Q1 2010.

There are also the uncertainties inherent in the run-up to Christmas, when many big manufacturers (e.g. car plants) close for a couple of weeks and then after that there will be the general election.

With the economy and general economic outlook centre-stage for all parties, there is a danger that the short-term gain for the opposition parties of painting everything in the bleakest colours could undermine the nascent recovery or at the very least business confidence.

The closer we are to election day, the more likely it is that business will be sceptical if Government claims the recession is over. The antidote, to keep at least some stimuli in place will also help address another uncertainty, namely that withdrawing the stimulus package too early will threaten the recovery.

A few words about SMEs' views of bankers.

It has proven very difficult to obtain any real data about the extent and the effects of the credit crunch on the sector. Businesses just don't want to discuss in open-forum the problems they may have with their banks. Nonetheless, all EAMA associations with their regular contact with member firms, have identified lack of available finance as a severe and current problem, which we are trying to mitigate by working with the British Bankers Association.

Many business people are vitriolic about the damage the banks have caused to their firms, even forcing them to cut long-standing employees, so that they are less likely to be considered a risk.

And almost adding insult to injury, the banks are quickly re-establishing themselves and their pay schemes, while ordinary businesses are refused the finances they need, and they and their employees are tapped for the money that underpins the banks.

It may all make sound economic sense. But it does not sound like natural justice. In fact it sounds remarkably like the re-emergence of the two-speed economy that bedevilled manufacturers earlier in the decade, when success was judged as creating returns in the short-term rather than creating goods over the longer.

Premature action, by Government withdrawing effective packages before the economic pick-up is deeply rooted, will make it even more difficult to achieve any wider rebalancing in the economy.

UK – EU comparisons on access to finance and associated costs

In June and July Gallup Organisation carried out some research for the EU Commission and the European Central Bank on companies' access to finance across the EU27+ others.

Eurobarometer's *Access to Finance Report* (published in September) covers many industries (60%) such as manufacturing, construction, distributive trades and logistics as well as services (40%) for business and individuals with a particular focus on SMEs which accounted for over 92% of all responses.

As the following extracts testify, the report indicates that banks play a more central role as supportive business partners in Germany, France and Italy than they do in the UK, where firms use a greater variety of sources placing perhaps a greater demand on cash flow.

Survey results

1. Compared to companies in Germany, France and Italy, use of trade credit has been far more popular in the UK. (Note this refers to 'trade credit', the period between delivery and when payment must be made for the goods, not 'trade credit insurance'.) On the other hand, a far smaller proportion of UK firms accessed a bank loan in the first two quarters.

Used over the last 6 months:	UK	Germany	France	Italy
Bank loan	19	28	26	32
Internal funds	60	67	50	39
Grants, subsidised loans	9	7	10	16
Bank overdraft	36	30	31	38
Trade credit	35	5	9	10
Leasing, hire purchase, factoring	18	33	14	19

2. Banks are more involved in providing loans to business in other countries than in the UK.

Provider of most recent loan over the last 2 years:	UK	Germany	France	Italy
Bank	72	86	94	94
Private individual	14	9	1	3
Other (micro finance, government etc)	14	5	5	3

3. While over half UK firms say that the cost of financing (other than interest rates) has increased in the last six months, half of French and German firms say that the cost has remained unchanged. And in Germany more than one in eight say charges have fallen.

Charges other than interest rates in last 6 months:	UK	Germany	France	Italy
Increased	53	17	37	46
Unchanged	33	58	48	35
Decreased	7	13	3	8

4. While half of firms in all four countries say that the size of their loans remained unchanged over the last six months, far more UK firms report decreases in the amounts they could borrow than in the other three countries.

Available size of loan over the last 6 months:	UK	Germany	France	Italy
Increased	10	24	14	20
Unchanged	52	54	54	55
Decreased	30	16	18	11

5. UK firms are equally likely to use a loan as working capital or for fixed investment, whereas fixed investment dominates French, German and even Italian use. Also far more UK companies use loans to help finance R&D or training.

Use of most recent loan (over last 2 years):	UK	Germany	France	Italy
Working capital	**57**	**44**	**20**	**35**
Fixed investment	**50**	**60**	**69**	**42**
R&D	**13**	**8**	**6**	**9**
Training	**10**	**2**	**1**	**2**

Conclusions

1. UK suppliers may have had more pressure on their cash flow than their competitors in France Germany and Italy. Standard payment terms are much shorter for example in Germany.
2. Banks are much more closely involved with their business clients, with bank loans far more prevalent in the other three countries than in the UK.
3. French and German companies are more likely to be benefiting from financing terms that have been maintained at pre-crisis levels. Terms for UK and Italian firms are much more likely to have got tougher.
4. One of the key changes for UK companies was the cut in the amount they could borrow. German, French and Italian firms were not hit to the same degree.
5. Loans in Germany, France and Italy are more likely to go on fixed investment, where the plant can be used to pay off the loan. UK companies are more likely to spend it on running the business, with more than two in ten using it for R&D and training.

Recommendations

EAMA members welcomed many of the measures Government set out round the Budget earlier in the year: the car scrappage scheme, enhanced first year capital allowances, the extension period for uprating business rates and the extension allowing firms to re-timetable their VAT payments in consultation with HMRC.

In its submissions (Pre-Budget and Budget 2009), EAMA focused on, to:

- Help firms maintain liquidity (cash flow)
- Encourage the banks to act as supportive business partners
- Encourage investment
- Encourage exports

These four priorities still chime well with our members' two main concerns, namely finding customers and access to finance.

We appreciate that the public finances are constrained and that the Government therefore has little room for manoeuvre.

Access to finance and cash flow

Treating with the banks

On access to finance we are already working with the British Bankers Association trying to improve financing availability for manufacturing SMEs.

- ➢ But it is important that Government not introduce anything that is going to make financing the business any more difficult.
- ➢ Where Government can, it should maintain pressure on the banks to ensure that they are indeed providing the extra £40 billion to businesses, particularly to SMEs, that was a condition for the financial support they received.

EAMA associations would be pleased to help ensure that SME businesses are much better informed about performance in this area.

Empty property relief and corporation tax

Firms that have paid off redundancies and cut back on other overheads so that their productive capacity, as a smaller unit, is more in line with demand are now being hit by the withdrawal of empty property relief (e.g. having paid off eight redundancies, six months on a firm now faces a rates bill on the surplus second factory of £1,300 a month which will be a drag on the firm's viability until the market is fully re-established and the space sold or used).

With the bottom knocked out of the industrial property market, the withdrawal of empty property relief will simply encourage landbank accumulators to knock the empty buildings down and leave a blight on the estate.

SME Corporation Tax rates increased to 21% last year, a rise that coincided with the phased withdrawal of Industrial Buildings Allowance over a three-year period. At the Pre-Budget last year you announced that the planned increase would be postponed and that the rate would remain at 21% for 2009/10. Ideally we would like to see this rate fall quite dramatically, but we recognise the limitations on such action at this time.

We therefore recommend that Government:

- Re-introduce empty property relief for industrial buildings until the market has re-established itself.
- Postpone the increase to 22% for two years, keeping it at 21% for the foreseeable future to encourage longer term planning.

Access for longer term development

We have seen from the Gallup Organisation's survey how UK manufacturing SMEs are at a disadvantage compared to competing firms in three other EU member states when it comes to access to longer term finance from the banks.

EAMA members are sympathetic to EEF's proposal that Government consolidate its various financing streams into single source along the lines of a 'Bank for Industry'. This would certainly change perceptions about the UK as a place to run a manufacturing business. It would also change the 'mood music' round longer term investment. From our perspective, SME access (e.g. simplicity and locality) would be important.

Accounting standard FRS 5

An amendment to FRS 5 designed to stop the irregular invoicing practice adopted by fee earning businesses has had unintended consequences on some manufacturers forcing them to pay Corporation Tax on work in progress and finished stock.

This affects companies in particular supply chain relationships, e.g. those running a continuous, Just-in-Time manufacturing Kanban system to support a draw down contract, which would be regarded as the 'ultimate' in modern supply chain efficiency and integration.

However, suppliers (mostly SMEs) in this sort of relationship will find it very difficult to renegotiate these contracts with their (much bigger OEM) customers who rather than change terms would take the business away to another supplier prepared to offer the same sort of efficiency. So at the moment they either lose a part of their cash flow or their contract.

But it is also important that the tax system encourages and supports these types of contract relationships, which are designed to increase manufacturing efficiency, which itself depends on the ability to invest over the longer term.

What happens is that the amendment captures the firm's work in progress and finished stock which is then grossed up and added to sales. The resultant increase in profit adds to their Corporation Tax liability, but excludes associated costs of final manufacturing and of course delivery. This inflates their profit line and reduces their cash flow by a similarly distorted figure. These can be big numbers for an SME, e.g. £1 million.

- We recommend that this distortion could be rectified fairly simply by limiting the liability for tax to work that is invoiced by any business whose primary source of income is from fees earned from clients.

Encouraging investment

The decline in orders has brought about its own decline in demand for new manufacturing capability. The danger is that too many firms are not investing ahead of the eventual upturn for lack of confidence.

EEF research covering the 1980s and '90s shows that when investment falls due to recession, it takes four years to return to growth.

ONS data on the other hand show that UK manufacturing investment per company in 2007 was still 30% down on where it was in 1997.

	1997	2007
Companies	169,663	149,101
Total investment £ millions	20,314	12,002
Average per manufacturing company £	120,000	81,000

Source: Annual Business Inquiry 16 June 2009

For comparison only, in 2007, the 447,000 firms in business services, one of the UK's most rapidly developing sectors, invested £4.8 billion in total or £11,000 per firm.

If the UK is to maintain its push for a more broadly balanced economy, then investment is surely fundamental. If it doesn't take off soon, the danger of sliding back into the era of the two speed economy is very real.

The Annual Investment Allowance
We welcomed the introduction of 100% capital allowances in 2008. However, the cap at £50,000 is far too low for manufacturing. (As mentioned earlier, average investment per UK manufacturing company is £81,000, or over £100,000 in the 1990s when investment was increasing.) We accept that it is generous for service sectors (e.g. average per firm in the business services sector is around £11,000 per annum).

- Recognising that the downturn also puts pressure on the public finances, we recommend that the cap be raised to £250,000 immediately to encourage firms to kick-start investment.

Ultimately the cap should be raised to £500,000 to encourage investment in more substantial, leading edge equipment and eligibility should be extended to companies with a maximum turnover of £50 million. At this level you will capture those firms that have significant global potential but are still constrained by access to finance from competing with the really big international companies.

In the *HM Treasury Productivity in the UK Series*, the UK's lower levels of capital stock per worker are believed to account for some 80% of the 1990s productivity gap with France. It is therefore important that manufacturing investment is carefully targeted.

- We see an incentive aimed at automation (perhaps along the lines of the 100% allowances for energy-saving plant and water conservation machinery) as being of little interest to most service firms but of considerable help in directing manufacturing investment into technologies that will enhance competitiveness, not just simply increase output.

R&D Tax Credit
Members report HMRC inspectors are changing the basis for assessing eligibility, going back to the idea that it's only really for activity carried out by lab technicians in white coats.

Many UK mechanical engineering SMEs supply 'one-off' products tailored to resolve problems in a unique manner. The sale may even be dependent on the firm coming up with a novel solution, which itself has to be tested. Anything which therefore goes to preclude such sales puts UK firms at a competitive disadvantage. Anything that complicates the application or claims process also works against the interests of these dynamic small firms as engines for innovation and change.

We therefore recommend that Government:

- Ensure that the eligibility criteria are applied to generate the greatest amount of innovation as innovation will bring additional revenue back to the UK Exchequer, whereas in this particular area, focusing on revenue maximisation may well have the opposite effect.

Exporting – finding and developing new customers

This is an area where any useful Government spend will come back to the UK Exchequer through the tax system.

Practical measures

Exporting is very hard work.

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.

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. (Recently two members were approached by the Mexican Consulate at an international trade fair in Chicago offering a Mexican market study for a fee. In a hypothetically competitive tender for a study of the Mexican market, who would have completed the better report? The Mexican trade official or the UK embassy?)

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

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 where they show commitment and proper preparation.
- 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 urge the Government to implement it as soon as possible.

Trade Credit Insurance Top-Up

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.

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.

As you know, 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.

One of the reasons is probably because it has now become clear that the scheme specifically excludes exporters.

But unfortunately that's not the only damage. Invoicing discount houses and factors will refuse payment if there is no cover. So the lack of cover cuts extra deep into SME cash provision as payment will be further delayed.

- 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.

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

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.

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

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.

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 to increased risk.

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.

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.

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.