

Export-led Growth

- submission from the Engineering and Machinery Alliance

The Engineering and Machinery Alliance of trade associations (membership in appendix) welcomes the Commons' business and trade committee's inquiry into export-led growth. The subject is important to EAMA's members, which are active in supporting exporting by their members and sectors. This response derives from evidence from members and their member companies.

Main points in summary:

1. Advanced engineering and manufacturing have great potential for improving productivity, growth and export performance and urgently needs a coherent strategy within government.
2. Brexit has put the UK at a structural disadvantage in manufacturing and distribution to Europe. A programme is needed to compensate for that and we should do what we can to improve exporting terms with the EU.
3. The UK needs an export strategy. The greater the degree of cross-party consensus on policy towards exporting and manufacturing, the more successful the UK will be.
4. Aggressive criticism of the EU from political leaders and other influencers undermines UK export efforts.
5. The UK government has reduced and narrowed its export ambition.
6. The Export Control Joint Unit is uniquely cautious, opaque and slow in processing licence applications, especially for exports to China.
7. Exporting can be increased by strengthening and mobilising the UK's export culture through a range of measures, including incentives.
8. The international trade part of Department for Business and Trade (formerly DIT) should work more closely sector trade associations, such as those in EAMA.

Context

1. Goods account for almost half of UK exports by value, so advanced engineering and manufacturing is central to export-led growth. The machinery sector has much to contribute.
2. EAMA trade associations represent some world-class manufacturers, including companies that export more than 90% of their production. However, there is a need to strengthen the productivity, competitiveness and exporting potential of the UK manufacturing sector as a whole overall. Only then can it achieve its potential to contribute to export-led growth.
3. We agree with the Levelling Up White Paper's imperative, that "we must... reverse the historic decline of manufacturing in the UK" but we need to see follow-through. The government must, urgently, develop a coherent strategy to drive growth in manufacturing – which will drive export growth.
4. Exporting and manufacturing improvement go together and should involve both halves of the new Department for Business and Trade. The UK is good at R&D innovation but poor at turning that into long-term value for the economy. Manufacturing can be an excellent sponge for soaking up innovation and turning it into long-term value. To do that, we need to focus on making the manufacturing sector more advanced in its technologies, processes and business practices, ensuring reliable and competitively-priced energy and facilitating expansion through the planning process.
5. As the Resolution Foundation's asserted recently, the UK needs an export strategy. We also need to work more effectively at export promotion. Exporting has become significantly more difficult over the past three years. The Covid pandemic caused short-term disruptions and strengthened a trend towards reshoring and protectionism around the world. Geo-politics is now strongly influencing trade policy and impacting exports to major markets, most obviously China.
6. Brexit has produced a structural weakness within UK advanced engineering and manufacturing overall, not least export potential. It has become more difficult to export from the UK, which is reflected in overall inflation-adjusted trade figures. Firms have moved some activities and jobs from GB to the EU. Brexit has made Great Britain less attractive as a centre for manufacturing and distribution with subsequent impact on investment and jobs. These are long-term, structural handicaps.
7. The UK's export performance to the EU has been prominently mis-represented in recent weeks. While it is true that the nominal value of exports in 2022 was greater than ever before, exceeding exports in 2019, there was a significant fall in exports when adjusted for inflation. Furthermore, exports in 2022 were compensating for two years of much-reduced trade, 2020 and 2021. By 2022, both demand and the ability to meet demand – to fulfil long-standing orders and reduce waiting times - were both bouncing back.
8. The impact of Brexit on UK exporters is illustrated by a survey by the British Plastics Federation, an EAMA member that represents one of the UK's third largest manufacturing sector and one of the UK's top 10 exports. The BPF's long-running business conditions survey (Source: www.bpf.co.uk/bcs) shows a steady decline in export sales. Firms make clear that the reason is Brexit – the additional administration, costs, customers' preferences to buy from EU suppliers. The long-term trend in the survey shows a steady increase in the proportion of all respondents who do not export rising steadily since 2017, from 22% to 31% as of this month. A separate survey BPF carries out shows the proportion of moulders that export declining from 89% who exported in 2019/2020 to just 63% in 2021/2022.
9. UK energy costs to business are the highest in Europe – let alone elsewhere in the world - an issue

that must be urgently addressed. It is striking that the Inflation Reduction Act in the US, while noted for its large incentives to big companies to locate in the US, also enables new expansion of oil and gas exploration to keep energy down costs.

10. The UK retains the benefits of being an open economy and English speaking, which are regarded as strong positives by many companies around the world. But we need to offer more.

What new or growing opportunities for exports can drive UK economic growth and how can they be exploited?

11. We live in a time of rapid change. The design, specification and technologies for manufacturing are changing, along with related services; online communications are changing the way products are sold and bought, and trade processes, as with much else, are going digital. Companies have to be alert to these changes in their products, processes and exporting expertise.
12. The drive to net zero is a huge opportunity for UK firms. At the same time, we note the expansion of fossil fuel use in many parts of the world, not least in the United States and the use of new licences in the North Sea. While supporting the aim of moving to net zero, there seems a curious contradiction in denying firms UK Export Finance support for exports related to fossil fuel projects abroad while the UK, at the same time, allows exploitation of new North Sea licences.
13. China is one of the world's most important markets and we hear from DBT that there are many opportunities for UK advanced engineering firms to export to that country. We welcome the innovative efforts of the in-country DBT team to promote UK advanced engineering firms.
14. However, these opportunities are not matched by interest in exporting to China. This is partly due to distance, the perceived long-term nature of building a successful relationship and concerns over intellectual property, based on experience. To these concerns must be added geo-political statements from the government, as it shifts its attention away from Europe and towards the Indo-Pacific.
15. The approach to granting export licenses for China is a significant obstacle to growing exports. Exporters recognise that licensing for exports exists for sound reasons. However, the process through the Export Control Joint Unit (ECJU) and involving the Ministry of Defence and the Foreign, Commonwealth and Development Office is uniquely both cautious and opaque. Licences are denied for no good reason that the exporter can imagine and the orders are then placed with companies from our strategic allies round the world, such as the US, Germany and Japan. The results are that: UK firms lose orders and are less inclined to invest in this country; the reputation of UK technology firms as a whole is undermined; our competitors are strengthened; and China suffers little or no negative impact.
16. In addition, ECJU process is taking much too long to arrive at decisions, such that export opportunities come and go. Ministers admitted a year ago that it was missing its own performance targets for ECJU and the situation appears to have got worse rather than better. We heard of a licence application for India that took 18 months for a decision.
17. We strongly suspect ECJU needs to be better resourced in terms of number of people, their expertise or both. At any rate, it could do worse than adopt the US system, whereby organisations for which export licences will not be granted are published and available for firms to see; or the pragmatism of other countries.

What do UK businesses need to increase exports? How does the UK compare to other countries in their support of exports?

18. There is an opportunity and a need to mobilise the SME sector to export more. A large-scale engagement should be undertaken of existing and potential exporters, to get their views as to the barriers and opportunities for export. Properly undertaken, this process of engagement would build on the significant work already undertaken. It would generate greater understanding of the views of SMEs and the issues they face, so that these can be addressed; increase awareness among SMEs of the support available to them; and raise the profile of exporting as an option. EAMA and its member associations would welcome a partnership to assist DBT in a communications and engagement programme and would offer government outstanding value.
19. There is much room for improvement, also, in the support from DBT to SMEs. UK SMEs have had far less government support to develop their exporting than those in rival economies over many years. UK pavilions at trade shows abroad have been under-funded and low-key, compared with those of competitors countries.
20. The Tradeshow Access Programme (TAP) declined from the mid-2010s due to budget cuts and poor administration before being closed and replaced by the even thinner UK Tradeshow Programme, now also closed. The Internationalisation Fund, locally administered, gave some useful support for a range of trade development activities, including attending trade shows, but is also now defunct.
21. Government has struggled for years to find a formula for successful incentives for exports. One option would be to re-start the Internationalisation Fund. Were that to be done, we suggest that it be centrally managed, to avoid the “postcode lottery” consequence of funding running out in one area and being under-spent elsewhere.
22. An alternative would be a system of tax credits for SMEs. These would be for specified, allowable expenses to develop trade capability, building on lessons from the Internationalisation Fund and other support schemes. Such a scheme would cover trade competence, export-orientated website development, attendance at trade show. It should be designed with care to avoid any conflict with WTO rules – so would not subsidise any process related to winning a specific order. Trade associations, such as those in EAMA, could be effective partners in designing such as scheme and in communicating its value and in promoting compliance with the rules.
23. We appreciate the pressures on the public finances at present and the caution over such targeted support for SME exporters. It would, however, be an investment that would bring strong returns. The sums involved would be modest compared with the money spent by government elsewhere.
24. UK Export Finance is a resource that should be on the checklist of all manufacturing exporters, the more so since the introduction of its General Export Facility. We would like to see UKEF continue to promote itself strongly to SMEs (including through EAMA) and to strengthen its support.

Are Free Trade Agreements with countries fit for the future? How ill technology, such a 3D printing or lab grown foods, change trade flows in the near to medium term future??

25. We note the cooling of the trend towards FTAs, not least in the US. FTAs bring both value and risk.

EAMA members have no great enthusiasm for an FTA with the US, for example, because they anticipate that they would lose more than they would gain.

26. The FTAs with Australia and New Zealand eliminated tariffs on machinery and made movement of people easier, which is to be welcomed.
27. EAMA remains cautious about the prospect of an FTA with India. Culturally, attitudes in India mean that export opportunities may be greater in theory than in practice and intellectual property safeguards remains a concern. Conditions for SMEs wanting to do some production in India can be challenging.
28. FTAs will remain important. However, we should be open to all ways to improve exporting potential. The Trade Remedies Authority is, rightly, raising its profile and encouraging companies to highlight areas of concern, an area in which the UK is less active than other countries. We also need to ensure that we are making goods available at a competitive price that people abroad want to buy and have effective routes to market.
29. Additive manufacturing/3D-printing is a fast-evolving sector in terms of applications, processes, materials and standards. Several EAMA trade associations have a keen interest and one, the Manufacturing Technologies Association, has taken over responsibility for Additive Manufacturing UK from the High Value Manufacturing Catapult. Depending on the product, additive manufacturing/3D-printing will allow people to make their own spare parts rather than hold stock and will help to transform design. For many applications, quality and process control will be critically important and will help to generate export opportunities for firms with high quality control standards.

How achievable is the Government's "Race to a trillion" target for reaching £1 trillion worth of exports per year by 2030 and is the UK on track to achieve it?

30. The "Race to a Trillion" refers to Export Strategy 2021's ambition to have a nominal £1 trillion of annual exports by 2030; that is, to achieve a figure that does not take account of inflation. The target replaced the more focused aim in Export Strategy 2018 to raise GDP by five percentage points.
31. The 2030 target was said to accelerate the achievement of £1 trillion in exports by five years, from 2035, set out in an internal Department for Trade analysis. Achieving £1 trillion figure by 2030 depends on inflation and currency fluctuations and recent high inflation means we may well be on track, even with reduced exports.
32. We regard the £1 trillion figure as a reduction in export ambition, which has also narrowed and been focused on a few favoured sectors. Advanced Engineering was one of a number of groups at DIT in Westminster that was either closed down completely or much depleted. Collaboration with trade associations was greatly reduced. This is marked contrast to the approach advocated by then-minister Baroness Fairhead in the 2018 Export Strategy, when she wrote that effective joining-up of government actions with trade associations and other export support providers was "critical" for success of the strategy.
33. An important step towards achieving the 2030 target is to improve our relationship with Europe. Re-joining the Single Market has been ruled out by both the major parties in Westminster but a gradual easing of restrictions would result in more trade. We note that both Norway and Switzerland have, from different starting points, accepted the Single Market to a considerable extent.

34. For the UK to make progress will be challenging. It is important to reduce trade friction and to overcome the VAT regime affecting the movement of goods back to the UK for refurbishment or recalibration before being sent back to the customer in the EU. That will become increasingly important as we move towards a circular economy and net zero.
35. In the UK, we need to shift the tone of debate. Every time an MP or peer or other prominent public figure, or newspaper, disparages the EU they damage UK business and make it a little harder for British firms to export to Europe. They strengthen a negative sentiment about British businesses among existing and potential customers and suppliers and make the job of UK firms' competitors in Europe and around the world a little easier. They make Europeans working in the UK less inclined to stay and those who might come here less inclined to do so.
36. There is a striking contrast with the views and language of the companies in the sector that EAMA members represent, who want to continue a friendly and constructive relationship with European customers and suppliers. We have made clear to trade bodies in Europe that the negativity they hear and read does not represent our companies' views and have urged that it be discounted – that UK politics should be separated from business. We understand why some of our colleagues in Europe might find that difficult.

How achievable is the Government's "Race to a trillion" target for reaching £1 trillion worth of exports per year by 2030 and is the UK on track to achieve it?

37. The 12-point plan has some positive aspirations in terms of business engagement and support but has made little impact so far. "Made to the UK, Sold to the World" is not regarded as particularly helpful as a slogan.

Can the Government do to promote and facilitate UK exporters involvement in critical international supply chains? What opportunities are there for the UK to become a key supply chain partner to the United States, European Union and other democratic allies? What needs to be done to secure those partnerships?

38. The government is right to pursue technology and innovation partnerships around the world – with Japan, Singapore, the US and countries in Europe, for example. EAMA welcomes the deal which, at time of writing, was reported to have been struck but was not confirmed for the UK to return to Horizon Europe. This should strengthen UK insight and influence in research.
39. A national strategy for advanced materials innovation, such as is championed by the Royce Institute, will help to chart awareness of the critical material needs and opportunities.
40. A resurgent advanced engineering and manufacturing sector, harnessing research innovation and innovating at company level and exporting to Europe and around the world, will help to secure the UK's relevance to international supply chains. The risk is that we do not see a resurgence and that the UK loses intellectual property, exports, jobs and relevance.

Appendix

About EAMA: The Engineering and Machinery Alliance comprises trade associations representing firms in the following sectors: machine tools and tooling; additive manufacturing/3Dprinting; automation and control; plastics; turned parts sub-contracting; compressed air systems; fluid power systems; printing technology; agricultural equipment; laboratory equipment; and solids handling and processing systems.

Member associations: Agricultural Engineers Association; British Compressed Air Society; British Fluid Power Association; British Turned Parts Manufacturers Association; Gambica; Gauge and Toll Makers Association; Manufacturing Technologies Associations, Printing Industries Confederation; Solids Handling and Processing Association.

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