



Lancashire Enterprise Partnership Limited

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Trade and Internationalisation: A Global Lancashire
(Appendix 'A' refers)

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Executive Summary

Lancashire's economic role and contribution to international trade in under-developed within the LEP's current Strategic Economic Plan. However, the SEP refresh allows the opportunity to review this key issue, especially in light of recent Brexit developments.

This report seeks to stimulate and frame the discussion with an outline International Trade Delivery Plan offered for comment and approval.

Recommendation

The LEP Board is asked to:

- (i) Note and comment on the contents of this report, including the outline International Trade Delivery Plan; and
- (ii) Subject to Board approval, request that the analysis within this report be included within the key inputs to the SEP refresh.

Background and Advice

1. Background

Lancashire has been long established as one of the world's outward-facing trading regions, predominately based on excellence in the quality and innovative engineering & design of our manufactured goods.

For the UK to pay its way and overcome the balance of trade deficit it will have to double exports, and the timeframe that Government has set for the nation to achieve this is 10 years.

While this is a formidable challenge, Lancashire has a contribution to make to this goal. Lancashire has justifiable ambitions to grow its economy and this will not be achieved without a significant trade contribution.



It is timely for Lancashire to have a long-term strategy to encourage trade and internationalisation as: the national economy is being re-balanced; manufacturing is recognised as part of a modern economy; post-Brexit there is realignment of trade deals; global growth and liberalisation means increasing opportunities for our companies and their products. Post-Brexit there has also been a currency exchange rate fillip for exporters.

The starting point however is unpromising. There is no previous work to build on, data has not been made available sub-regionally, publicly funded business support has been centralised and insensitive to local need, and inward investment has been through a national prism. Together with a lack of single-minded focus the net effect has been that the balance of payments has long been negative and exports have not increased to any significant degree: the UK as a whole has been failing in the challenge.

While surprising that the UK has not had a Trade Strategy before, it has in 2016 created a Department for International Trade (DIT) and included “ Encouraging Trade and Inward Investment” as one of the 10 pillars in its Industrial Strategy, January 2017, Green Paper which is currently out for consultation. Lancashire will contribute to this consultation and should take the opportunity to align with and inform Government policy.

Going beyond exports alone, if Lancashire wishes to be a truly international trading County, then considerations should also include imports, inward investment, imports, import substitution, labour mobility including international students, and possibly overseas earnings. Behind these sits a mosaic of supply chains, R&D and product development, skills, productivity, capacity, company leadership, finance and business support.

Companies who can compete in international markets are demonstrably more *productive* than their non-exporting counterparts; so targeting, encouraging and supporting those that could increase their international presence is one direct route to addressing *Lancashire’s productivity gap*.

The internet offers unlimited opportunities for companies to promote their wares on an international platform; conversely however it makes it easier for overseas companies to showcase theirs to Lancashire. Reliable high-speed broadband, which is thankfully available throughout Lancashire, is therefore essential.

It is important to note that Lancashire’s trade performance depends on the decisions made in company boardrooms rather than solely in public policy.

Developing trade capability and establishing international relationships is fundamentally a long-term activity but companies also have to be opportunistic and agile, so it is important that Lancashire has an immediate support and response capability as well as an international trade underpin to its long-term overall strategic economic plans.



2. Overview

Internationalisation envelops all activities that the County undertakes with regards to its relation with foreign activities. Within that, *International Trade* envelops all activities that Lancashire's companies undertake with foreign markets. The scale of the opportunities and challenges implicit in the national **imperative to double exports** in order to balance trade will require focussed attention at both levels.

On trade, **Lancashire has a strong tradition of international trade and export activities** and has a bias toward manufacturers in comparison to the rest of the UK, many of whom are already exporting. Growth of export values in the immediate term is therefore more likely to be achieved mainly by expanding markets rather than focussing on new entrants; however new entrants and developing a service sector contribution to trade is essential to Lancashire's long-term economic prospects.

There is an urgent need to collect, or at least to put systems in place, for baseline trade data at the Lancashire level. HMRC are scheduled shortly (2017) to provide information disaggregated to LEP level for the first time: this must be proofed and assessed for completeness.

For **import substitution** the softening of the exchange rate, for as long as it lasts, will encourage some behavioural change. However it could also be driven by product & service innovation and by organic expansion of existing domestic organisations as well as inward investment.

Inward Investment should be considered ostensibly on its contribution to supply chains without displacing indigenous companies and on its contribution to exports.

Building trade and relationships is a long-term process so requires sustained commitment. With the magnitude of the task, awareness should be **culturally embedded** starting in schools (appendix B), progress through Further and Higher Education (appendix A) and be embraced as a priority by Councils, the LEP, the Growth Hub and all intermediaries – with support in the endeavour from central Government as part of the national effort.

Government is currently developing an Industrial Strategy (IS), and indeed international competitiveness is the sum of many initiatives including productivity, innovation and skills and the cost and quality of products and services that ensue. Lancashire must develop its International Trade Strategy alongside the Industrial Strategy. The Government's new Department for International Trade may ultimately produce an expansion of the headlines on Trade outlined in the IS and Lancashire's Strategy has been prepared in a manner that should prove compatible.

An outline **delivery plan and set of actions is proposed in Appendix A**

An International Trade Forum involving Chambers, Universities, Sector Groups, shadow Combined Authority, Marketing Lancashire, operating under the auspices of the LEP, in conjunction with DIT - for a national perspective, should be established to oversee the Strategy and its implementation.



3. Baselines and Data

There is no accurate record of either the number of exporters or the value of exports from Lancashire.

Nationally ONS estimate (2015) that there were 229,000 exporters (c.11% of all companies), representing growth of 41,000 over the previous 5 years. If extrapolated to Lancashire, this would suggest c. 5,000, many of whom would be small. Nationally though, the value of exports has only grown slowly as a share of the economy, having doubled over 40 years - during which time France has trebled and Germany quadrupled.

HMRC do collect data at a local level but have hitherto not been prepared to release it below regional level a) for commercial sensitivity b) concerns about its validity and distortions for example through the 'Head Office effect'. Furthermore, many Lancashire companies in supply chains, for example in aerospace, make components that will ultimately end up abroad, but in practise is instead counted by the Prime they service.

HMRC have agreed to release data at individual LEP level. While the information should be treated with caution, it should be welcomed as with some proofing it should be possible to draw annual comparisons to assess whether relative progress is being made. For European trade, Intrastat and EC Sales declarations could provide detail at a LEP level. (A further update on this date will be provided to the Board meeting).

While it would theoretically at least be possible to carry out a Lancashire survey of exporters, companies are often wary of revealing any accurate detail and a part picture of sales values is unhelpful. However it would afford a better view of the number of exporters.

The County has Chambers of Commerce among the national leaders in the field of trade support and could build on their knowledge and proof the HMRC data. UKTI have also served Lancashire as part of the NW Regional Trade Support contract and their information should be available to BOOST – but again it will be partial, and it will generally only be aligned with the specific Government programmes of the day. Lancashire may not have access to its share of data from UKTI's national and specialist programmes.

Until such time as the data becomes more robust then Lancashire will have to rely on measuring incremental growth rather than absolute performance.

Further steps for consideration could include:

- Reduce the time lag between data collection and publication
- Improvement engagement with business through direct contact and online surveys
- Make export statistics available to individual businesses in an interactive manner
- Consult with business on how and what statistics can be developed to improve their opportunities



4. Industrial Strategy / Government Policy

The *Building our Industrial Strategy Green Paper* (Jan 2017) identifies 10 pillars, including R&D, Skills and Infrastructure all of which have relevance to the country's productivity and competitiveness.

Specifically referring to 'international' are two pillars:

- Encouraging Trade and Inward Investment
- Cultivating World-Leading Sectors

The Government summarises the challenge as “currently there are too few UK businesses that take advantage of the opportunities presented by overseas markets, with less than 11% of businesses exporting.”

DIT advocates a whole-of-Government effort to:

- Promote and support UK export of goods and service, including through export finance and insurance
- Maximise opportunities through supporting Foreign Direct Investment and Outward Direct Investment
- Deliver the best international trading framework for the UK
- Build the global appetite for British goods and services and encouraging more people to visit, study and invest in and do business through the GREAT campaign

In practice this approach means:

- Building future trading relationships and trade deals
- Increasing Defence exports
- Doubling export finance capacity (UKEF)
- Making Government trade services easier to use
- Joining up trade and inward investment promotion with local areas. As an example the team dedicated to the Northern Powerhouse will work closely with combined authority elected mayors, LEPs and other devolution partners to support small firms across the country to export
- Strengthening the value from trade shows
- Developing a new, more strategic approach to inward investment

Lancashire would agree with and be able to contribute to each of these national objectives. At sub-national level (either regional, local or by sector) though there will realistically be occasions when collaboration will be the order (e.g. trade shows) and others when there will be competition (e.g. inward investment?)

The consultation also asks two specific questions, on subjects not directly addressed in the prescription –

1. What can the Government do to improve our support for firms wanting to start exporting? What can the Government do to improve support for our firms in increasing their exports?
2. Should we put more emphasis on measuring the impact of Direct Foreign Direct Investment (FDI) on growth?



It is notable that UKTI (ITI) would appear to have not achieved the objective through their recent trade support activities – only managing approximately 1/5th of the target growth in the number of exporters required, and significantly less when measuring increased sales. Significantly there is no clarity on proposals for extending the current regional trade support contracts beyond 2018 – but for the introduction of the digital platform great.gov.uk to provide services to help exporters and investors.

Arguably, UKTI's services in the past have been geared to national priorities, and in future a digital platform provides a reactive service but does not proactively encourage greater participation.

In the meantime the Parliamentary International Trade Committee is carrying out (submissions by March 2017) a review of UKTI/ITI performance with the following scope:

- *What progress have International Trade and Investment (ITI, formerly UKTI) and UK Export Finance (UKEF) made on their performance since the Business, Innovation and Skills Committee finished work on its inquiry in 2016?*
- *How has the absorption of UKTI into the new Department for International Trade affected its performance?*
- *Are the Department for International Trade's export and investment services fit for purpose and sufficiently resourced?*
- *In the light of the Secretary of State's admission that £1 trillion export target will not be met, are the Department's export and investment targets transparent, appropriate and achievable? How should the performance of ITI and UKEF be measured?*
- *What standard of advice do ITI and its International Trade Advisers provide?*
- *What standard of support does UK Export Finance provide to companies seeking to export?*

5. Brexit

The simplistic response to Brexit, especially in the period pre triggering of Article 50, is for businesses to carry on as usual and to take advantage of the beneficial movement in exchange rates against both the euro and the dollar. It is recognised that there is going to be some uncertainty and probably hiatus in the period between Article 50 and final exit within 2 years, but that in the meantime business should focus on markets outside the E.U.

In that interim period and beyond, Trade Deals both positive (free trade) and negative (tariffs) will be developed nationally: Lancashire and the LEP currently have no direct role to play but can be indirectly influential via its Chambers through BCC and through some pressures through major companies like BAE Systems.

It would be constructive and hedge risks if effort should be put into sustaining EU country links prior to the conclusion of negotiations. As a base-line plan, companies could assume WTO conditions which would familiarise them with the impending changes and implications of the different potential arrangements.



Less simplistically, changes like the subtle exclusion of Universities from EU Research projects or prospective decreases in labour mobility including international students could have an eroding effect on Lancashire's broader internationalisation.

UCLan has a campus in Cyprus, which may prove a rare presence in the EU post 'Brexit'.

Both the risks and opportunities presented by Brexit require further research.

6. Current Business Support Activities

Lancashire's Universities have significant international student populations and have established overseas presences and partnerships. So besides being a primary link to some of the County's major *Innovation* assets and participation in programmes like Horizon 2020, they have significant latent international trade capital in their well-developed networks and alumni – but reprogramming will be required to add SME/ commercial value to the goodwill in the current graduate/ career focus.

The Lancaster University China Catalyst programme aims to exploit the global links of Lancaster University for the benefit of UK companies, from 2014-2017, with initial investment from the Higher Education Funding Council for England (HEFCE), Lancashire County Council and participating businesses. The University of Central Lancashire (UCLan) is building on 30 years of experience in China to provide support to businesses wishing to trade with China, access to funding both in the UK and China. Recent work has included successfully running entrepreneurial competitions on behalf of the Chinese government in the UK, leading to businesses establishing bases in China and accessing Chinese Government support.

UCLan is also actively developing its considerable Alumni base, to strengthen business links and UK / China opportunities. UCLan is able to provide considerable business support via its Lancashire based ERDF programmes that include innovation/product development support, leadership development in SMEs, student project placements and investment readiness.

DIT/ ITI (UKTI) provide a Regional Trade Support programme, managed by Chamberlink (Manchester Business Support Solutions) which is currently under review and only assured until 2018. However the outputs for Lancashire were of the magnitude of support new exporters for Lancashire as a whole averaged 62 p.a. between 2013 and 2015. (The numbers dropped in 2015 when subsidies were withdrawn), and for mid-cap companies (£15-20m t/o) just 10 supported.

The Chambers, identified as among the leaders nationally, provides a range of services, some commercial, including Trade Documentation, Training, Market Research, consultancy, networks, logistics support... as well as a complementary programme to support RGF applicants with international potential.

The Chambers International Trade Club, the longest established in the UK, provides a popular forum exclusively for exporters to exchange information and ideas.

There is virtually no other proven independent private-sector/ commercial export support availability in Lancashire.



The sector bodies, including the Aerospace and Automotive Alliances provide some advice but have been restricted in obtaining public funds as their productivity driver is at odds with the emphasis on jobs growth.

7. Barriers to Trade Expansion

At the individual company level, the potential barriers, both real and perceived, are many and the reasons for reluctance can be complex; they may include

- Leadership: 'lifestyle comfort' with domestic markets: unknown territory
- Lack of specialised staff, shortage of available experienced recruits
- Complexity of administrative procedures
- Insufficient market knowledge
- Uncertainty of how to identify and use agents and distributors
- Limited business support*

*N.B. Trade is a contact sport: technology has a support role, albeit an important one. Current Government thinking to provide a web-portal to SME's ('volume') while focusing face-to-face with large companies ('value') is less appropriate to Lancashire.

8. Risks

It cannot be assumed that Lancashire's current level of exports is necessarily stable and secure. There is exposure in the supply chain of the established key sectors (aerospace, automotive, chemicals) which could render the primes investments vulnerable. Success in the Enterprise Zone strategies is therefore key not just in terms of providing a platform for newly attracted inward investors to export from but also to secure the sectors' foundations. Similarly nurturing the sectors, for example by supporting the Alliances (which is a challenge as they are housed in Lancashire but operate more widely) is also essential in order to protect exports – albeit often indirect exports.

The largest current risks may be in Aerospace. There is an overt threat re the F35 programme that President Trump may attempt to reduce the number of units procured in favour of a lower cost alternative and Airbus could retrench post-Brexit into the E.U.

Similarly, the potential exclusion, not necessarily through deliberate anti-UK sentiment but because our Government funds differently, of British aerospace companies from the European 'Abroad' initiative could be damaging. The initiative links European aerospace companies with their world counterparts through exchange visits in recognition that there is sufficient growth in aeroplane volumes to accommodate collaboration.

9. Targets

Lancashire will have to show considerable ambition and commitment if it is to match the national targets.



To double exports within 10 years, **growth of 10% p.a. in sales** will be required. Much of this will be beyond Lancashire's control, for example trade deals and exchange rates, and in many cases our manufacturers will make components that will be in final assembly elsewhere; but nevertheless 10% of relative growth on like-by-like comparisons is achievable

More directly aligned with business support, and assuming that the current estimate of stock is 4,000-5,000 exporters (11%) the target is an **additional 500 p.a. exporting companies over 10 years**. The probability is that 50% of these (**250**) will go through the BOOST and partners' business support system and the rest will make it on their own.