

**Engineering and Machinery Alliance submission to the International Trade Committee's inquiry into UK Export Finance**

**Overview**

1. The Engineering and Machinery Alliance is an alliance of trade associations\* in the machinery and component supply chain. All EAMA's member trade associations have members companies involved in exporting.
2. EAMA is pleased to be a strategic partner of UK Export Finance – UKEF's term – and we are happy also be considered a critical friend, in the sense that we make constructive criticism.
3. EAMA believes that "UK Export Finance should be on the check list of all exporting manufacturers". We work to promote awareness and use of UKEF services, and to seek to make them more effective.
4. In 2019, EAMA and UKEF jointly put on a webinar on its services, which was something of a landmark: the first webinar UKEF had ever put on, on its own account.
5. UKEF has rarely been more important than it is now. It, and its partner lenders, face challenges but also great opportunities to assist exporters to flourish.

**Operation**

- How comprehensive is UKEF's product offering - and how attractive are particular products when compared with private sector options?
6. UKEF exists to support viable export opportunities where the private sector would not, on its own, be willing to do so. In our evidence to the committee in early 2019, we saw a pressing need for improvement in the overall delivery of UKEF services given directly to SMEs, as well as some things being done well.
  7. We are encouraged by progress made since then, specifically:
    - a. delegation of much of the risk assessment to five major banks (although we would like to see more lenders included);
    - b. faster response to assessments still being made by UKEF, which we understand from UKEF is now happening;
    - c. a possibly less risk-averse approach by UKEF, and
    - d. creation of the general export facility (GEF).
  8. The addition of the GEF should go a considerable way to filling what was a gap in the product offering. It is too early to assess its success yet, as it is not yet formally launched. We note that the GEF requires a declaration that either a) at least 20% of turnover has been made up of UK export sales in any one of the past three years; or b) in each of the past three years, at least 5% of turnover has been made up of UK export sales. While those new to exporting are therefore excluded, this should ensure that the great majority of exporters are eligible. We expect GEF to be much welcomed by exporters, not least in manufacturing.
  9. UKEF's support for major projects, in which a proportion of the project must be from UK suppliers, is viewed positively by EAMA. We wonder if the proportion might be higher in

some cases, but that is always a difficult judgement. Its supplier fairs are an excellent opportunity for SMEs to take their products or technologies to customers and sectors with which they have not previously dealt. COVID has dealt a severe blow to these fairs, but we commend UKEF for responding with a new, online video format.

10. We emphasise the importance of sector trade associations and their engagement with members. Many of EAMA's members are actively involved in seeking to raise the awareness and use of companies in the UK supply chain. They hold supplier fairs, have supply chain mapping projects, and have developed 'clusters' of firms in specific areas, such as automotive, medical and rail. One EAMA member, the GTMA, established the online resource Reshoring UK (<https://www.reshoring.uk/>), which has been supported by Innovate UK and now has the backing of 26 trade associations.

- How suitable is UKEF's process for assessing applications for support?

11. As above, UKEF's processes have been considered too slow in their processing of new applications, and too risk-averse when making their decisions. It is hoped that delegation to five major banks will:

- a. speed up the process for firms going through these banks and lead to more favourable decision-making - but that is down to the banks; and
- b. relieve the pressure on UKEF staff making the remaining assessments, increasing the speed of turnaround. It is to be hoped that they will also be less risk-averse.
- c. UKEF could be more adventurous when it comes to risk, and investing in the timed needed to support SME applications. It is tasked with not costing the taxpayer any money, which is a more onerous requirement than many areas of taxpayer support. But its returns of significant sums to the government as profit, while commendable in one sense, could be seen as further evidence of failing to support risk and SMEs.

- Do particular sectors, types of projects, or projects involving certain export destinations receive more UKEF support than others?

12. Yes, we believe that is the case. UKEF has highlighted sectors and regions in which it is, in practice, more active. However, we are assured that this is not a block on responding positively to well-prepared applications for support of viable potential sales.

- Are UKEF's performance targets suitable? Is UKEF's current financial allocation from HM Treasury and risk appetite appropriate to allow it to meet these targets?

13. UKEF's targets have been re-drawn, we understand, to reflect the reality of what can be done in terms of direct support for SMEs. We welcome that. Before, support through major projects, in which the SME was a supplier to an overall project financed with UKEF backing, was aggregated with direct support.

- How can UKEF continue to support economic recovery from the COVID-19 pandemic?
14. The innovations referred to above have the potential to help greatly. EAMA is fully behind UKEF's desire to promote awareness and use of its services, and we will work with UKEF in that regard.
  15. As in our previous evidence, we believe that exporters need to challenge their banks/lenders to engage UKEF support. This is a hugely important message to get across, albeit it is not a message we have heard from UKEF directly, perhaps because of their sensitive relationship with the banks.
  16. We expect Trade Credit Insurance (TCI) to be more sought-after product than hitherto. Pre-Covid, opinions divided as to the value of TCI generally – some used it, others either saw no need or regarded it as too expensive. Those exporters using TCI were alarmed this summer to see that, due to Covid, it was becoming harder to get; we now expect that those who did not feel the need before, may change their view.
  17. Similar logic can be applied to other UKEF products.
  18. EAMA supports investment in green technology - the formation of start-up businesses and the transition of existing businesses to achieve net zero 2050. We also support UKEF's focus on supporting exports in the areas of clean growth, which has been increased following direction by government.
  19. However, UKEF should continue to support a wide range of export opportunities for UK businesses, including 'brown' projects such as those in the oil and gas sector, where these projects are likely to go ahead regardless. In that way, UKEF supports jobs and the evolution of UK businesses, and helps to maintain UK influence.
  20. We are much concerned by the implications of the legal challenge against UKEF's support for an LNG project in Mozambique, both in terms of the immediate impact on that project and the possible impact it may have on UKEF's statutory role or the political support as to how that role is carried out. To limit UKEF's activities on the grounds that only projects meeting high standards of 2050 sustainability would work against UK exporters and interests.

## ***Engagement***

- How user-friendly are UKEF products for its range of customers, including small and medium enterprises? How well does UKEF communicate its offering to new and existing customers?
21. In respect of user-friendliness, or effectiveness, not only for SMEs but also quite large firms, the main points are as above.
  22. We note UKEF CEO Louis Taylor's reference this month to the value of working with trade associations (in his evidence to the Public Accounts Committee). EAMA is committed to

Written evidence from Engineering and Machinery Alliance (UEF0032)

helping UKEF get its message across, and we believe trade associations generally can be of great value. (DIT's Export Strategy 2018 is worth quoting here: *"Critical to the delivery of the Export Strategy is the effective joining-up of government actions... with trade associations and other export support providers."* )

- How does UKEF engage with DIT, the British Business Bank and private sector partners to ensure the requirements of businesses exporting overseas are met?
23. There is a need for closer co-operation and understanding between DIT and UKEF, and the new training modules for DIT staff will go some way towards that. UKEF engages with trade associations, and we would hope to see that strengthen.
- To what extent does UKEF draw on external expertise and knowledge in the design and review of its products?
24. We have no comment to make, other than that the recent changes at UKEF indicate that it appears to have taken on board constructive criticism of weaknesses and sought to make appropriate changes.
- What could UKEF learn from other successful export credit agencies around the world?
25. This is not an area we have considered in detail.

**Jack Semple**  
**Alliance secretary**  
**25<sup>th</sup> September 2020**