

## **Lord Grimstone of Boscobel, Minister of State, BEIS – Supplementary written evidence (FTS0065)**

At my recent evidence session of 4 February with the EU Services Sub-Committee, I promised to share some additional information relating to the Services and Investment provisions in the UK-EU Trade and Cooperation Agreement (TCA). I have provided answers below in response to Members' questions.

### *Professional and Business Services*

Lord Davies requested a comparison of UK and EU employment figures in the Professional and Business Services Sector (PBS) over the last ten years. The highlights of the Government's analysis are:

- **Employment in the UK PBS sector has grown faster than the EU average over the last 8 years.** Employment in PBS has grown 3.3% from 2011 to 2018, more than the EU-27 average of 2.8% and similar to growth in Germany (3.4%) and The Netherlands (3.2%). Over this time, the UK has created more than one million additional employment jobs.<sup>1</sup>
- **UK PBS sectors tend to be more productive than the EU average.** UK PBS is more productive than the EU-27 average in all PBS subsectors. The UK's productivity advantages are greatest in the advertising and market research sectors.<sup>2</sup>
- **The UK is the 2<sup>nd</sup> largest exporter of PBS worldwide.** According to ITC trade map, the UK was the second greatest exporter of PBS in 2019 with £113bn, following the US (£148bn). The next biggest exporters of PBS worldwide were Germany (£73bn), France (£70bn) and the Netherlands (£62bn).<sup>3</sup>

### *Small and Medium Enterprises (SMEs)*

Lord McNally requested further information about UK research and development funding for Small and Medium Enterprises (SMEs). Innovate UK, the United Kingdom's innovation agency, offers several support mechanisms that are available to SMEs and other businesses:

- The **Innovation Loans** pilot programme, which started in 2017, offers SMEs loans between £100,000 and £1m for highly innovative late-stage projects with a clear route to commercialisation and economic impact. Since its establishment, this programme has committed £75m to around 100 successful applicants.
- **Smart Grants** provide support for early-stage innovation and business

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<sup>1</sup> Source: Eurostat (February 2021): Annual detailed enterprise statistics for services. Notes: Based on persons employed for sectors M (Professional, scientific and technical activities) and N (Administrative and support service activities), which is a broader definition than PBS. The analysis includes the UK and all EU Member states with at least 1m persons employed in 2018 in this sector. 2011 are the earliest available values across all countries. Excludes self-employment.

<sup>2</sup> Source: Eurostat national accounts (2020), GVA aggregates and employment data by NACE, 2018. Notes: Productivity is measured by apparent labour productivity (Gross value added per person employed).

<sup>3</sup> Source: UNCTAD/ITC (December 2020): Trade map. Notes: PBS trade figures reflect trade in the more broadly defined Other Business Services (OBS).

collaboration funding to innovative businesses of any size and sector, alone or in collaboration, through a competitive process.

- The **Small Business Research Initiative (SBRI)** is a competitive pre-procurement mechanism that enables businesses to bid for government contracts to develop new products and solutions for the public sector. SBRI has awarded around £800 million in contracts to businesses since its inception in 2009.
- **Catapults**, which receive core funding from BEIS through Innovate UK, act as a bridge between the UK's research base and industry. Since their inception in 2011, they have been responsible for directing over £2.5 billion of private and public sector investment into innovative research and have supported in excess of 8,000 SMEs. Catapults support innovative businesses, including SMEs, through the provision of R&D infrastructure, specialist knowledge and expertise, collaboration building capabilities, and business support.
- In response to the pandemic, Innovate UK has delivered over £400m of additional innovation grants and loans to more than 2,900 businesses.

As Lord McNally acknowledged, the UK negotiated a provision in the UK-EU TCA that allows the UK to associate to the next EU Research and Development Programme (Horizon Europe, 2021-2027). The Government has decided not to participate in the European Innovation Council (EIC) Fund under this Programme, which provides equity funding to businesses. To clarify, the UK's absence is *only* for the blended finance (equity) element of the EIC Accelerator scheme. The UK's SME entities will still be eligible to participate in *all* grant funding elements of EIC Accelerator.

The UK has a strong innovation landscape with competitive venture capital opportunities and support for high potential SMEs throughout the innovation pipeline. We continue to look for ways to improve this further as part of the objectives set in our R&D Roadmap. The Government is aiming for the UK to establish global leadership in realising the benefits of innovation, becoming the best place in the world to innovate. As part of this, we will set out how we intend to create strong incentives for businesses to innovate, support innovative UK firms (including SMEs) to scale up, and promote adoption and diffusion of innovation across the UK economy, including improving access to finance and signposting of existing support for innovation.

### *Reservations*

Lord Sharkey asked about the impact of reservations in the UK-EU TCA and what the Government is doing to help businesses navigate these commitments. The EU and Member States have indeed taken over 500 reservations, each of which covers either the whole EU or an individual Member State, while the UK has listed fewer than 50. The EU is admittedly much larger than the UK but, overall, the UK is more liberal on trade in services than the EU.

These reservations vary a great deal in nature and impact. My co-chair of the Professional and Business Services Council, Nick Owen, agrees with BEIS's broad assessment that the impact varies by services sub-sector and Member State. Reservations that are less likely to have a substantial effect on trade include those that apply only to small markets or niche sectors; those that are not actually enforced in practice; those that already applied to UK firms when the UK was in the EU Single Market; and those with which compliance is straightforward.

For example, as I mentioned during the evidence session, Finland has a reservation

relating to a niche sector, whereby only EEA nationals resident in the reindeer herding area of the country may own reindeer and exercise reindeer husbandry. This shows that not all reservations will necessarily have an impact on the UK services sector.

The reservations most likely to disrupt existing patterns of trade include those that apply across the EU as a whole; those that impose nationality or residency requirements to provide a service; and those that cover highly regulated professions that have their own sector-specific regulation within the Single Market. Sweden, for instance, maintains a reservation that 50% of the management and ownership of any company established there must reside in the EEA.

It is not yet clear how the EU will actually apply these types of reservations to UK firms or how much of an obstacle to trade they will represent in practice. The responses of UK firms will vary depending on their business models. BEIS continues to monitor the effects of the TCA on businesses across the UK services sector. While it is too early to say which businesses will be most affected, we are paying particular attention to highly regulated sectors, such as audit.

BEIS is currently exploring ways to make information on EU reservations more accessible to businesses so they can more easily identify which ones are most relevant to them. We will publish further guidance on GOV.UK in due course. Businesses should always seek professional advice if in doubt about their position.

I would like to thank the Committee again for its work on this subject. The Committee's experience and scrutiny is a welcome contribution to this debate, and the Government remains committed to engaging with select committees as we transition to our new trading relationship with the EU.

*February 2021*