Made in the UK
Small businesses and an export led recovery

Priyen Patel
Edited by Rosina Robson
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Analysis on the exporting survey results prepared by Research by Design Ltd. White House, 111 New Street, Birmingham, B2 4EU, www.researchbydesign.co.uk
Foreword

By Mike Cherry, Policy Chairman, Federation of Small Businesses

Exporting has been hailed as a potential driver for economic growth in the UK over the next few years.

The Federation of Small Businesses (FSB), with 210,000 members, is the largest organisation representing small businesses in the UK. Previous FSB research has pointed to the fact that the majority of small and micro businesses focus on their local markets and that only around 10 per cent of members’ annual sales go to countries beyond the UK. However, we are pleased to see from research published in this report, a good amount of potential for growth and appetite among our members for exporting.

Up to a quarter of members (23%) are exporting currently and there is appetite among that group to do more in the future, particularly to countries in the EEA (European Economic Area), USA and Canada. Small businesses make up 99.8 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They contribute 51 per cent of the GDP and employ 67 per cent of the private sector workforce.

In terms of encouraging businesses to export, it is clear that more effective and targeted promotion of the support available and tailor-made information for small businesses would be the best measures, particularly for those businesses already doing a little and wanting to do more. Awareness and usage of UK Trade and Investment (UKTI) support services is conspicuously low. Clearly, this would be an area to target and notably the Passport to Export scheme for businesses looking to export for the first time.

It is also clear that while the Services Directive, which came into force in 2009, offers huge potential in terms of breaking down barriers to the single market, awareness among small businesses is again, woefully low. With effective communication, there is huge potential to encourage businesses to make more of the opportunities that this legislation offers. This report also takes a closer look at the experience of two sectors in particular, namely manufacturing and defence. With an economy in fragile recovery, a number of well targeted stimuli as outlined in this report could be just the ticket small business exporters are looking for.
Executive summary

• Just under a quarter of FSB members export their goods or services overseas. 59 per cent export manufactured goods and 42 per cent services.
• 73 per cent of those not currently exporting claim they lack a suitable product or service to export while 17 per cent claim adequate business in the domestic market. Less than 10 per cent give other reasons.
• 48 per cent of exporters cite fluctuating exchange rates/foreign currency and 32 per cent red tape/bureaucracy as their most common challenges to exporting.
• The EEA is by far the most popular region to export to; this is a market for 87 per cent of exporters. This is followed by the USA (45%) and Canada (25%).
• Looking at future export markets, just over a third would consider the EEA, while 27 per cent cite the USA and 21 per cent would look to Canada.
• More than four in five members are aware of high street banks and Business Link as business support services; just under a third are aware of trade missions (32%).
  – 45 per cent have used a high street bank and 44 per cent Business Link for business support services. Just six per cent have used UKTI.
  – 83 per cent of those who have used UKTI state it has been useful.
  73 per cent say the same for Business Link and 55 per cent for high street banks.
• Better promotion of support available, tax breaks and tailor-made information for small firms are considered the best measures to encourage exporting among small businesses.

Key recommendations

• More effective promotion of Government assistance in this area, particularly around the Passport to Export scheme which helps businesses exporting for the first time.
• UKTI should give more priority to the Gateway to Global Growth programme and improve the consistency shown by the OMIS
Made in the UK: Small Businesses and an Export Led Recovery

Overseas Market Introduction Service to give businesses greater confidence in using the service.

- The Services Directive holds huge growth potential for small businesses. An information campaign about the benefits and availability of the web portals should be targeted at SMEs to help them realise the possibilities.
- The Letters of Credit Guarantee Scheme needs to be reviewed and removed if necessary, and instead a more thorough package considered.
- The Government, along with the private sector, should look at starting a trade credit scheme for small businesses.

Manufacturing

- More effective promotion of the support available to small manufacturers from UKTI, Enterprise Europe Network (EEN) and high street banks, making it straightforward to understand.
- UKTI should be more target driven for small manufacturers with subvention payments linked to business orders obtained.
- Banks should start to offer bespoke help for small businesses in a way that is offered to large businesses, including better promotion of the availability of finance.

Defence

- Establish an Industrial Participation clearing house within the Ministry of Defence (MoD) or UKTI to share offset commitments, with a percentage set aside for small businesses.
- The MoD and UKTI Defense and Security Organisation should work closely with small business organisations like the FSB to disseminate information relating to business opportunities in defence export to a wider range of businesses.
- There should be a more joined up approach between UKTI, the Foreign and Commonwealth Office (FCO), Department for International Development (DFID) and high street banks so that there is more continuity in advice to businesses.

Tourism

- Increasing public funding for international tourism marketing with a targeted focus on the BRIC (Brazil, Russia, India & China) countries.
- Review Air Passenger Duty, VAT and visas to make the UK more competitive for international tourists.
Introduction

We should be messianic in wanting to see free trade and open markets around the world, and our foreign policy will be helping to deliver that in a totally new, more hard-headed, more commercial way. I think that is vital for Britain as we come out of recession and into recovery.

UK Prime Minister, David Cameron, July 2010

The Prime Minister stated that one of the Coalition Government’s main methods to increase domestic productivity and create economic growth is by increasing foreign trade. This is welcomed but needs input from all Government departments, not just impetus from the Department for Business Innovation and Skills (BIS).

During the recession, and now through the economic upturn, the Government has been keen to promote the UK as an ideal hub for inward investment and has sought to become an investor hub for foreign businesses. While many may say that this does not help small businesses, the FSB believes that it does. Supply chains work best when they are close to business hubs deriving economic benefits for the main business and those in the supply network.

Moving on from attracting foreign businesses to invest in the UK, the Government has stated that it is keen for more UK firms to export their goods and services. Bank of England research has shown that only 105,000 businesses were exporting in 1998 (an estimated three per cent of all UK firms).2
Figure 1: Number of SMEs exporting by turnover, 1998

Figure 2: % of businesses exporting by turnover, 2010
Research presented in this report shows that almost one in four small businesses now export goods and/or services to foreign markets, with almost 60 per cent of these businesses exporting manufactured goods and more than 40 per cent exporting services. This has become easier in recent years with many small businesses using the internet and websites as second ‘shop floors’ instead of tangible offices, factories or sales rooms.

The Government commitment to exporting has been reinforced by the Autumn Statement from the Chancellor, whose department is leading a comprehensive review on how all Government departments can remove barriers to growth and promote enterprise. This review must help small businesses across the UK meet their growth ambitions both in domestic and international markets. When Government looks into this area, there are a number of factors that need to be considered. The chart below shows areas the FSB recommends that Government looks to review, and address, if needed.

**Figure 3**

- **Export volumes**
  - Supply influences
  - Demand influences

- Capacity: Inputs, Productivity, Weather, Stocks, Profit expectations, World export rates, Exchange rates
- Alternative uses: Domestic market
- Foreign demand: Market size, Foreign income, Population, Preferences, World export prices, Exchange rate
- Trade barriers: Tariffs, Quotas, Regulatory constraints
- Competitiveness: Input costs, Productivity, Exchange rate, Transport costs

Source - Reserve Bank of New Zealand: Impact of the exchange rate on export
FSB research has shown that 50 per cent of businesses who export refer to fluctuating exchange rates and dealing with foreign currencies as a challenge when exporting goods and services. Alongside this, 32 per cent of small businesses cited red tape and regulations as a common challenge when exporting.

Dealing with currency fluctuations can cause major problems and potentially affect profit margins for a small business. If a business starts to export for the first time, the owners and managers may not be aware of fixing exchange rates with creditors or debtors and may not know about fixing exchange rates with their bank. Most importantly, the business may not be aware of the possibilities of doing business when currency fluctuations favour them.

Red tape and regulations are not just a concern for those firms doing business domestically. Moving goods and services and providing them in different nations will need careful consideration on the regulatory front. Both the movement and provision of goods and services may have regulatory considerations, especially when moving outside of the EEA. There is also the introduction of the Bribery Act in 2011, which introduces a corporate offence for failing to prevent bribery, which businesses will need to respond to and have adequate procedures in place for. FSB research shows that while the EEA is a major trading destination for small businesses (87%), almost half have traded with the USA and a quarter in Canada.

International Trade

The World Trade Organisation (WTO) expects that world trade will have grown by 9.5 per cent in 2010. This compares to the large reduction of 12.2 per cent during 2009, arising from the downturn in global trade and demand. A strong expansion in the world economy will help recover some of the lost ground, but not all.

In 2009, according to the WTO, the UK economy was ranked 10th in the world for the value of merchandise trade. This was valued at $351 billion (£226 billion) and a share of 2.8 per cent of all global merchandise trade. The UK, in 2009, was ranked below Belgium (3%), France (3.8%) and the Netherlands (4%). In the same period, the UK was ranked sixth for imports along the same trading measures ($480 billion or £309 billion).

While the recession was deep across the globe, it is noted that the use of protectionist policies was not widely used to prop up nations. This would not help global trade and will not help long-term competitiveness in the host nation. However, since the G20 meeting in 2008, some nations have been reported to the WTO for placing small protectionist policies to help their own businesses.

In September 2010, the UK’s adjusted trade deficit was £4.6 billion.
compared with the deficit of £4.9 billion in August 2010. This represents the difference between the UK’s exports and imports.

<table>
<thead>
<tr>
<th>Period</th>
<th>Exports (£ million)</th>
<th>Imports (£ million)</th>
<th>Balance (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>269,000</td>
<td>287,000</td>
<td>-18,000</td>
</tr>
<tr>
<td>2001</td>
<td>276,000</td>
<td>300,000</td>
<td>-24,000</td>
</tr>
<tr>
<td>2002</td>
<td>280,000</td>
<td>308,000</td>
<td>-28,000</td>
</tr>
<tr>
<td>2003</td>
<td>290,000</td>
<td>316,000</td>
<td>-26,000</td>
</tr>
<tr>
<td>2004</td>
<td>303,000</td>
<td>336,000</td>
<td>-33,000</td>
</tr>
<tr>
<td>2005</td>
<td>330,000</td>
<td>373,000</td>
<td>-43,000</td>
</tr>
<tr>
<td>2006</td>
<td>378,000</td>
<td>419,000</td>
<td>-41,000</td>
</tr>
<tr>
<td>2007</td>
<td>374,000</td>
<td>416,000</td>
<td>-42,000</td>
</tr>
<tr>
<td>2008</td>
<td>422,000</td>
<td>460,000</td>
<td>-38,000</td>
</tr>
<tr>
<td>2009</td>
<td>386,000</td>
<td>419,000</td>
<td>-33,000</td>
</tr>
</tbody>
</table>

The UK has imported more goods and services than we have exported. This deficit should be looked at with the same vigour as the fiscal deficit that the Government tackled through the Comprehensive Spending Review. Trade deficit theory states that employment levels and trade deficits or surpluses do not correlate, but evidence shows that nations that have a trade surplus also have lower unemployment. The statistics show that nations with trade deficits have higher unemployment than those with trade surpluses. While the two elements are not flow correlated, clear patterns emerge and show that a healthy trade position can lead to reductions in unemployment, and thus lower spending on social security.

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment Rate %</th>
<th>Trade Balance (% GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>25.3</td>
<td>-4.4</td>
</tr>
<tr>
<td>Spain</td>
<td>20.1</td>
<td>-10.8</td>
</tr>
<tr>
<td>Portugal</td>
<td>10.8</td>
<td>-9.1</td>
</tr>
<tr>
<td>Italy</td>
<td>8.4</td>
<td>-2.7</td>
</tr>
<tr>
<td>UK</td>
<td>7.8</td>
<td>-6.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.2</td>
<td>17.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>4.8</td>
<td>8</td>
</tr>
<tr>
<td>Germany</td>
<td>6.9</td>
<td>6.6</td>
</tr>
<tr>
<td>Canada</td>
<td>7.9</td>
<td>1.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>8.5</td>
<td>11.4</td>
</tr>
</tbody>
</table>

Data 2009/2010
Government Support

UKTI is the main arm of Government support to businesses who wish to export goods and services. Its remit is to provide expert advice and support to UK businesses wishing to trade internationally as well as support for overseas businesses looking to invest in the UK. For 2008–09, UKTI employed 2,400 staff of which 1,300 were based overseas, and had a budget of £316 million. The three main services that UKTI provides for businesses are:

- Overseas Market Introduction Service (OMIS)
- Passport to Export Scheme
- Tradeshow Access Programme (TAP).

Each of the schemes adds value to a business, but many small businesses will not know of the schemes and the assistance, or about the work of UKTI. FSB research shows that over half (53%) of respondents thought better promotion of Government support is necessary to encourage more small businesses to export. To illustrate the importance that this plays for many small firms, it was a higher priority than tax incentives (49%) and added private sector finance (43%).

UKTI has supported over 20,000 businesses and according to the UKTI’s 2010 Performance and Impact Monitoring Survey (PIMS), 50 per cent of businesses stated that assistance improved their business performance while almost 2,000 firms have increased research and development activity as a result. The PIMS report also states that as a direct result of UKTI support, the benefit to business was worth £3.6 billion. This is a return of £16 for every £1 invested in UKTI.

A Business Select Committee report stated that while UKTI is performing well on the three schemes outlined above, the consistency of the schemes to each business must be re-examined by UKTI. For example, the Committee stated that the OMIS scheme is vital intelligence for each business, but that varying consistency can put off future usage and a poor report can harm business performance.

The FSB would also like to see the charging arrangements for all UKTI schemes changed so that upfront charges without return are altered to final payment after completion. This would give confidence to businesses that the report or assistance (verbal or in a briefing) will give them the required intelligence.

Under current public sector financial constraints, it is difficult to recommend no charging or radically below cost charging, however we believe that charges should be levied that provide the most benefit to UK businesses and the economy as a whole. An unclear structure of charges was a concern for the National Audit Office when it audited UKTI, and this needs...
addressing to give businesses the confidence to pay for services. This is even more critical for small businesses that do not have the reserves that larger firms have.

The FSB would like to see UKTI improve its work in helping businesses export. However, one area that the FSB would like to see better promotion of is the Passport to Export Scheme. This helps firms who are exporting for the first time with a broad range of support. This includes:

- A diagnostic to assess a company’s readiness to export and identify training and support requirements.
- Assistance from an experienced export professional, providing on-going advice to implement the Passport action plan successfully.
- Access to the full range of UKTI services: business opportunities, PR assistance, overseas visit support, trade fair support, market research/in-market programme arranging.
- Funding to help the Passport action plan and training in the specific skills required.

The above list is not a full list of services under the Passport to Export Scheme but shows the wide variety of tools and assistance that is available to first time exporters. As already mentioned in this report, over half of businesses feel that better promotion of Government assistance will encourage them to export, and this scheme should be the starting point.

The FSB would also like to see UKTI give more priority to the Gateway to Global Growth programme. Once again, the Business Select Committee reported that this scheme was not living up to its billing as the next Passport to Export Scheme.

It is important for UKTI to focus on improving existing schemes rather than launch any further schemes. This will confuse business and take focus away from UKTI. For example, the Fiscal Stimulus Initiative, launched in April 2009, should not have been a separate scheme. Its aim of helping 1,000 businesses in one year was admirable but was too short-term and could have more effectively focused on providing support for businesses seeking to export to new and emerging markets instead of creating a new scheme.
Small business exporting research analysis

**Whether currently exporting goods or services from the UK**

Do you currently export goods or services from the UK?

Just under a quarter of members currently export goods or services from the UK. This figure rises to 39 per cent of members based in London and falls to 13 per cent of members in the East Midlands, 14 per cent in Wales and 17 per cent in Scotland.

![Figure 4: Whether currently export goods or services from the UK](image)

A greater proportion of those within the manufacturing and wholesale trade sectors, 57 per cent and 47 per cent respectively, currently export goods or services overseas (fig. 5).
When looking at the gender of responding members, proportionally more men are exporters than women; 25 per cent vs. 18 per cent, respectively.

Figure 5: Whether currently exporting goods or services from the UK

<table>
<thead>
<tr>
<th>Region</th>
<th>Yes (%)</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>77</td>
<td>23</td>
</tr>
<tr>
<td>East Midlands</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td>Eastern</td>
<td>79</td>
<td>21</td>
</tr>
<tr>
<td>London</td>
<td>78</td>
<td>22</td>
</tr>
<tr>
<td>North East</td>
<td>82</td>
<td>18</td>
</tr>
<tr>
<td>North West</td>
<td>66</td>
<td>34</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>83</td>
<td>17</td>
</tr>
<tr>
<td>Scotland</td>
<td>72</td>
<td>28</td>
</tr>
<tr>
<td>South East</td>
<td>78</td>
<td>22</td>
</tr>
<tr>
<td>South West</td>
<td>86</td>
<td>14</td>
</tr>
<tr>
<td>Wales</td>
<td>73</td>
<td>27</td>
</tr>
<tr>
<td>West Midlands</td>
<td>72</td>
<td>28</td>
</tr>
<tr>
<td>Yorkshire &amp; The Humber</td>
<td>78</td>
<td>22</td>
</tr>
</tbody>
</table>

Is exporting a future target for your business?

For the 77% of members that do not currently export, almost nine in ten (85%) claim exporting is not a future target.

Figure 6: Whether exporting is a future target

- Yes, definitely: 2%
- Yes, maybe: 10%
- No, probably not: 27%
- No, definitely not: 58%
- Don’t know: 3%

Base: 1259
However, a significantly greater proportion of those in manufacturing, the creative sector and computer related activities suggest that exporting will definitely or maybe become a future target; between 27% and 32% suggest this.

**Reasons for not exporting**

What are your principal reasons for NOT exporting currently? The vast majority of those not currently exporting claim they lack a suitable product or service to export; 73 per cent state this, though this figure falls to 62 per cent of those based in the North West.

For 17 per cent, adequate business in the domestic market negates the need for them to consider exporting. Less than 10 per cent cite other reasons.

![Figure 7: Reasons for not exporting currently](image)

“Unfair competition from countries paying poor wages, with no employee benefits and no Health and Safety red tape to consider.”

**Products and services exported**

Which of the following do you export? Almost six in 10 exporters manufacture goods. Some four in 10 export services and one in 10 export processed goods.

A significantly greater proportion of members’ based in the North West export manufactured goods (83%); fewer of those in London do so (32%). Conversely, it is proportionally more of those members based in London that export services; 68 per cent claim to do so compared to just 17 per cent in the North West.

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Care should be exercised when interpreting these findings due to the relatively small subsample sizes.
Fewer members in Wales export manufactured goods; 29 per cent compared to 59 per cent across the whole UK.

Challenges to exporting

Which of the following, if any, are challenges that your business has to overcome when exporting goods overseas?
Overall, 85 per cent of members claim to face at least one of the listed challenges when exporting goods and services overseas. Fluctuating exchange rates/foreign currency and red tape/bureaucracy are the most commonly highlighted challenges; 48 per cent and 32 per cent respectively mention these. For a quarter, concerns regarding securing payment are a challenge.

Around a fifth of members list difficulties finding customers, problems in getting paid, a lack of finance and/or working capital and the logistics of getting their product to market as challenges for their business.

Fewer members based in the East of England and London mention fluctuating exchange rates and foreign currency as being a challenge they have to overcome when exporting, while a greater proportion of members based in Yorkshire and the Humber mention having to overcome red tape/bureaucracy challenges than elsewhere; 54 per cent of members from this region cite this as a challenge.

A greater proportion of members based in the West Midlands cite lack of finance/working capital (42% vs 20% for UK) and the logistics of getting product to market (39% vs 19% for UK) as challenges they have to overcome.

Proportionally more members in Scotland have payment challenges; 45 per cent claim that they have problems compared to 25 per cent across the UK.

Where currently exporting

Which regions do you export goods to currently?
The importance of the EEA as an overseas market is highlighted by members; the vast majority of exporters (87%) currently supply goods or services to this region.

Following this is the USA where 45 per cent of those exporting supply their goods or services. 37 per cent of members export to other non-EEA countries and a quarter to Canada. The Middle East is a market for 22 per cent.

“There are excessive bank charges for handling currency. We have regular delays on cheque clearance, often six months or more. We also encounter strong discouragement from banks towards export activities, it is a Luddite view. Insurance is high cost and has limited applicability.”

“Restrictions placed by carriers of all types, due to ‘security’ constraints.”
Where considering exporting

Which regions will you export to in the future?
Looking at future export markets, just over a third would consider the EEA, while 27 per cent cite the USA and 21 per cent would look to Canada.

Between 17 per cent and 14 per cent highlight other non-EEA countries, South America, Australasia, South Africa and the Middle East as future export regions. 12 per cent feel it is too early to say which regions they may export to in the future.

**Business support services**

Which of the following business support services are you aware of and which have you used (if any)?

The vast majority of members are aware that high street banks and Business Link offer business support services, while just under a third are aware of trade missions. Around a fifth know of the Export Credits Guarantee Department (ECGD) and UKTI. Just one in 10 is aware of Enterprise Europe Network (EEN) and three per cent the Services Directive.

Looking at usage, 45 per cent of members have used high street banks and 44 per cent Business Link’s business support services. Six per cent have used UKTI services while three per cent or less have used trade missions, EEN and ECGD. None have used the Services Directorate.

“Export clubs for helping exporters where information on distributors can be shared, maybe with a representative going to a market with costs shared between several companies, but with central Government initially funding, to later be repaid out of a sales levy.”
Awareness of Business Link is highest in the East Midlands and Yorkshire and The Humber (both at 94%), West Midlands (92%), South West (91%) and the South East (90%). Perhaps unsurprisingly, fewer members in Northern Ireland, Scotland, and Wales are aware of Business Link given that they have other dedicated business support organisations; Invest Northern Ireland, Business Gateway in Scotland and Flexible Support for Business in Wales. UKTI is known by proportionally more members in London (34%) while Trade Missions are recognised by a greater proportion of businesses based in Northern Ireland (58%).

<table>
<thead>
<tr>
<th>Awareness</th>
<th>High Street Bank</th>
<th>Business Link</th>
<th>Trade missions</th>
<th>Export Credits Guarantee Department</th>
<th>UKTI</th>
<th>Enterprise Europe Network</th>
<th>Services Directive</th>
<th>Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>86%</td>
<td>84%</td>
<td>32%</td>
<td>22%</td>
<td>21%</td>
<td>10%</td>
<td>3%</td>
<td>1552</td>
</tr>
<tr>
<td>East Midlands</td>
<td>91%</td>
<td>94%</td>
<td>33%</td>
<td>23%</td>
<td>21%</td>
<td>7%</td>
<td>3%</td>
<td>138</td>
</tr>
<tr>
<td>Eastern</td>
<td>85%</td>
<td>89%</td>
<td>28%</td>
<td>20%</td>
<td>19%</td>
<td>9%</td>
<td>3%</td>
<td>167</td>
</tr>
<tr>
<td>London</td>
<td>86%</td>
<td>75%</td>
<td>44%</td>
<td>27%</td>
<td>35%</td>
<td>18%</td>
<td>2%</td>
<td>55</td>
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<tr>
<td>North East</td>
<td>86%</td>
<td>92%</td>
<td>42%</td>
<td>22%</td>
<td>36%</td>
<td>6%</td>
<td>6%</td>
<td>36</td>
</tr>
<tr>
<td>North West</td>
<td>78%</td>
<td>90%</td>
<td>26%</td>
<td>19%</td>
<td>24%</td>
<td>11%</td>
<td>3%</td>
<td>129</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>79%</td>
<td>25%</td>
<td>58%</td>
<td>13%</td>
<td>4%</td>
<td>8%</td>
<td>0%</td>
<td>24</td>
</tr>
<tr>
<td>Scotland</td>
<td>94%</td>
<td>44%</td>
<td>32%</td>
<td>16%</td>
<td>16%</td>
<td>11%</td>
<td>3%</td>
<td>153</td>
</tr>
<tr>
<td>South East</td>
<td>84%</td>
<td>90%</td>
<td>30%</td>
<td>30%</td>
<td>22%</td>
<td>11%</td>
<td>5%</td>
<td>269</td>
</tr>
<tr>
<td>South West</td>
<td>84%</td>
<td>91%</td>
<td>28%</td>
<td>19%</td>
<td>19%</td>
<td>11%</td>
<td>2%</td>
<td>265</td>
</tr>
<tr>
<td>Wales</td>
<td>89%</td>
<td>65%</td>
<td>38%</td>
<td>25%</td>
<td>17%</td>
<td>15%</td>
<td>5%</td>
<td>103</td>
</tr>
<tr>
<td>West Midlands</td>
<td>83%</td>
<td>92%</td>
<td>41%</td>
<td>30%</td>
<td>27%</td>
<td>12%</td>
<td>6%</td>
<td>107</td>
</tr>
<tr>
<td>Yorkshire &amp; Humber</td>
<td>87%</td>
<td>94%</td>
<td>26%</td>
<td>16%</td>
<td>20%</td>
<td>4%</td>
<td>2%</td>
<td>106</td>
</tr>
</tbody>
</table>

Statistically significant differences: >average highlighted in gold; <average highlighted in blue.

“It would be good to have (or promote if already available) a one-stop resource for small business covering legislation, tax, support available in simple terms.”
Looking to usage, a greater proportion of members based in the North East (61%), East Midlands and South East (both at 54%) and those working in computer and related activities sectors (59%) have used the services of Business Link. Proportionally fewer members in London (31%) have used high street banks while proportionally more of those in the retail sector (53%) have.

<table>
<thead>
<tr>
<th>Awareness</th>
<th>High Street Bank</th>
<th>Business Link</th>
<th>Trade missions</th>
<th>Export Credits Guarantee Department</th>
<th>UKTI</th>
<th>Enterprise Europe Network</th>
<th>Services Directive</th>
<th>Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>86%</td>
<td>84%</td>
<td>32%</td>
<td>22%</td>
<td>21%</td>
<td>10%</td>
<td>3%</td>
<td>1552</td>
</tr>
<tr>
<td>Business services</td>
<td>87%</td>
<td>89%</td>
<td>42%</td>
<td>35%</td>
<td>32%</td>
<td>17%</td>
<td>5%</td>
<td>301</td>
</tr>
<tr>
<td>Retailing</td>
<td>85%</td>
<td>82%</td>
<td>24%</td>
<td>15%</td>
<td>14%</td>
<td>7%</td>
<td>3%</td>
<td>198</td>
</tr>
<tr>
<td>Construction &amp; related activities</td>
<td>83%</td>
<td>87%</td>
<td>29%</td>
<td>16%</td>
<td>9%</td>
<td>4%</td>
<td>1%</td>
<td>162</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>76%</td>
<td>83%</td>
<td>40%</td>
<td>26%</td>
<td>35%</td>
<td>9%</td>
<td>3%</td>
<td>159</td>
</tr>
<tr>
<td>Hotels, restaurants, bars and catering</td>
<td>93%</td>
<td>73%</td>
<td>25%</td>
<td>18%</td>
<td>11%</td>
<td>5%</td>
<td>-</td>
<td>96</td>
</tr>
<tr>
<td>Computer &amp; related activities</td>
<td>83%</td>
<td>91%</td>
<td>36%</td>
<td>21%</td>
<td>38%</td>
<td>16%</td>
<td>6%</td>
<td>65</td>
</tr>
</tbody>
</table>

Statistically significant differences: >average highlighted in gold; <average highlighted in blue.
Perhaps unsurprisingly, it is those in manufacturing and the wholesale trade (both at 18%) that have made greatest use of UKTI.

<table>
<thead>
<tr>
<th>Usage</th>
<th>High Street Bank</th>
<th>Business Link</th>
<th>UKTI</th>
<th>Trade missions</th>
<th>Enterprise Europe Network</th>
<th>Export Credits Guarantee Department</th>
<th>Services Directive</th>
<th>Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>45%</td>
<td>44%</td>
<td>6%</td>
<td>3%</td>
<td>1%</td>
<td>1%</td>
<td>0%</td>
<td>1552</td>
</tr>
<tr>
<td>Business services</td>
<td>43%</td>
<td>50%</td>
<td>7%</td>
<td>4%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td>301</td>
</tr>
<tr>
<td>Retailing</td>
<td>53%</td>
<td>46%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>198</td>
</tr>
<tr>
<td>Construction &amp; related activities</td>
<td>41%</td>
<td>43%</td>
<td>1%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>162</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>42%</td>
<td>42%</td>
<td>18%</td>
<td>10%</td>
<td>3%</td>
<td>3%</td>
<td>0%</td>
<td>159</td>
</tr>
<tr>
<td>Hotels, restaurants, bars and catering</td>
<td>52%</td>
<td>33%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>96</td>
</tr>
<tr>
<td>Computer &amp; related activities</td>
<td>41%</td>
<td>59%</td>
<td>6%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>65</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>51%</td>
<td>48%</td>
<td>18%</td>
<td>7%</td>
<td>2%</td>
<td>-</td>
<td>-</td>
<td>54</td>
</tr>
</tbody>
</table>

Statistically significant differences: >average highlighted in gold; <average highlighted in blue.

**Usefulness of export business support services**

And how useful have these business support services been?

**Figure 13: Usefulness of business services**

Base

<table>
<thead>
<tr>
<th>UKTI</th>
<th>Very useful</th>
<th>Quite useful</th>
<th>Not very useful</th>
<th>Not at all useful</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>36%</td>
<td>46%</td>
<td>12%</td>
<td>4%</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td>48%</td>
<td>18%</td>
<td>8%</td>
<td>669</td>
<td></td>
</tr>
<tr>
<td>19%</td>
<td>50%</td>
<td>18%</td>
<td>9%</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>19%</td>
<td>34%</td>
<td>35%</td>
<td>4%</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>15%</td>
<td>40%</td>
<td>30%</td>
<td>14%</td>
<td>697</td>
<td></td>
</tr>
<tr>
<td>14%</td>
<td>48%</td>
<td>14%</td>
<td>7%</td>
<td>17%</td>
<td>12</td>
</tr>
</tbody>
</table>
Over half of all exporters have found each of the listed business support services useful except EEN, where a third have been unable to comment. UKTI has been useful for the vast majority of those using the service; 82 per cent state this. Similarly, 73 per cent claim Business Link and 69 per cent trade missions have been useful.

55 per cent of those who have used business support services from a high street bank suggest these have proved useful; 44 per cent disagree. 62 per cent of members that have used the ECGD suggest it has been useful.

Export business support services

To encourage more small businesses to export, which of the following measures, if any, do you believe the Government should introduce?

The vast majority of members feel that each of the identified measures, if introduced by Government, have some part to play in encouraging small businesses to export; 94 per cent endorse at least one.

Figure 14: Small business encouragement to export

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better promotion of support available</td>
<td>53%</td>
</tr>
<tr>
<td>Tax breaks</td>
<td>49%</td>
</tr>
<tr>
<td>Tailor made information</td>
<td>46%</td>
</tr>
<tr>
<td>Help promote/push finance available from banks</td>
<td>43%</td>
</tr>
<tr>
<td>Establish a Small Business Trade Minister</td>
<td>40%</td>
</tr>
<tr>
<td>Support clusters of small businesses to win contacts</td>
<td>37%</td>
</tr>
<tr>
<td>Tailored export training</td>
<td>31%</td>
</tr>
<tr>
<td>Provide help and support to identify strong leads</td>
<td>30%</td>
</tr>
<tr>
<td>B2B events including ‘Meet the Buyer’ events</td>
<td>29%</td>
</tr>
<tr>
<td>UKTI Trade missions</td>
<td>14%</td>
</tr>
<tr>
<td>UKTI Market research</td>
<td>13%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>None of these</td>
<td>6%</td>
</tr>
</tbody>
</table>

Base: 1549

Around half feel that better promotion of the support that is available, the use of tax breaks and tailored information for small businesses are the best measures to encourage small firms to export. Some two fifths feel that the promotion of finance available from banks, establishing a Small Business Trade Minister and developing support clusters of small businesses to win contracts would be useful measures.

Around three in 10 feel tailored export training, providing help and support to identify strong leads and organising business-to-business events such as B2B events including ‘Meet the Buyer’ events are useful measures.

“Local export promotion talks through FSB with follow up support locally. In rural Wales especially there should be local ‘walk in clinic’ or evenings to explain the opportunities for those who would be interested to explore the export market. There is plenty of creativity but people don’t know where to go and get started.”

Care should be exercised when considering these findings due to the relatively small base sizes for some of the services.
as ‘Meet the Buyer’ would encourage exporting. Fewer feel UKTI trade missions and market research would be helpful.

A greater proportion of those in the business services sector would like to see Government introduce support clusters for small businesses to win contracts, business-to-business events including ‘Meet the Buyer’ and UKTI market research. It is better promotion of the support available to small businesses that proportionally more of those in the creative services sector wish to see.

<table>
<thead>
<tr>
<th>Better promotion of support available for small businesses</th>
<th>Tailor made information for small businesses</th>
<th>Establish a Small Business Trade Minister</th>
<th>Support clusters of small businesses to win contracts</th>
<th>Business to business events including Meet the Buyer</th>
<th>UKTI Market research</th>
<th>Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>53%</td>
<td>46%</td>
<td>40%</td>
<td>37%</td>
<td>29%</td>
<td>13%</td>
</tr>
<tr>
<td>Business services</td>
<td>59%</td>
<td>48%</td>
<td>42%</td>
<td>48%</td>
<td>37%</td>
<td>20%</td>
</tr>
<tr>
<td>Retailing</td>
<td>54%</td>
<td>46%</td>
<td>38%</td>
<td>29%</td>
<td>23%</td>
<td>7%</td>
</tr>
<tr>
<td>Construction &amp; building related activities</td>
<td>45%</td>
<td>44%</td>
<td>38%</td>
<td>47%</td>
<td>29%</td>
<td>8%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>50%</td>
<td>53%</td>
<td>37%</td>
<td>26%</td>
<td>24%</td>
<td>17%</td>
</tr>
<tr>
<td>Hotels, restaurants, bars &amp; catering</td>
<td>50%</td>
<td>52%</td>
<td>46%</td>
<td>33%</td>
<td>32%</td>
<td>10%</td>
</tr>
<tr>
<td>Creative services</td>
<td>68%</td>
<td>51%</td>
<td>44%</td>
<td>34%</td>
<td>27%</td>
<td>13%</td>
</tr>
<tr>
<td>Computer &amp; related activities</td>
<td>53%</td>
<td>51%</td>
<td>27%</td>
<td>45%</td>
<td>35%</td>
<td>12%</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>54%</td>
<td>34%</td>
<td>46%</td>
<td>22%</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Statistically significant differences: >average highlighted in gold; <average highlighted in blue.
Problems and solutions

The single market for services: one year on

The Services Directive came into force in December 2009. This measure opens up the market for services in Europe and creates ‘Points of Single Contact’ (PSC), which act as one-stop shops allowing businesses to deal with authorities online, 24/7, across the EU. The FSB has been a key player in shaping this Directive as it removes barriers and means less red tape for small businesses.

As demonstrated, the analysis shows that up to 25 per cent of FSB members export to other countries, the vast majority of exports take place within the EEA and services account for 42 per cent of exports. There is therefore huge potential for small service providers to boost UK exports and the services sector could increase output in the UK by an estimated £4–6 billion per year.10

Exporting services: not ideal yet

The results show that the majority of FSB members who do not currently export are not inclined to do so, for a number of reasons. One of the reasons is that selling across borders is still perceived as difficult, involving lots of red tape.

When business owners decide to expand abroad, they need to know from the start where to look for the right information. Small businesses often don’t know that the EU member states have made a major effort to open up the European market for services. Governments should have completely screened legislation and removed barriers, allowing other European nationals to provide services in their countries. This has been the biggest exercise in cutting red tape in living memory, yet only a few small businesses are aware of the new possibilities offered by the Services Directive (3%). So a large majority are not aware of the new opportunities for expanding their activities abroad.
Broadband

If small businesses know where to look, the next step is to use the online facilities of the PSC: finding business information on the country they are targeting, applying for a licence, updating their website and managing client contacts. Yet numerous members indicate that their broadband connection is not fit for purpose, especially if they are based in a rural area.

FSB research\(^{11}\) revealed that a quarter of respondents are dissatisfied with their broadband service. Of those, two thirds are unhappy with the speed and reliability of their internet connection. The area where they live often has an unreliable broadband connection, and some would consider moving business premises to an area with faster broadband. Others reported slower speeds at particular times of day and being timed out when filling in forms online.

Despite the possibility of applying for licences online, this patchy broadband infrastructure is preventing small businesses from offering their services beyond the UK’s borders.

EU-wide implementation

The Services Directive created a PSC in every member state. However, it is still the case that many businesses get nowhere with their online applications in other European countries. This is because the legislation is not yet well implemented in every member state, despite the fact that the deadline has passed. Out of 27 member states, 22 have a Point of Single Contact ‘1.0’ in place (as in Web 1.0), and only 14 of those web portals actually allow online applications.\(^{12}\) This means that businesses can apply for licences in other countries in only 51 per cent of cases.

Local implementation

Before we look abroad, however, we have to set our own house in order. Both our research and a recent report from SOCITM\(^{13}\) confirm that the majority of competent authorities’ websites in the UK are not complying with the spirit of the Services Directive. The report found that only five per cent were complying fully, 18 per cent were rated as satisfactory, and 59 per cent were rated as poor.\(^{14}\) Reasons given for non-compliance include costs of the required technical infrastructure and staff training, and problems with online payment.

By continuing to contravene the law, councils are imposing unnecessary burdens on local businesses. At the moment, fairly simple steps like opening a café or applying to diversify an aspect of your business can involve a range of applications and contacts with the council. One member commented he had given up going online for his paperwork as the websites are too difficult to navigate. He now tends to go directly to the various councils. Other members report that there are no forms online yet.

So the new European rules aimed at cutting red tape for businesses are being ignored to a large extent by UK councils, thereby deterring not only

\(^{11}\) FSB panel survey (March 2010)

\(^{12}\) European Commission, September 2010.

\(^{13}\) The Society of Information Technology Management.

local businesses but also foreign firms that want to establish themselves in the UK. If implemented to a high standard, the Services Directive would be an excellent way for local authorities to help reduce the regulatory burden and to attract (foreign) businesses to their jurisdiction.

Towards seamless cross-border service provision

As stated above, small businesses are rarely informed about the Services Directive and its PSCs in other member states. To help small businesses find the web portals and use them, saving them time and red tape, a targeted information campaign is needed. For both seasoned and first-time exporters, the Directive is changing for the better the way services in Europe are provided. Providing accessible guidance for small businesses on how to tap into the market would be a small investment compared to the potential gains to be made from a strong position for the UK in a European services market.

In addition, businesses will benefit more from a European services market if every member state implements the Services Directive as intended. We call on the Government to insist on full implementation of the Services Directive in every member state and to hold to account those countries that fail to live up to their promise to allow access to their services market.

Small businesses play a major part in the growth of the services sector and in the recovery of the UK economy in general. The Services Directive promised them less red tape, and it is vital that this is delivered. The local authorities that do not yet comply with the Services Directive have no option but to adapt their websites in line with the requirements of the Directive. In the interests of the small business community we urge the Government to step up their efforts to make local authorities comply with the Directive and to reconfigure their websites.

Trade Finance

The recession has led many firms doing business domestically to complain about a lack of credit from the banks. This concern from small businesses is also prevalent amongst those businesses that need trade finance when exporting.

Global trading for small businesses can be daunting and any help through finance would help mitigate risk. The WTO estimates that almost 90 per cent of the $14 trillion worth of global trade is through some type of trade finance product.15

One in five small businesses stated that accessing the correct finance options when exporting was a challenge when doing business abroad. Over 40 per cent of businesses said that better access to finance would encourage
them to move into foreign trading. However, many small businesses do not know the additional difficulties and complexities when doing business abroad. For example, the current flagship lending programme by the Government, the Enterprise Finance Guarantee (EFG) does not support finance for businesses involved in foreign trading.

The ECGD had a monopoly over most forms of finance and guarantees until it was broken up in the early 1990s. Since then, the flow and pricing of these products has flowed with the variances of the financial markets. During the financial boom years, products were plentiful and cheap, but since the financial slowdown, these products are now more expensive.

In the past, the UK Government through the Export Credit Agency financially supported businesses with insurance and guarantees. This type of arrangement continues in competitor nations such as France and Germany but no longer exists in the UK.

During the recession, the EU relaxed the state aid regulations that would have allowed the UK Government to fill a current hole in the trade credit area. Without action, UK businesses have been left at a disadvantage compared to their French and German competitors.

The Government launched the Letters of Credit Guarantee Scheme that has been underutilised by small businesses and is only open through five UK banks. This needs to be reviewed and removed if necessary and instead, a more thorough package needs consideration.

Businesses need to become aware of the different options available to them and the Government must play a role in highlighting these. Trade financiers also need to be pricing risk properly and not withdrawing products at short notice without proper justification.

Many banks offer exporting advice for their business clients; this can be through free fact sheets or through paid expert advice. We encourage all banks to offer exporting advice to small businesses that show potential, or seek advice. Like UKTI services, we do not wish to see charges taken off and a free service provided, but do want a fair charging system. By offering a service at a reasonable commercial rate, advice will only be sought by those businesses that are serious.

The FSB recommends that the Government, along with the private sector, look at starting a trade credit scheme for small businesses and set up using the same criteria as those businesses that are eligible for the EFG scheme. This would support those small firms looking to export but have insufficient security. This recommendation is similar to that of the British Bankers Association Taskforce report, and the FSB recommends that the Government, banks and FSB take this forward.
Sectors

Manufacturing

The importance of the manufacturing sector to boost export activity cannot be understated. The survey analysis clearly shows that the majority of exporters in FSB membership are in the manufacturing sector; (59% exporting manufactured goods and 42% services).

As the economy continues to recover, it is vital that the Government does more to support those manufacturers that already export and encourage more to think about doing so. This must be done to help re-balance the UK economy to allow all sectors and regions to drive the recovery. There are a number of obstacles that small manufacturers face when exporting. The biggest obstacles identified by FSB members are fluctuating exchange rate (54%) and red tape (43%).

Exchange Rates

It is clear that the biggest challenge for small manufacturers is the fluctuating exchange rate. While this has improved the competitiveness of the pound, helping some manufacturers, this is not a sustainable basis to build an export-led recovery. The fluctuations make it even more difficult for small manufacturers to control costs at a time when there is still a lot of uncertainty in the recovery of the economy. On top of this, small manufacturers do not have the range of finance options to be able to deal with these fluctuations as some of the large manufacturers.

Recommendation: The major high street banks must work with small manufacturers to develop support to mitigate some of the risks of a fluctuating currency.

Red Tape

Red tape and bureaucracy is one of the biggest challenges for all small businesses but the complexity of dealing with a number of variations hits exporters harder. More support should be given to small manufacturers to help deal with the vicissitudes of red tape in overseas markets. As
part of this, tailor-made information should be made available to small manufacturers on how to overcome red tape and bureaucracy worries. There is a perception that there is a lot of general advice and guidance but this should be more bespoke for small manufacturers.

Recommendation: Move to bespoke advice and guidance for small manufacturers to help reduce the fear of dealing in overseas markets.

Improving the support available to small businesses
There is a lot of support available to small manufacturers through UKTI, EEN, Business Link and the high street banks. However, there is a massive lack of awareness of the availability of this support which is holding back small manufacturers. For example, only 35 per cent of those surveyed are aware of the support available from UKTI and only 18 per cent have used UKTI for support. To help drive the export-led recovery this must be improved through better promotion of the help available and made more accessible to small manufacturers.

Many small manufacturers believe that UKTI is too generalist and does not understand their needs. If the Government is serious about an export-led recovery this needs to change. Small manufacturers do not have the time or resource to be able to partake in a large number of trade missions. Rather than celebrating having a lunch with the ambassador, the focus must move to winning business. In order to achieve this, UKTI needs to identify the growth markets for small manufacturers and facilitate introductions that help increase trade. This will help persuade more small manufacturers that the time away from the factory will reap dividends.

It is clear that the high street banks must engage more with small manufacturers to support their export ambitions. Approximately 40 per cent of those surveyed are aware of bank support but 51 per cent believe the banks are not helpful. As one of the primary business support channels this must be improved. For many banks, small manufacturers are one of a number of small businesses that relationship managers deal with. Homogenising the support available to small manufacturers with the wider small business offer holds back too many exporters.

FSB recommendations:
- More must be done to promote the support available to small manufacturers from UKTI, EEN and high street banks and make it easy for small businesses to understand.
- UKTI should be more target driven for small manufacturers with subvention payments linked to business orders obtained.
- Banks must start to offer bespoke help for small businesses in a way that is offered to large businesses including better promotion of the availability of finance.
The defence industry

The defence industry, aligned with the growing security market, has become one of the UK’s most significant business sectors, with exports second only in global terms, to the USA. Small businesses are a crucial and integral part of the supply chain in the defence sector as they are able to react in responsive and innovative ways, yet so much of the UK’s overseas success is achieved by so few businesses.

Breaking into overseas defence and security markets can be challenging, if not daunting for small businesses, and even for those that persevere and become successful it can be a long, slow process, putting considerable pressure on company resources and other priorities.

Research produced by the European Commission\(^{16}\) highlighted the fact that fewer than one in ten EU SMEs (8%) reported turnover from exports, which was significantly lower than the respective share of larger enterprises (28%). The main export obstacle for SMEs was the lack of knowledge of foreign markets (13% of exporting SMEs mentioned this as their prime obstacle), followed by import tariffs in destination countries and the lack of capital (both 9%). The research also showed that those SMEs actively engaged in the export market reported employment growth of seven per cent, while those focused on local markets grew by only one per cent.

Offset commitments are an obstacle to export, particularly for small businesses. The Government holds significant offset credits from multinationals receiving MoD contracts. Better use of these offset credits could alleviate pressures on small businesses and promote UK defence exports.

Finance is also an issue preventing small businesses from taking full advantage of defence export opportunities. One FSB member attempting to fund a $2.4 million tender of vehicle parts for a UN Development Programme in Kabul, has been told by three banks that they must produce an irrevocable letter of credit or tangible security. In the end one bank did offer them an invoice discounting scheme but the fixed cost element just to set the facility up was over £30,000 with APRs of over 10 per cent, and even then the business had issues around concentration and onerous bureaucracy.

As a small business, and not a multinational enterprise, there is a need to cope with the currency risks. For business prospects, devaluation may be as unfavourable as a rise in the exchange rate. There is a need to think about getting insurance against this kind of financial risk by forwarding contracts or derivative financial instruments such as options, futures or other frequently very risky businesses involving financial contracts. However, for small businesses these options are rarely understood by the staff in high street banks.

\(^{16}\) www.ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-observatory/index_en.htm
FSB research shows that UK banks are operating increasingly stringent lending criteria. On top of this, many banks operate blacklists, with many developing countries deemed ‘no go areas’ irrespective of the client’s creditworthiness. These ‘black lists’ are drawn up based on advice given by the FCO. What this means in reality is that many of the markets that UKTI are rightly encouraging small businesses to pursue, are effectively not fundable. As an example, one small business received a purchase order for four Toyota Land Cruisers from a major high street bank’s wholly owned subsidiary in the Ivory Coast, only to be told by the same bank in the UK that the deal could not be financed as the Ivory Coast was blacklisted.

Recommendations:

- Establish an Industrial Participation clearing house within the MoD or UKTI to share offset commitments with a percentage set aside for small businesses.
- There should be a more joined up approach within Government, with organisations like FCO, DFID, UKTI, BIS, Business Link and the new Local Enterprise Partnerships promoting defence export opportunities to a wider range of businesses.
- The MoD and UKTI DSO should work with small business organisations like the FSB to disseminate information relating to business opportunities in defence export to a wider range of firms.
- There should be a more joined up approach between UKTI, the FCO, DFID and High Street Banks so that businesses do not receive conflicting information about investment opportunities.

Tourism

International tourism accounts for around 10 per cent of global GDP, making tourism the world’s number one export earner, ahead of automotive products, chemicals, petroleum and food. Yet the UK has underperformed the average growth in world inbound tourism for more than the last decade.

The Government needs to look at how the UK is perceived abroad in order to harness the growth the BRIC countries to increase inbound tourism to the UK. Increasing public funding for international tourism marketing with a ruthless focus on the BRIC countries and making the UK far more internationally competitive compared to other leading tourism destinations will help unleash this growth and allow us to grow the economy and create jobs here.

Increasing inbound tourism to the UK not only benefits the tourism sector but has huge knock-on effects to the rest of the economy.
The growth of the economies of Brazil, Russia, India and China is being reflected in the growth of the middle class in these countries. We need to focus on attracting visitors from these countries, as for every half a per cent increase in our share of the world tourism market, £2.7 billion will be added to the economy, and more than 50,000 jobs.

In order to grow inbound tourism to the UK, the Government must look at the issues that makes us internationally uncompetitive compared to other key tourism destinations. In 2002, a study by the World Travel and Tourism Council found that visitors to the UK paid the second highest level of taxation in the world. Since then there have been further increases with most notably, a doubling in air passenger duty in 2007.
Air Passenger Duty
Current UK Air Passenger Duty (APD) rates can add as much as £170 to the cost of a flight to the UK. APD acts as a serious deterrent on increasing inbound tourism. For example, in 2001 a family of four from India or China would have to pay £568 to fly to the UK compared to just over £200 to visit all 25 countries in the Schengen zone.\(^{18}\)

When APD was restructured in 2008 the rationale given was to help reduce CO2 emissions, however, with the inclusion of the aviation sector into the European Emissions Trading Scheme in 2011 a strong case can be made for a significant reduction in or the removal of APD altogether.

VAT
VAT is another factor that makes the UK uncompetitive compared to many EU counterparts. While the FSB appreciates it may not be viable to reduce VAT for tourism related services in the present economic circumstances, it believes the case can be made for a reduction when the time is right.

<table>
<thead>
<tr>
<th>Country</th>
<th>Standard VAT rates</th>
<th>VAT on restaurant meals</th>
<th>VAT on hotel accommodation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>20%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Denmark</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>France</td>
<td>19.6%</td>
<td>5.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Germany</td>
<td>19%</td>
<td>19%</td>
<td>7%</td>
</tr>
<tr>
<td>Greece</td>
<td>19%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Ireland</td>
<td>21.5%</td>
<td>13.5%</td>
<td>13.5%</td>
</tr>
<tr>
<td>Italy</td>
<td>20%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>19%</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Poland</td>
<td>22%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Portugal</td>
<td>20%</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>Spain</td>
<td>16%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Sweden</td>
<td>25%</td>
<td>25%</td>
<td>12%</td>
</tr>
<tr>
<td>UK</td>
<td>17.5%</td>
<td>17.5%</td>
<td>17.5%</td>
</tr>
</tbody>
</table>

A research report for the British Association of Leisure Parks, Piers and Attractions evaluated the ramifications of a reduced level of five per cent for tourism services. The report found that the reduced rate would lead to just over £1 billion lost in VAT receipts for the Treasury but this loss would be offset by indirect gains from a widening of the tax base, income and corporation tax gains and savings in social security payments of £770 million, and multiplier gains of £445 million.
Visas

Visas for entry into the UK are only required for the minority of countries. Yet, very often, those countries which have the most potential to help the UK increase inbound tourism are subject to visa restrictions, such as India and China. The UK being outside the Schengen area, the cost of a short-term visitor visa for the UK was increased to £68 in April 2010 and we are at the forefront of introducing biometric applications procedures which all put us at a disadvantage in terms of international tourism competitiveness.
Annex: background and methodology

Research methodology

Panel surveys are made available to members online through the delivery of a personalised email containing background information, a unique web link and assurances of anonymity and confidentiality. Where a response was not received from a member a reminder email invitation was sent. In all, an initial invitation and two reminder emails were scheduled.

In all, 4,596 members were invited to participate in the November Survey and 1,668 completed the questionnaire.

Analysis and reporting

Tables and charts

The output from the survey is in the form of conventional cross-tabulations. These provide results for the total sample and various demographic sub-groups of the members’ profile (eg gender, region and sector). Where statistically significant differences between sub-groups exist, details have been included within this report.

Within the main body of the report, where figures are not shown in the charts, these are three per cent or less and where percentages do not sum to 100 per cent this is due to rounding.

The ‘base’ figure referred to in each chart and table is the total number of members responding to the question.

Confidence intervals

By the very nature that surveys typically represent the views of a sample of the population, sampling error must be considered when evaluating the findings. This is measured by the confidence level and interval of the data.
Most commonly, market research studies require a 95 per cent confidence level, indicating that we can be 95 per cent confident that the estimate has not been arrived at by chance.

The confidence interval shows the variation that may exist in the findings drawn from a sample. For example, this survey shows that 23 per cent of those interviewed claim to export goods or services from the UK. However, due to intrinsic characteristics of sampling, this will be surrounded by a confidence interval, in this case ± 1.5 per cent. This indicates that the real figure (the ‘true’ figure if the whole population were surveyed) lies somewhere between 21.5 per cent and 24.5 per cent.

The table below gives the confidence intervals for those findings that centre around 10 per cent or 90 per cent, 30 per cent or 70 per cent and 50 per cent given the total study sample size of 1,668 (These assume a 95 per cent confidence level using random sampling).

<table>
<thead>
<tr>
<th>Confidence intervals</th>
<th>Split on question (%s responding)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Size of sample 10% or 90% ±</td>
</tr>
<tr>
<td></td>
<td>1,668</td>
</tr>
<tr>
<td></td>
<td>1,250</td>
</tr>
<tr>
<td></td>
<td>400</td>
</tr>
</tbody>
</table>

Statistical significance
When comparing the results within a sub-group (eg comparing gender), the differences in results are tested for statistical significance. This way, we know whether the differences are ‘real’ or whether they could have occurred by chance. The test reflects the size of the samples, the percentage giving a certain answer and the degree of confidence chosen. Assuming a 95 per cent confidence level, the differences between the results of the two groups must be greater than the values given in the table below to be statistically significant.

| Percentage difference required before the results may be considered statistically significant |
|==========================================================================================|
| Size of sample 10% or 90% ± | 30% or 70% ± | 50% ± | 5.0 | 5.4 |
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