



balanceofcompetences@bis.gsi.gov.uk

6 August 2013

Dear Sir/Madam

**FSB response to:
Public Consultation on Trade and Investment**

Please find below the response of the Federation of Small Businesses (FSB) to the Balance of Competences Review – the consultation on Trade and Investment.

The FSB is the UK's leading business organisation. It exists to protect and promote the interests of the self-employed and all those who run their own business. The FSB is non-party-political and, with 200,000 members, it is also the largest organisation representing small and medium-sized businesses in the UK. Small businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They contribute up to 50 per cent of GDP and employ over 59 per cent of the private-sector workforce.

The FSB has a diverse membership, and there are many differing opinions and concerns about our relationship with the EU. However, the European market remains by far the main destination for our exporting members. Our latest research shows that they are also starting to look to countries outside the EU. The EU trade agreements with third countries are therefore of major importance to them. In addition, the Government and the EU must do everything they can to further free up barriers to trade, ensuring small businesses have the best support and environment in which they can create growth and jobs.

We trust that you will find our comments helpful and that they will be taken into consideration.

Yours faithfully

Chairman for EU and International Affairs
Federation of Small Businesses



Federation of Small Businesses
The UK's Leading Business Organisation



FSB response to the Government Balance of Competences Review: consultation on Trade and Investment

August 2013



Introduction

Small businesses are the lifeblood of the European economy, providing more than two-thirds of private sector employment. SMEs make up 99 per cent of all businesses in the EU, of which 92 per cent are micro enterprises. The FSB's membership falls firmly into the latter category. The average headcount of an FSB member's business is seven members of staff.¹

FSB surveys show that small business exporting levels have largely remained stable around 21 per cent since our last research in 2010. However, the percentage of members that do not currently export and that say they intend to export in the future has fallen from 12 per cent to six per cent over the last two years. Currently, the majority of small businesses are targeting Europe (55 per cent), then the USA (47 per cent), Australasia (35 per cent), and Canada (29 per cent). Future export intentions show that businesses are looking wider and diversifying beyond these more traditional markets.²

We support the continuous development of the internal market and the liberalisation of trade, including digital entrepreneurship. Rates of growth of ecommerce are positive amongst the FSB membership, currently 37 per cent of members trade online in comparison with 33 per cent in 2011. In addition to this, around 20 per cent of members are considering or intend to trade online in the future. Initiatives to further encourage the growth of online trading, such as improving payment security and reducing costs are very welcome. As our exporting members are also starting to look to countries outside the EEA, the EU trade agreements with third countries to open up markets further afield are of major importance to them by removing barriers and increasing certainty. Therefore, the EU should focus on where it can have the greatest impact: negotiating trade deals with the biggest and/or fastest growing markets.

¹ FSB 'Voice of Small Business' Member Survey, February 2012.

² *Enabling small businesses in the drive for more UK exports*, FSB, June 2013.



Questions

1) What are the advantages and disadvantages of the EU's competence over trade and investment, particularly in relation to international trade and investment negotiations?

1.1

The EU countries have chosen to negotiate trade agreements as a bloc, rather than as individual countries, giving a better chance of opening up more market opportunities for European businesses. After all, the EU offers access to a market of over 500 million people and 20 million businesses. This gives more leverage in negotiations than any country with a smaller market could have on its own. The UK has agreed to this arrangement. It will most probably gain a more advantageous deal by being part of a bloc rather than negotiating on its own.

1.2

Currently, two dozen EU trade agreements are in the pipeline and 28 are in place. They benefit our members that are exporting to non-EEA countries by easing trade and customs red tape. We are eagerly awaiting the outcome of the first round of negotiations between the EU and the US – the Transatlantic Trade and Investment Partnership (TTIP). Currently, 47 percent of our exporting members trade with the United States, up from 45 per cent in 2010. There are obvious advantages for small businesses in trading with an English speaking country with historical links to the UK. A quarter of exporters say they are likely to export goods or services to the US in the future.³ However, trading with the US is not always easy, despite the familiarity.

1.3

It is sometimes said that the UK's global influence is reduced when the EU is negotiating on its behalf. However, being part of the EU doesn't prevent the UK from negotiating with third countries on its own. However, it is difficult to imagine the US would negotiate a trade agreement of the scale of TTIP with the UK on its own, as the UK can only offer a market of 60 million customers.

1.4

With regard to the UK's WTO membership, it is noted that the Doha round has been stuck for some time and its future is uncertain. In the mean time the EU has struck trade deals and continued to open up markets. In this sense the EU's trade policy offers benefits to the UK that go beyond those offered by WTO membership. However, it doesn't matter who negotiates, EU or WTO, as long as global free trade is achieved – the sooner the better. In our recent export report members cite red tape (including customs issues) as one of the top barriers to exporting overseas.⁴ The FSB sees benefits for small businesses in persevering with WTO trade negotiations to negotiate reduced trade barriers. Currently, the EU seems to be more successful at realising this goal.

1.5

As said above, our exporting members generally benefit if markets are prised open. However, the EU's trade protection policy could affect trade in individual cases. For example, one member uses Chinese

³ *Enabling small businesses in the drive for more UK exports*, FSB, June 2013.

⁴ *Id.*



porcelain to produce mugs. When EU measures were taken against China she had to find a different and more expensive producer. Another member told us she couldn't import Japanese sweets after the EU banned Japanese products following the Tsunami and subsequent nuclear accidents in Japan. These cases are unfortunate. However, in the greater schemes of things, we don't want cheap subsidised or dangerous foreign products dumped on our market, driving UK firms out of business. The EU also plays a useful role in protecting UK brands from globalised copying such as name protections around Cornish pasties and other products protecting a British label and associated quality of product for sale overseas. The 'Made in Britain' label is particularly valued for heritage goods.

2) What are the advantages and disadvantages of having trade and investment promotion largely at the national level? How well has this delivered on UK objectives?

2.1

In most cases the UK government is better placed than the EU to promote trade as it is closer to, and more familiar with, UK small businesses than the EU is. However, the EU could play a role in disseminating best practice on what works in terms of engaging new exporters and mentoring existing exporters.

2.2

The advantages of having trade and investment promotion largely at the national level is that support for exporting businesses can be adapted to regional circumstances and tailored to certain products, sectors, or features of the economy. For example, the FSB is calling for a 'micro-desk' in every UKTI region to assist the smallest of firms with their exporting activities. The FSB wants UKTI to take more of a handholding approach with small and micro businesses, putting them in touch with sector or issue specific mentors for further tailored advice. There is also a role for the banks to offer export support and where they cannot help, a clear referral mechanism should be in place to UK Export Finance and other alternative providers. This potential for local and tailored contacts with businesses cannot be reproduced at EU level.

2.3

We acknowledge the existence of the Enterprise Europe Network (EEN). However, it barely functions in the UK. Where members have used the service, feedback is good. However, there are competition issues with UKTI where signposting from UKTI to the EEN is not active because they are supplying similar services. Only one per cent of enterprises have used the EEN and awareness levels have not increased since our last research in 2010.⁵

2.4

Exports have a crucial role to play to drive forward economic growth and many small and micro businesses need more help and support to export. From our own membership, six per cent of businesses that are not currently exporting want to do so in the future. This potential alone would mean an additional £792 million to the UK economy. Therefore, there has to be a fundamental shift in the way that UK Trade and Investment (UKTI) offers help to small business exporters.

2.5

⁵ *Enabling small businesses in the drive for more UK exports*, FSB, June 2013.



The Government intends to double the value of exports to £1 trillion, and increase the number of new exporters by 100,000 by 2020. To reach these targets, UKTI needs to focus more on first time exporters and those at pre-export stage. To say that UKTI is 'SME' focused does not go far enough and what is really needed, is greater focus on small and micro businesses to attract and assist more businesses to become potential exporters.

2.6

Worryingly, only 50 per cent of small business exporters are aware that UKTI exists and 20 per cent have used UKTI. It is not obvious enough that they can provide assistance to small businesses that want to export.⁶

2.7

There is important export growth potential among small and micro businesses that the UK Government needs to harness. The Government's challenging target of doubling exports and increasing the number of new exporters can only be met through a proactive and concerted drive to engage with small and micro businesses. We would like to see funding targeted where it is most needed: more trade advisers on the ground, overseas markets reports with solid leads attached and match funding for tradeshow. The FSB wants to see a shift within UKTI, making it clear that it is an organisation absolutely geared up to help small and micro businesses.

3) What are the advantages and disadvantages of the current division of competence over export and import controls and export credits?

It is vital that there is a one-stop shop for small and micro-businesses involved in exporting outside the EU with all the information on custom tariffs, forms and regulation that they need to be aware of.

4) What are the likely advantages and disadvantages of moving from national to EU competence in relation to investment protection?

We have no particular evidence or comments to feed in here.

5) How well are UK objectives met and interests taken into account through a) EU trade defence investigations, and b) the EU representing the UK in trade defence cases against the EU and more generally in trade disputes with other WTO members?

We have no particular evidence or comments to feed in here.

6) What future challenges/opportunities might we face on trade and investment policy and what impact might these have on the UK national interest?

With regard to trade promotion it is vital UKTI really moves to focus on small and micro businesses.

⁶ *Enabling small businesses in the drive for more UK exports*, FSB, June 2013.



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For further information

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