

Industry Report

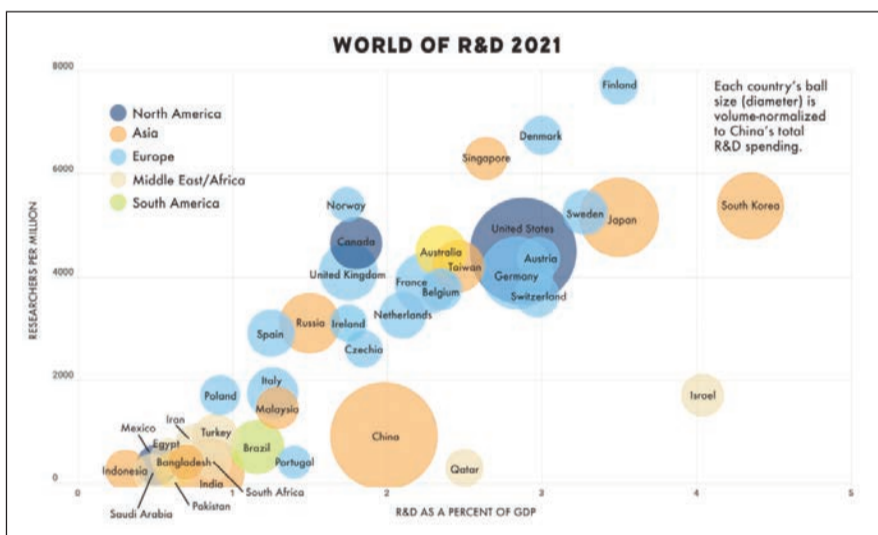
Innovative UK exports must gather income - not dust

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In this month's column from GAMBICA's, head of lab, test and measurement, Jacqueline Balian looks at an issue affecting the exporting ability of the UK's brightest companies.

The UK lab industry has a worldwide reputation for technological innovation. We have cutting-edge teams in our own R&D labs, and we supply the best equipment to the R&D laboratories of the world. The market for top-flight equipment to support R&D is growing fast, particularly in China and India - which gives UK companies the opportunity to significantly boost overseas sales. So it is essential that our own administration systems support this effort and don't cause UK companies to lose out to foreign competition. Unfortunately, tech industry exports are being delayed and sometimes completely halted by a lack of resources and skills in Whitehall which 'control' exports to two of the world's biggest R&D markets, India and China. This not only affects the lab industry, it affects the whole of the UK's tech industries.



The UK's export licensing system for controlled products has developed over several decades. Vendors submit requests to the Export Control Joint Unit (ECJU), part of the Department for International Trade, which consults the Ministry of Defence (MoD) and the Foreign, Commonwealth and Development Office (FCDO). Other departments are sometimes also called upon for advice. However, the routine consultation of the MoD and FCDO was developed based on the monitoring of defence companies, for which the process was originally designed. Understandably, this has led to considerable focus on any concerns driven by these departments, such as political differences, human rights, security and stability.

As the Technology sector - separate to Defence and Military - has grown in recent years, there has been a growing export market for 'Tech' products. In the absence of a separate system suited to civil technologies, products specifically designed for civil applications are being subjected to defence-led reviews which could be seen as unnecessarily rigorous. GAMBICA Members say that application decisions seem to be subject to an increasing aversion to risk, and over-zealous analysis (compared with many decisions made by allies such as Germany, Japan and the US) by a system that is, by nature, designed to look for obstacles. This problem is exacerbated by the fact that there is no 'balancing voice' in the current system, to objections raised by the MoD and the FCDO.

This means that products in the technology sector, which may have no obvious link to armaments are being subjected to export checks led by defence staff some of whom may have rather limited understanding of the technologies involved and how they are used.

In recent years, an increasing number of export control licenses particularly to China have been refused, often with no clear explanation, sometimes following delays that significantly exceed the primary target response time of 20 days.

Although they call in other teams as necessary for advice, the licensing system is managed by the Export Control Joint Unit (ECJU) within the Department of International Trade (DIT). All the teams, but particularly that at ECJU, seem to be suffering from resource constraints and recently, a considerable churn of experienced staff.

GAMBICA members have raised concerns about the significant impact of the delays in the granting of export licenses and a marked increase in refusals which seems increasingly out-of-step with previous practice. As a result, GAMBICA has been in contact with the relevant departments, and Ministers not only to expedite decisions on particular applications, but also to air the issue of resource availability and the UK's competitive position in exports to major R&D markets.

These delays are, unfortunately, not a new problem. The Committees on Arms Export Controls inquiry into the Government's 2019 Strategic Export Controls Annual Report (published in November 2020), heard verbal evidence from trade associations highlighting a significant downturn in ECJU performance on the prior year (2018). It highlighted systemic failures within both the system and ownership of applications which were having a considerable impact on performance and commented that DIT-backed trade promotion is often at odds with export licencing decisions.

The report noted that delays and refusals cause a significant reputational damage to UK companies (deemed not trustworthy in the eyes of their customers) and impact UK involvement in global supply chains. A longer-term risk was highlighted that UK companies will move operations overseas if issues persist.

Even in 2019, the report cited staff churn at ECJU and the difficulty in attracting technical staff as constraining the availability of technical / process expertise and experience and impacting on the subtle interpretation of licence applications. Most importantly, from GAMBICA's point of view, it commented that there is no engagement of industry or Trade Associations in the ECJU 'Transformation Programme'. This is something that GAMBICA is particularly keen to address.

Members have reported applications taking in excess of 10 months to process. Clearly, this length of delay cannot be accommodated within normal industry lead times and members can find themselves incurring contractual penalties or facing rework of finished inventory that is packed and ready to ship. Some customers can't or won't wait and the consequential impact of these lost contracts, and lost future commercial opportunities, has been estimated to be in excess of £30 million per annum for one company alone.

A spokesperson for that company says: "It seems that in the world race for leading the technological revolution, continued export license delays and refusals has tethered our home-grown companies, and is apparently backing the success of competitors in allied countries."

The ECJU's own annual report shows how far away it is from its undertaking to give a decision on 70% of licence applications within 20 working days. In 2020 it achieved 62% and said in its annual report that it hoped to do better in 2021. But its current focus seems to have been on its software. It is introducing a new digital licensing service called LITE to replace the current SPIRE system which it says will "streamline the application process using increased automation to support robust licence decision-making... and better signposting to helpful advice."

After the Public Beta launch which is currently underway with chosen partners, SPIRE will be decommissioned. "Further information about what this means will be provided nearer the time," says ECJU.

For GAMBICA Members the issue is hugely important. The direct and consequential impacts can run into tens of millions for individual members. These sales will not come back and the reputational impacts to the UK are long-lasting. The stranded orders are being readily fulfilled by our competitors in Germany, Japan, and China.

GAMBICA is calling on the Government to review export control license policies and procedures on behalf of its members especially those pertaining to civil technologies destined for export to China. We are looking to work with Government to help find solutions. Likewise, we also want to hear about your experiences. Email me at Jacqueline.balian@gambica.org.uk