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ECGD  
2 Exchange Tower  
London, E14 9GS

Dear Sirs,

## **RESPONSE TO THE ECGD CONSULTATION ON FOREIGN CONTENT**

Motorola is pleased to present its response to ECGD's consultation on changes to its policy on support for foreign content.

In arriving at its response, Motorola has given this subject serious consideration and consulted widely. Motorola has not provided a point-by point response to all the issues raised but has focused on how ECGD can support UK exporters in the new global economy.

### **SUMMARY**

In response to the key questions:

#### **Should ECGD change its current policy for supporting foreign content under credit contracts?**

Yes, ECGD should amend its policy to reflect consistency with key government objectives on long-term economic performance and ensure that it is relevant to the impact of globalization on UK businesses.

#### **How much foreign content should ECGD be willing to support?**

ECGD should completely dispense with content requirements and shift to a policy reflecting the UK national interest.

**Should ECGD's policy include the flexibility to support more of less foreign content for a particular contract?**

By eliminating content rules, ECGD should focus on the benefits that a contract has on the UK economy.

**What factors should govern whether such flexibility is exercised in individual cases?**

By focusing on the UK national interest, ECGD will be promoting the strongest bids from UK exporters.

**Should ECGD also simplify its policy? If so how?**

ECGD should strive to minimize bureaucracy thus eliminating costs from Exporters, Buyers and its own organization. Any new policy should be simple to adopt with clear eligibility criteria, in order to minimize different interpretation and avoid protracted debate. Motorola believes that introducing a policy in the national interest would allow much of the eligibility criteria to be established upon application and so eliminate the monitoring and compliance of content sourcing during the implementation of the project.

Motorola feels that this consultation is an opportunity for ECGD to align itself with established Government policy and reverse its declining income, by supporting UK businesses to win overseas contracts.

**ECGD'S OBJECTIVES AND BENEFITS TO EXPORTERS, BUYERS AND BANKS**

ECGD's role, as defined in the consultation document, is to help UK companies' trade overseas by providing them with insurance and/or backing for finance to protect against non-payment. ECGD, in common with other Export Credit Agencies (ECAs), provides a unique service to exporters beyond that provided in the commercial markets. ECAs have a unique position in the event of a buyer default, due to their ability to influence local institutions and governments to assist in recovering unpaid debts. This ability to mitigate political risks allows ECAs to provide longer tenors than local and international lenders. ECA facilities will generally be followed by commercial lenders thus producing a 'leverage' effect on the ECA direct exposure. There are also periods during which commercial lenders have insufficient capacity, due to single borrower limits and market downturns, and the ECAs can continue to provide cover and funding for viable projects.

Motorola feels that with ECGD becoming a more progressive ECA, it will increase business and continue to support London as the European base for International Banks' Export Credit teams, which would otherwise move to those markets where most business is done.

## **WHY CONTENT RULES NEED TO CHANGE**

Historically ECAs and the OECD have focused on physical 'content' being exported from the home market. This traditionally related to capital goods being developed and built in the same country. Over the past thirty years business ownership has changed through consolidation and acquisition, markets have become 'global' and technology has introduced new business practices. This has led to dramatic improvements in productivity, quality and costs and development of new technologies, which have benefited customers and in turn led to the growth of those businesses that have adapted successfully.

Today, 'content' is defined as a physical export eligible for an UK Certificate of Origin. This definition is not relevant for high-technology networks and solutions where a significant proportion of the contract relates to software, design and implementation services. Increasingly with progress in open standard technology, high-tech solutions rely less on proprietary hardware and more on standard off-the-shelf computer and server equipment. In a typical IT infrastructure project, a small component of the cost will relate to equipment with the key costs comprising consulting, software, implementation and integration services.

It is now time for ECGD's eligibility criteria to include the reality of such businesses in the UK.

## **COMPETING EXPORT CREDIT AGENCIES**

A number of ECAs have adjusted their policies to reflect these changes. The relevance of 'content' is fast disappearing and the importance of 'value-added' is becoming increasingly prevalent. Should ECGD's existing policy remain in place, global businesses may relocate out of the UK and its premium income may continue to decline.

## **RELEVANCE OF PHYSICAL CONTENT IN TECHNOLOGY BUSINESSES**

It is worth stating that the consultation document assumes that in the past the physical 'content' was the most important factor of a supply and that a contract with a higher level of UK content was preferable. For technology businesses, this is not the case. In the global market place pricing and quality are key to winning business. By providing UK physical content as opposed to lower cost foreign supplies, there could be lower profits available for reinvestment, wages and taxes, so it could be argued that foreign content is more in the UK national interest.

## **IMPORTANCE OF NATIONAL INTEREST**

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The consultation document raises three points for not favoring a move to a national interest policy which need to be addressed as follows,:

- Defining the national interest is difficult;
- Potential conflicts in supporting differing levels of UK content;
- Exporters may take advantage of the new policy to source fewer UK goods.

It can never be acceptable that being too difficult is an excuse for inaction. This just plays in to the hands of critics and allows for competitors to win business away from UK exporters. The 'national interest' can be defined and agreed upon with other government departments and ECGD stakeholders. Long-term Government economic policy has consistently aimed to increase prosperity by improving productivity and achieving high and stable levels of employment. Government has removed barriers to improve the functioning of efficient markets by strengthening competition to reduce costs and improve quality, support innovation in new technologies. A simple definition of 'national interest' may be that a significant proportion of the contract value ends up in the UK supporting further investment, wages, rents, profits and taxes.

ECGD has and will continue to face potential conflicts over allocating its limited risk capital to competing projects. Basing this decision solely upon the level of UK content does not make sense when it is the buyer, rather than the exporter, who will be making the repayments. ECGD already has such mechanisms in place which should be expanded to consider the merits of the complete contract rather than one element being 'content'.

In 2005-06 ECGD supported £2.2bn of exports. This compares to around £300bn of recorded exports from the UK, excluding oil. UK manufacturing has been in decline for many years and so it is reasonable to assume that ECGD cannot influence where exporters source goods.

## **DEFINING A NATIONAL INTEREST POLICY**

For a 'national interest' policy to work successfully it needs to be simple and clearly defined in order that ECGD, Exporters and Banks can identify the relevant factors objectively in advance of an application and thus avoid a protracted and difficult debate.

One suggestion is to look at the UK value-added of the contract, to see whether a significant proportion ends up in UK wages, rents, profits and taxes.

Another approach is to align the policy with stated government objectives as follows:

- High productivity and quality;
- Innovation of technological developments;
- Promotion of 'clustering' of highly skilled jobs and networks of enterprise;

- Promote inward investment

Motorola feels that such an approach would provide more visibility than exists under current content requirements.

## **IMPACT OF CHANGE IN POLICY TO MOTOROLA**

Motorola expects that such a change would lead to a dramatic increase in business with ECGD. Currently Motorola sells a variety of telecommunications systems from the UK, but only the GSM base stations manufactured in Swindon are eligible for support. The sales to overseas customers of other product ranges developed in the UK are currently not eligible. Motorola would like all existing sales contracts from the UK to become eligible for ECGD financing. As Motorola employs around 3,000 staff, developing new and existing technologies such ECGD support would be directly related to research, development and production as opposed to the final states of manufacturing as it is today.

## **NEW BUSINESS FOR ECGD**

Motorola believes that such policy changes would also widen eligibility for other UK businesses selling software and services for IT and engineering solutions to overseas buyers. This would then reverse the decline in business at ECGD and improve the diversity of customers and projects.

Adoption of such a policy by ECGD, demonstrating its ability to adapt to market changes, would be a powerful argument in persuading potential foreign investors to locate in the UK.

## **LOCAL CONTENT**

Currently all ECAs are restricted by OECD consensus rules which limit the level of local (Buyer's country) content to 15% of the supported facility. This anomaly needs to be addressed with the OECD, to avoid the home buyer's market being discriminated against in the supply arrangements. Motorola feels that the introduction of a national interest policy would allow ECGD to work with OECD to develop more appropriate arrangements and eliminate the possibility of sourcing from a higher-cost country and this artificial limit.

## **CONCLUSION**

Motorola would like to take this opportunity to thank ECGD management and staff for their assistance in providing Export Credit facilities to Motorola customers. Motorola has found the team to be very responsive and highly professional in providing innovative solutions for challenging markets.

We can be available to discuss the contents of this letter to further understanding.

Yours sincerely

Gerard Grady

Senior Manager