

Department of Trade and Industry Five year programme

Creating wealth from knowledge

CREATING WEALTH FROM KNOWLEDGE

The DTI Five Year Programme

dti

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FOREWORD

Our country has enjoyed seven years of economic prosperity. Britain has never worked so productively, created so much wealth and generated so many jobs.

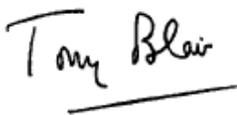
But our world is being transformed. The global economic map is being redrawn. China will challenge the US as the largest economy in the world in a generation; India alone is producing three million highly skilled graduates a year; and the new Central and Eastern European democracies – with wage costs a fraction of ours – have joined the European Union.

The growth of these developing countries creates challenges as well as opportunities. But Britain – which has done better in recent years than any other major industrial country – is well placed to thrive on this transformation. We are ambitious for Britain and are determined to seize the opportunities of the new global economy.

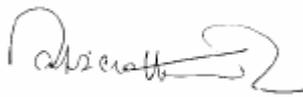
Building on our strong economic foundations we are creating a modern, knowledge-based economy, high in skills, embracing innovation, science and technology. To do this we need a strong Department of Trade and Industry with a clear understanding of the global economy, our businesses and the people who work in them.

We reject the interventionist command and control industrial policy of the past. Equally, we reject the idea that Britain does not need a strong voice for business at the heart of government. Instead, we need a new DTI, equipped to deliver in the areas most crucial to our success in the global knowledge economy. A DTI with a mission to promote world-class science and technology, support British business success and ensure fair and flexible markets. A DTI committed to intervene only where there is clear market failure, and able to create the institutions and partnerships – regionally, nationally and within Europe – that the modern economy demands.

This is an exciting and challenging agenda for the DTI. This Programme sets out the policies needed, over the next five years and beyond, to stimulate the industries and jobs of the future through science and innovation; to create new partnerships with industry to promote enterprise and high performance workplaces; to deliver a new approach to regulation; and to lead the drive for reform in Europe.



Tony Blair



Patricia Hewitt

SUMMARY

Britain is working. We have the lowest unemployment in 29 years and the highest employment level ever. We are enjoying the lowest inflation for 30 years and some of the lowest mortgage rates for 40 years. In the last seven years, living standards have gone up, on average, by almost 3% a year. In 1997, people living in France, Germany and Japan were all wealthier than us. By 2002, we had overtaken them.

For the first time in half a century, Britain has been growing faster, for longer, than any of the G7. As a result, we have overtaken France to become the fourth largest economy in the world.

These are the headline figures. But behind this success are the entrepreneurs creating and growing globally successful businesses. The hard-working, skilled teams producing exciting new services and products. And the scientists and inventors creating new ideas and technologies.

Their efforts have built Britain's strong, successful economy:

- We now have over four million businesses – 300,000 more than seven years ago – with new businesses starting up at the rate of more than 1,000 a day. And the failure rate is lower than at any time since 1993
- Of Europe's 600 top companies, almost a third are British – more than from any other country
- Britain remains number one in Europe for inward investment – and we invest more abroad than anyone else except the United States
- In manufacturing, our automobile industry is making more cars than ever before – and we have some of the most productive car plants in Europe
- We have the world's second largest pharmaceutical industry and the second largest bioscience industry as well
- Britain's creative industries – design, advertising, music, film and TV, fashion, computer games and publishing – produce a higher proportion of our total wealth than anywhere else in the world. UK firms register more trademarks and designs with the EU than any other country
- Britain's scientists are the most successful in the world. We are 1% of the world's population, but we undertake 5% of the world's science and have 12% of all citations
- The City of London is the world's largest financial capital

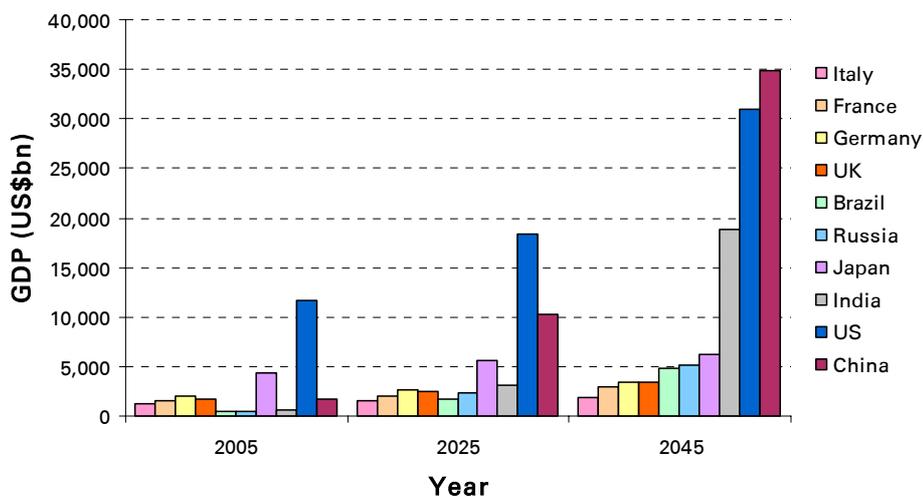
- Of the world's top 50 universities, eight are in the United Kingdom

Britain is working, and we should all be proud of it. But we also know that we can't stand still. We need to do even better in future, in particular to widen the circle of success beyond our most prosperous regions and cities to every community and every part of our country. Raising the performance in the six under-performing regions to the England average would increase the country's GDP as a whole by £60 billion.

The Challenges We Face

Our country faces extraordinary challenges. China and India have joined the world economy. Their growth rate is three times higher than Europe's. Together, their population and potential consumer market is five times bigger than Europe's. Their wages are about a tenth of ours. Between them, they are producing 125,000 computer science graduates every year – compared with just 5,000 in the UK.

Projected GDP US\$bn



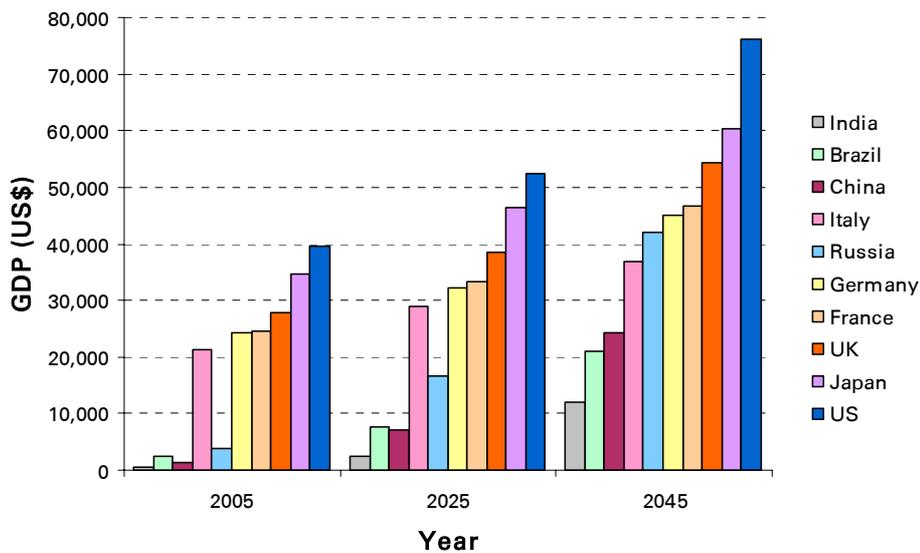
Source: Goldman Sachs Global Paper No 99, October 2003

In 2001, Britain exported more than China. Now it is the other way round. Only 1% of our exports go to China – but 3% of our imports come from there. Brazil, Indonesia, South Africa and many other emerging economies are also contesting developed country markets. Closer to home, ten new countries have joined the European Union – all with wage costs far lower than ours – and others are queuing up to join.

Even countries that once competed on the basis of low wages soon find they have to move up-market and compete on greater added-value, skills

and productivity. Many Western firms, for example, moved commodity manufacturing to Taiwan – attracted by wage costs averaging \$5,000 a year. Shanghai then challenged Taiwan with production wages of just \$2,000 a year. Now Shanghai, in turn, is starting to focus on more complex production, as China’s Western Provinces offer labour at \$1,000 a year. This means that although wage costs in some countries will remain relatively low compared to Europe and the US, their incomes will rise. This will lead to strong growth in their middle-class consumers’ markets, which represents an opportunity for exporting UK firms.

Projected GDP per Capita



Source: Goldman Sachs Global Paper No 99, October 2003

In the last 20 years, the world has seen a fundamental shift in manufacturing, with jobs lost through technology and offshoring. But the expectation was that, although low value-added jobs would increasingly move to developing countries, higher value-added jobs would stay in Britain and other advanced economies. In fact, developing countries are increasingly competing with us for highly-skilled work, while the explosion of information and communications technologies is opening our service sectors to international competition. In future, not only call centre staff but medical and scientific researchers, financial analysts and university lecturers could all find themselves competing with workers thousands of miles away.

At the same time, we have to respond to the global imperative of climate change and, in the energy field, the decline of our North Sea fossil fuel reserves – we will soon import more gas than we export, and will be a net importer of oil by around 2010.

So although we in Britain are better off than ever before, people worry that it will not last.

Britain's Response

How should we respond to the challenges we face? If we do nothing more than we are already doing, then we will be overtaken by other countries.

Britain's success is highly dependent on a strong European economy. This market of 455 million people accounts for 60% of our trade, and most inward investment into the UK is attracted by a desire for easy access to that market. But if Europe does no better than its current rate of economic and productivity growth, in 50 years' time the average American will be three times wealthier than the average European. And within a generation, China will be the second largest economy in the world. If we do nothing more, we will find it harder to keep the most successful firms and skilled people in Britain. Investment will find more attractive opportunities abroad. Our scientists, who have been returning to Britain from the United States, will depart for better facilities and opportunities elsewhere.

Some argue that we should try to prevent the change – put up barriers to foreign competition and imports, pass laws to make it harder for companies to restructure. But that won't work. We have seen all too vividly over the last fifty years that countries that try to cut themselves off from the rest of the world get left behind.

The good news is that Britain is successfully making the transition to the new, globalised knowledge economy. The macro economic stability achieved over the past seven years is providing the foundations for a more enterprising and innovative economy.

Our science base is strong and benefiting from sustained levels of public investment. Knowledge transfer and spin outs from our universities have increased. Knowledge-based business services have accounted for over half of our job growth in the past two decades. Britain has five of the world's top ten legal firms, helping to account for a £17 billion trade surplus in business services. We lead Europe in our share of value-added coming from knowledge-based and hi-tech businesses. The world increasingly wants to buy what we are good at producing.

Enterprise is being strengthened. The number of small and medium-sized businesses has grown by 300,000 over the past seven years. And the numbers employed by SMEs have risen by more than 600,000. Enterprise is being fostered in the most deprived areas of the UK with 2,000 Enterprise Areas supporting business start ups and SME growth.

As a result, we have closed the productivity gap in key sectors. In 1984, the US, Germany and France were all more than twice as productive as the UK in computer services. By 2001, that gap had virtually

disappeared. In legal, technical and advertising services, the same holds true – with major productivity gains since 1995. Overall, the productivity gap with France is narrowing and we are as productive as Germany.

We know from experience that the best way – indeed, the only effective way – to respond to globalisation is to build a strong, modern knowledge economy. Innovation through science and technology with highly skilled people is the key to future prosperity. Raising our value added is the only lasting way to create new businesses and new jobs to replace the old.

The growth of China, India and other emerging economies will challenge many of our existing producers and jobs. But their growth will also benefit us, with cheaper goods for our consumers, new markets for our exporters and faster-growing investments for our savings and pension funds.

Britain has a resilient economy, able to adapt to change and take advantage of the tumultuous changes occurring globally, to deliver prosperity for UK citizens. Our great strengths make us exceptionally well placed to meet the challenge. But every other developed country – and all the advanced emerging economies – share our analysis and are creating their own programmes for innovation. We want as strong and deep an enterprise culture as the United States, and Britain must now prepare for the next round of enterprise reforms: removing the barriers to enterprise; more devolution of business support to the regions; and enterprise brought into schools and universities – as well as greater encouragement for entrepreneurs.

For Britain to stay successful in the global race to the top, we have to raise our game. The knowledge economy demands a new industrial policy.

A New Industrial Policy

In his study of the challenges facing Britain, Professor Michael Porter, one of the world's leading experts on competitiveness, concluded: *'The competitiveness agenda facing the UK reflects the challenge of moving from a location competing on relatively low costs of doing business to a location competing on unique value and innovation. This transition requires investment in different elements of the business environment, upgrading of company strategies, and the creation and strengthening of new types of institutions.'*¹

¹ Porter, M. E. and Ketels, C. H. M., "UK Competitiveness: Moving to the Next Stage", DTI Economics Paper No. 3 (2003)

This means a new role for government and a new role for DTI. In place of the nationalised industries of the 1970s, and the poorly regulated privatised monopolies of the 1980s, the foundation of the modern knowledge economy is an unflinching commitment to competition. We want open, dynamic markets – in which newcomers can constantly challenge incumbent firms and give consumers greater choice, better quality and lower prices. They promote innovation. And they attract new investment, reinforcing the virtuous circle of competition and innovation.

Paralleling Bank of England independence, our pro-competition reforms have already created strong competition authorities, free from political interference, and consolidated sector regulation with a duty to promote competition and the consumer interest. Now we will lead a stronger drive to promote competition and open markets in the European Union – in particular through energy liberalisation and a single market in services – just as we will promote free and fair trade globally through the World Trade Organisation.

The key to delivering on this innovation challenge is to foster enterprise. In the next five years we will do more to help businesses start up, grow and succeed. In particular we propose a range of policies to strengthen support for firms and reduce the burden of regulation on business.

Over the life of this Five Year Programme, we will continue to invest in our science base and invest almost £400 million in programmes for the technologies of the future – such as nanotechnology, composite materials and biosciences – with a relentless focus on ensuring business ‘pull-through’ and commercial application, transforming ideas into new products and jobs for Britain. We will help make government a smarter customer, getting greater value for the £125 billion a year public procurement programme by encouraging private sector innovation.

Across government, we will identify the big public policy challenges of our time, bringing together the public and private sectors to create new solutions – and, in doing so, to develop new businesses and exports. And as we mobilise science, technology and innovation to solve these grand challenges, we make a clear commitment to make the UK the most hospitable place in the world to do scientific research, including firm action to stop animal rights extremism.

A new industrial policy needs a new DTI. In the 1970s, DTI had 26,000 staff and spent £16 billion (in today’s prices) running nationalised industries, supporting lame duck firms, controlling prices and trying to plan and control the economy. By the late 1980s the privatisation agenda had cut the budget to £4.6 billion, but even in a climate of supposedly small government, DTI employed some 14,000 staff.

In the knowledge economy, government's role is different: neither command-and-control nor laissez-faire. Government must create and support open, competitive markets. It must do what markets cannot do – promote world-class science and technology, build strong innovation networks and regional institutions, and back British business abroad. It must know when to regulate markets, and when to let business lead.

The new DTI will be more streamlined, more flexible, more agile and much smarter. By 2008, the new core DTI will employ fewer than 4,000 staff. Of its total £5.6 billion budget, the majority – £3.3 billion – will be invested in science and innovation. With most direct financial support for business delivered through strong and effective Regional Development Agencies, DTI will be free to focus on strategic issues, deploying its influence across government, in Europe and internationally.

Working with business and trade unions, the new DTI will be as much a 'Department for Technology and Innovation' as a Department for Trade and Industry.

A New Social Model

Alongside the new economic model, the knowledge economy requires a new social model. People's sense of security can no longer come from a 'job for life'. Instead it will come from 'employability for life'.

This too requires active government and modern trade unions, enabling people constantly to update their skills, take up new jobs and create new businesses of their own. In the modern world, skills – not welfare benefits – are the best insurance against unemployment and poverty.

To build a skills-based knowledge economy, we need to make sure that every individual contributes their full potential to wealth creation – and gets the full benefit in return. While we have virtually eliminated long-term unemployment, with employment above 70% in every region, the employment rate for those with no skills is still only 50%. Over five million working-age adults cannot read, write or add up properly. At every qualification level, people from Britain's minority ethnic communities are more likely to be unemployed or working in less-skilled, lower-paid jobs. And too many women find that, in order to get working hours that suit their family, they too have to take less-skilled, lower-paid jobs – damaging their own and their family's prosperity and reducing our country's productivity.

Working with the Department for Education and Skills, we are already driving forward the policies to ensure everyone has the skills they and employers need. We need to strengthen the intermediate, technical

Level 3 skills where Britain has traditionally been weak and will work with the Department for Education and Skills to expand the number of sector-specific Skills Academies.

Economic migration can also make a major contribution to our success, bringing in new entrepreneurs and investors and ensuring our businesses are not held back by being unable to find the skilled people they need. We need to make Britain a magnet for talent from all over the world. Working with the Home Office, we will therefore bring forward new policies to expand the Highly Skilled Migration Programme, retain overseas PhD students in key skills shortage areas, and give a renewed focus to UK Trade & Investment to encourage 'brain gain' – recruiting top business and entrepreneurs from around the world.

Sustainable Development: Economic, Social and Environmental Progress

The modern knowledge economy makes redundant the old choice between economic competence and social justice. The policies required for social inclusion – spreading opportunity to all through skills, job creation and entrepreneurship – are also those demanded for economic success.

But marrying economic and social policy, vital though it is, is no longer enough. The new challenge we face is to achieve sustainable development: economic development, social cohesion and environmental protection going hand-in-hand.

We all want better living standards for ourselves and our families. We want to end the scandal of poverty in the developing world. But we know that if we are to meet these expectations without damaging the environment beyond repair, then we must decouple economic growth from environmental degradation. There are limits to the world's ability to absorb pollution and provide natural resources. We must get more from less – more consumer needs fulfilled with less energy and water; more value added to a product with less pollution and waste.

This DTI Five Year Programme takes forward our vision of sustainable development. In our 2003 Energy White Paper² we set out our strategy for delivering reliable, sustainable, affordable energy supplies. It puts us on a path to a 60% reduction in CO₂ emissions by 2050, with real progress by 2020, and maps out the approach we will take to ensure we have sufficient – and sufficiently diverse – energy sources in the future. Implementation will require sustained focus over decades, but we have already made good progress – for instance, since the White Paper's

² Our Energy Future – Creating a Low Carbon Economy, HMSO 2003

publication we have given consents for more renewable electricity generating capacity than in the whole of the 1990s.

As we strengthen competitive markets in Britain and across Europe, and as we simplify regulation, we will create new incentives for business to achieve environmental goals in the most effective way possible – for example, through a new European emissions trading scheme. We have already seen a huge growth in our environmental technology industries here in the UK. Two years ago, they were worth £16 billion and employed around 170,000 people. Today, they are worth £25 billion and employ around 400,000 people. We will give top priority to environmentally sustainable technologies as we promote innovation.

A Five Year Programme

Building on the DTI Strategy³, this Five Year Programme describes how we will create the new DTI to enable Britain to win in the challenging global economy. It sets out the policies needed, over the next five years and beyond, to stimulate the industries and jobs of the future through science and innovation; to create new partnerships with industry to promote enterprise and high-performance workplaces; to deliver a new approach to regulation; and to lead the drive for reform in Europe.

³ DTI Strategy, September 2003

CHAPTER 1

STIMULATING THE INDUSTRIES OF THE FUTURE THROUGH SCIENCE AND TECHNOLOGY

Generating and Transferring Knowledge

UK science is world class. With 1% of the world's population, we undertake 5% of the world's science, produce 9% of all papers and have 12% of all scientific citations. We are strong in important industrial sectors such as aerospace, pharmaceuticals, bio-tech, oil and gas and we lead Europe in the share of GDP gained from high-tech and knowledge intensive businesses such as financial and business services, creative industries, and design.

The Government is substantially increasing spending on science. Between 1997 and 2007, the science budget will have more than doubled, rising to £3.3 billion by the end of the period. This has enabled the Research Councils to raise substantially the amount of research they support and to make a major start in repairing our scientific infrastructure after decades of under-investment. Science Enterprise Centres at universities across the country are supporting the teaching of entrepreneurship to 24,000 science students a year and the Higher Education Innovation Fund will rise to £110 million a year by 2007-2008.

Examples of Science Achievements since 1997

£325 million Diamond Synchrotron – the largest scientific facility to be built in the UK for 30 years. It will open new avenues for the treatment of illnesses such as Parkinson's, Alzheimer's, osteoporosis and many cancers.

£75 million per year on cancer research – including in June 04 the discovery of an overactive gene that can help predict the likely aggression of prostate cancer.

£200 million National E-Science Centre & regional centres of excellence

£100 million for academic careers, including more science PhDs. The UK produced 14,000 PhDs in 2002 (up from 11,000 in 1998) and over 4000 Research Councils studentships in 2003.

£35 million, with Wellcome Trust, for a new interdisciplinary Bio Centre at UMIST. The centre will house a community of physicists, chemists, engineers, bioscientists, mathematicians and computing experts to work together on research.

£30 million for Bristol University for new medical & engineering facilities. The medical facilities focus on cell signalling, and the new engineering facilities will support research in areas such as earthquake engineering and the resilience of aircraft components.

£3 million for a new Optometry & Vision Science facility at Cardiff University

We have also acted to promote business innovation. DTI has replaced well over 100 business support schemes with just nine simpler products, focused on innovation and continuous improvement. We have invested over £600 million in small firms' R&D through the small firms R&D tax credit. We also expect large firms to benefit by £400m per year through the large firms tax credit.

Both government and business need to do more to enable our country to maintain and build on this strong position. Total UK government and business investment in R&D as a share of national output is 1.9%, about the level of the European average, but well behind levels in France, Germany and the USA. In order to lock in a new investment culture the Government recently published its ten year framework for science and innovation. Our ambition now is to raise the UK's total private and public sector investment in R&D, as a proportion of national income, from its current 1.9% to 2.5% by 2014. Achieving this would put the UK ahead of other EU countries and substantially close the gap with the US.

Although science and technology play a crucial role in innovation, they are not the only factors. Much innovation comes from continuous improvement in products and production processes, both in manufacturing and in services. Furthermore, the quality of design is increasingly important in innovation – not as an add-on, but as an integral factor in creating new products and services that excite and attract customers. Britain has great strengths in design, not only in fashion and other high-profile sectors but, critically, in industrial applications as well.

Over the next five years we will:

- Work with business to increase the knowledge intensity of the UK economy, putting our country on a sustainable trajectory towards our longer term ambition of raising R&D intensity from its current level of 1.9% of national income to 2.5% per year by 2014
- Sustain UK Trade & Investment's strong focus on attracting inward investment for R&D to the UK
- Promote excellence and best practice in industry through Innovation and Growth Teams and the Manufacturing Advisory Service. Working with England's Regional Development Agencies and Devolved Administrations, we will deliver quality advice to companies on the technology challenges they face
- Strengthen international science and technology links, alongside stronger national and regional partnerships to ensure that British business can benefit from the best ideas and expertise, wherever they are

- Undertake new work with high-tech clusters in the US. The DTI has allocated £6 million over two years and will solicit bids for three or four collaborative programmes with high technology clusters in the US in areas like ICT, biotechnology and nanotechnology based on the successful £1.5 million collaboration between the UK and Texas bioscience clusters

The Technology Strategy

The DTI's Technology Strategy – backed by £370 million funding from 2005 to 2008 - will drive forward the Government's innovation agenda.

The Strategy will identify priorities in technology areas for further investment, adding to those already highlighted – nanotechnology and advanced composite materials. These may include areas such as pervasive computing, imaging technologies, bio based industrial products and processes, 'smart' materials, and renewable energy technologies. The Strategy will also help focus investment across government.

Science and Society

Whilst the British public is generally positive about science, many people have concerns about the rate of change in scientific and technological developments and the government's ability to regulate them effectively. Our vision for Britain's knowledge economy means a society that is more confident about the development, governance, regulation and use of science and technology.

To achieve this vision, we need to engage more effectively with the public to shape science and technology for the benefit of the UK. In particular, we will take steps to:

- Raise public awareness of, engagement with, and support for science and innovation – particularly over issues of controversy – in order to increase public confidence in the government's use and management of science
- Ensure that young people leave school equipped to engage with science as the active, informed citizens of the future
- Ensure that the UK economy has a sufficient supply of scientists and engineers, in particular increasing the involvement of women and ethnic minority groups in science and its governance

Open, public engagement with the ethical issues involved in human fertilisation treatment and stem cell research has helped to build public confidence in scientific developments in this field and given Britain one

of the best regulatory frameworks for research and treatment in the world. The Office of Science and Technology has also launched a new 'Sciencewise' grant scheme to complement the Government's other activities to promote public confidence and engagement in science.

More recently, nanotechnology has raised public anxiety about its implications. Responding to this concern, the Government asked the Royal Society and the Royal Academy of Engineering to produce an initial report with public consultation and a strong foundation in science. The report was published in July 2004, and contains a number of recommendations which we will respond to formally by the end of the year.

Stem cell research

Stem cell research has tremendous potential to benefit patients with conditions that currently have no effective cure, such as Parkinson's disease, juvenile diabetes, Alzheimer's disease, heart disease, stroke and spinal cord injury.

UK law on embryo research has evolved over twenty years of public and parliamentary debate. As a result, the UK now has one of the most comprehensive schemes of stem cell regulation in the world, putting the UK in a leading position internationally and helping to attract top scientists to the UK. The difference in regulation between the UK and the USA was a major factor in attracting scientists from Berkeley, California, to Cambridge University.

Since it is far too early to know which developments will bring the greatest human benefit, the Government believes that all types of stem cell research, including therapeutic cloning, should be encouraged. Indeed, we believe that it would be indefensible to stop this research and deny millions of people and their families the chance of new treatments which could save their lives.

The 2002 Spending Review committed £40 million from different Research Councils to exciting inter-disciplinary research in stem cells. Part of this investment is being used to establish the UK Stem Cell Bank, a world first. The bank is responsible for storing, characterising and supplying ethically approved, quality controlled stem cell lines for research and ultimately treatment. In May 2004, the first two human embryonic stem cell lines were deposited in the UK Stem Cell Bank. Developed separately by researchers at King's College London and the Centre for Life in Newcastle, the stem cell lines were developed under the first two licences granted by the Human Fertilisation and Embryology Authority (HFEA) in 2002.

Protection from Animal Rights Extremists

Because animal rights extremism remains a serious threat to the UK's economic future, it is one of the highest priorities for the DTI. We are working with the Police and Home Office to identify, prosecute and deter those masterminding these attacks and are

considering additional measures to further clamp down on animal rights extremism.

Detailed proposals were published in the summer by the DTI, the Attorney General and the Home Office outlining new police powers to arrest individuals protesting outside someone's home; giving the police powers to ban protestors from the vicinity of a person's home for three months; and strengthening the harassment laws to deal with campaigns of harassment aimed at groups of people working for the same company.

Although Britain has one of the most rigorous licensing and control regimes for the use of animals in medical research in the world, animal rights extremists continue to use illegal means to intimidate and harass scientists and others in the research supply chain. Most people believe that, where there is no research alternative, properly-regulated animal experiments are acceptable to develop human and animal medicine and to protect people and the environment. We also recognise that there is a major opportunity to develop better alternatives through recent scientific research. As a result we have established the National Centre for Replacement, Refinement and Reduction of Animals in Research and have doubled the funding in this area to £600,000.

The vast majority of animal lovers, including those opposed to research on animals, express their views peacefully and lawfully. We will urge them to withdraw their support from the small minority of extremists. The Government, police and the courts are stepping up efforts to end the criminal and violent conduct of this small group of extremists, while protecting the rights of others to express their views and campaign legally. Where necessary, the Government will directly intervene to protect those being targeted. We are committed to protecting the individuals and companies in the UK's bioscience sector and to ensure that we can all benefit from the vital medical advances it provides.

We are consulting with industry to formulate proposals to address the economic damage to activities which are specifically licensed and approved by the Government for the use of animals in scientific research.

Innovation and Public Policy

R&D is not only central to business innovation. It can also be mobilised to help solve current public policy challenges – for example, obesity, the problems associated with ageing, and climate change. Innovation in these areas also offers significant commercial opportunities. Since all major economies are facing the same issues, the technologies and

processes developed to solve public policy problems in the UK will be valuable in solving those same problems around the world, representing major markets for the firms involved. Put simply, scientific progress on the key public challenges of our time has the potential to deliver huge benefits to the UK.

Government departments invest almost £2 billion a year in R&D – more than half of the public funding of R&D. This investment can be used to drive innovation by using science and technology to tackle policy problems. Each department with significant R&D spend is adopting a Science and Innovation Strategy – overseen by the Chief Scientific Adviser – to ensure that the spending is effective in using innovation to meet public policy challenges.

Over the next five years we will:

- At Cabinet level, define the ‘grand challenges’ facing public policy where scientific research can play a major role in establishing the way forward. This work will be based on Departmental proposals and advice from the Government’s Chief Scientific Adviser and the Council for Science and Technology and will include costings on research programmes as well as proposals on how resulting business opportunities will be seized
- Assess Departmental plans for scientific R&D – led by the Chief Scientific Adviser and properly underpinned by costed Science and Innovation strategies – for Departments to feed into Spending Reviews. In light of Spending Review outcomes, Departments will have to give appropriate priority to their R&D and ensure that their resulting Science and Innovation Plans are fully implemented
- Establish a new multi-million pound fund for high-profile ‘Newton Awards.’ These awards will be made for cross-disciplinary research with potential for critical breakthroughs in areas likely to generate extensive benefits to meet UK public and business priorities

Government as a Driver of Innovation

Demanding customers are often cited as being the most important source of innovation. But the Government is the biggest customer in the economy, spending £125 billion in 2001 on goods and services from the private sector. This constitutes around 10% of GDP and about 25% of all public spending.

The huge purchasing power of the public sector can provide a powerful incentive for business to develop new products, processes and services that provide better value for money to taxpayers. DTI and the Office of

Government Commerce (OGC) are driving change to ensure that the Government leads by example and harnesses innovation to help deliver better value and better quality public services.

The public sector could benefit significantly by adapting its procurement policy to be able to handle unsolicited bids, which use innovation to deliver better public services, contribute to departmental public policy objectives and deliver improved value for money. In turn, greater openness of public procurement to firms and agencies could stimulate further innovation. Currently, small and medium-sized firms in particular face significant barriers in offering their innovative technologies and products to government. Potential suppliers find it difficult to identify how to submit ideas to the public sector which do not fit existing specifications, or where no tender has been issued.

Over the next five years we will work with OGC to improve value for money to government by building innovation into departments' procurement practices. We will:

- Establish a new ideas portal – a mechanism for firms, inventors and researchers to submit unsolicited, innovative proposals to the public sector
- Appoint a leading business figure to work with OGC to ensure the full implementation by departments of the Kelly Review on public sector procurement, with an emphasis on ensuring adequate commercial skills and dealing with the barriers that prevent innovative solutions being adopted in the public sector
- Work with the OGC so that innovation is embedded into the procurement practices of other government departments through the mechanism of OGC's approval of departmental efficiency targets by April 2005
- Use the OGC Gateway Review process to ensure that innovation is considered at an early stage of all major procurement projects across government. We want to accelerate a procurement culture that is open to and encourages businesses to come forward with innovative solutions
- Foster the innovation and creativity of small businesses through the Small Business Research Initiative, which encourages government to purchase more R&D from small firms. We will remove barriers for small firms, including social enterprises, by reducing the cost of bidding for public contracts, improving the visibility of procurement opportunities through a new *Supplier Route to Government* website and better awareness of bidding processes
- Press for EU action to complement UK policies for stimulating innovation through procurement

CHAPTER 2

A NEW PARTNERSHIP WITH INDUSTRY

The new industrial policy requires a new partnership with industry. In the 1970s, the economic model favoured big government, the public over the private sector, and wealth redistribution rather than wealth creation. The Government ran a one-size-fits-all welfare state, centrally-managed public services and had a benefit system that supported people in inactivity.

The 1980s saw a radically different approach. In place of nationalisation came privatisation along with a sweeping deregulation of the labour market and a concerted attack upon trade unions. Recession saw the demise of large parts of Britain's manufacturing base. Unemployment rose to over 3 million. Investment in education, training and transport fell and inequality rose faster than in any other industrialised country.

Today, the only successful way to nurture an innovative, growing economy is by working in partnership.

The Government needs to set the framework and ensure that we have excellent resources for competitiveness – knowledge, skills, and science. And business needs the freedom to be able to exploit these opportunities. Business and government have a shared goal in working together to ensure that the right assets are provided, failures in the market are identified and that barriers to growth overcome. Just as business operates at global and national, sectoral and local levels, so must government.

Government needs to have the skills and knowledge at every level to ensure that partnership is effective. Strong business-led Regional Development Agencies – supported by DTI and other government departments – and an integrated government presence through the Government Offices are increasingly important to business. This partnership approach enables DTI and the Regional Development Agencies to work closely together on the development of policy and on delivery, wherever the lead lies.

Globalisation and new technology are re-working our industrial structure. Old industries are contracting and new ones expanding. There is no question of going back to the old days of protectionism, artificially safeguarding jobs, and bailing out firms. Businesses and workers need to be able to adapt to the changing world and our proposals build directly on our work with business, unions and others in developing the Department's Manufacturing Strategy.

The Government has a central role in helping this adjustment. It sets the framework within which firms compete. It can help new companies to develop and grow. It helps foster consumer confidence in new products and services. And it ensures that workers can move easily between firms and sectors by maintaining a flexible labour market and helping provide the best possible skill levels.

Enterprise and Employability

The path to success is founded on enterprise and employability. Since 1997 enterprise has flourished. There are now four million small businesses in the UK. The number of SMEs has increased by 300,000 since 1997, with failure rates at their lowest since 1993. Small firms employ 12.6 million people and account for 58% of private sector employment – testament to Britain’s hard working entrepreneurs and owner-managers.

But enterprise needs to be fostered. Young people need to be excited about the possibilities of running their own business. Local business have a key role to play here. Already half our schools teach enterprise and, from next year, every secondary school will offer pupils not just work experience but education in enterprise. Our aim is to see every school twinned with a local business.

Government too has played its part by delivering macro-economic stability, and cutting business taxes; by creating the Small Business Service and transforming Business Link, with a commitment to helping half a million firms every year over the next five years; and creating one of the world’s most competitive markets for broadband telecommunications, soon to be available to 99% of households.

And more businesses mean more jobs. The UK now has the highest employment rate in the G7. Since 1997, employment has risen by almost 2 million and employment rates are rising across the board, in particular among women, younger workers, and ethnic minority groups.

A flexible labour market ensures that people have the opportunities for work, business can find the right people, and respond speedily to changes in markets and consumer preference. But the extent to which workers and business can take advantage of this is determined by their skill levels. Human capital is the raw material of wealth creation and higher skill levels enable people to work more efficiently and effectively. The Government has made basic skills a priority and aims to improve the basic skill levels of 2.25 million adults between 2001 and 2010. We also welcome highly skilled and entrepreneurial migrants to the UK to help boost our economy.

Our offer to business

Over the past seven years, a combination of enterprise, hard work and supportive policies have placed the UK in the enviable position of rising employment and rising prosperity. As we address the new competitive challenges and take forward our Five Year Programme, we make a new offer to business.

At the core of this offer is the recognition that the challenges of the global economy means rectifying longstanding weaknesses in the UK economy, and meeting head-on some of our emerging structural problems.

Despite the flourishing enterprise culture, we still have lower start-up rates than the US. There are particular cultural barriers to starting a business among women (where the female start-up rate is half the male rate) and some black minority groups and disadvantaged communities.

Despite progress in recent years, the UK continues to suffer from historic problems in growing our small firms into world beating companies. This is partly due to problems small businesses face in accessing private sector finance, and also to difficulties in attracting talented managers.

We need to address the continuing stigma attached to failure, particularly when contrasted with the US where it is accepted that innovation means experimentation – and sometimes experiments will fail.

Although many smaller firms are at the forefront of innovation, finding it easier to adapt to changing markets, others find it more difficult to find the information, advice and guidance they need. This risks leaving them behind their competitors in adopting new ideas or techniques.

Over the next five years we will:

- Reduce the regulatory burden on business arising from DTI regulations by more than £1 billion
- Make it easier for small business to access appropriate business support. Use of Business Link has doubled in the last three years and customer satisfaction rising to almost 90%. From 2005 Regional Development Agencies will take on responsibility for the network and we expect Business Link to help over half a million existing small businesses every year over the next five years
- Ensure that growing businesses find it easier to access the finance they need. Over the next three years the Government will invest more than £380 million in the debt and equity markets alongside the private sector through the Small Firm Loan Guarantee and

Enterprise Capital Fund schemes, so that capital flows more readily to those businesses that can provide a return

- Build on the success of the DTI's Manufacturing Advisory Service by helping an extra 20,000 manufacturing firms in the next five years and extending our best practice business support products to the service sector
- Establish a new Women's Enterprise Panel to help the Government achieve its target of increasing the proportion of women-owned businesses to 20% by 2006
- Strengthen the employer voice in the training system through strong business-led Sector Skills Councils
- Work with the Department for Education and Skills to expand the number of sector-specific Skills Academies
- Work with the Design Council to raise awareness of the importance of design, through Design Campaigns. The first design campaigns will focus on skills, technology, and manufacturing
- Introduce a new Award for Phoenix Entrepreneurs to encourage positive public recognition for individuals whose first business did not succeed but who have come back, worked hard, and built successful enterprises
- Provide over £10 million funding for the Enterprise Insight campaign to encourage more people, particularly young people aged between 14 and 25, to consider starting a business
- Drive forward in the EU the recommendations of the Kok Report, which seek to reduce the time, effort and cost of doing business in the UK and across the EU
- Draw upon the recommendations of the Hampton Review of regulatory inspection and enforcement, and working with the Small Business Council, will identify new ways to simplify, and reduce the demands placed on SMEs from government forms, mail outs and requests for business information

Our offer to employees

Our offer to business is matched by a new offer to employees – a new social model. Although the modern economy can no longer offer the job for life, we can offer 'employability for life'. Working with business and trade unions, we need to ensure that everyone who is able to can participate in the labour market, and attain the best skills – and therefore the best-paid job – to which they are capable. We need to make work pay and ensure decent standards and flexibility in the workplace for employees. If we are to maintain economic success, and ensure that our

businesses have the skilled workers they need, then the scope, reach and quality of the labour market must be raised.

To sustain continuing economic growth we need to do more to break down barriers in the labour market. We need to make the best use of the talents of all our people: be they mums returning to work; people with disabilities; or young working class teenagers in our most deprived communities.

Already 45% of the workforce are women, up from 38% at the beginning of the 1970s, and over half of mothers with children under five are in paid work, a proportion that has nearly doubled in just twenty years. But the majority of women work in lower paid, female-dominated occupations and too many women, seeking hours to suit their families, end up in jobs that do not fully use their skills and experience.

Amongst people with disabilities, the employment rate is about half the UK average, and amongst black and minority ethnic communities, it is 8% lower. Older workers, too, find themselves rejected by too many employers, with almost 60% of men already out of work before they reach the age of 65. Although Britain has one of the highest employment rates in Europe, with 74% of the working age population in work, there is still far more we can do to help people fulfil their goals for work and income – and help business fill their 600,000 vacancies.

As well as being able to access work, it is essential that employees have the skills to meet the global challenges. Because skills are the best insurance policy against unemployment in the knowledge-driven economy, as well as being one of the best investments for prosperity, lifelong learning is the foundation of the new social model. Low skill levels across the economy not only hold back individuals, but act as a constraint on investment and its ability to innovate. In other words, inadequate skills in the British economy have wider implications than for just the unskilled.

Given the changing structure of the workforce, removing discrimination, encouraging flexibility – both in the economy and in the workplace – widening the pool of available workers and raising their skills are economic imperatives. In the global knowledge economy, equality and economic success go hand-in-hand. The new Commission for Equality and Human Rights will have a vital role to play in creating an economic and social culture in which every individual is valued, whatever their background.

We will work constructively with both business and trade unions to deliver this agenda. Recent policy discussions with trade unions have rejected a return to the industrial relations and employment laws of the 1970s, instead looking forward with new ways to help working people –

including the most vulnerable – achieve more satisfying and better-paid work, for a better balance between work and family, for more control over their lives and a better quality of life and work.

Choice, diversity and personalised services are now extended to the workplace. The Government believes that as we give people more power in their working lives – through better skills, fairer employment standards and through the collective strength of modern trade unions – we can both advance the cause of social justice and ensure that Britain remains competitive in an increasingly competitive global economy.

So in our offer to employees we will:

- Make work pay through tax credits, the minimum wage and better protection for the most vulnerable in the labour market
- Use the Sector Skills Councils and the employer training pilots to extend opportunities for people to gain rewarding employment by having the skills that successful businesses need
- Introduce legislation to outlaw age discrimination in the workplace and give people more choice about when they retire, including the option of combining part-time retirement with part-time work
- Ensure that the enterprise society is open to all, whatever their background. We will raise the self-employment rate of under-represented ethnic minorities and pursue more effective means of tackling employer racial discrimination and reducing the incidence of racial discrimination at work
- Encourage best practice in implementing new information and consultation rights from Spring 2005 through the Union Modernisation Fund
- Work to extend the numbers of trade union learning representatives in the workplace
- Work through the Women and Work Commission to improve the labour market position of women and achieve measurable improvements in gender equality across a range of indicators, including a further reduction in the gender pay gap
- Build on our successful flexible working policies to help parents and carers combine their work and caring role more easily. We will look at:
 - the length and remuneration of maternity, paternity, adoptive and parental leave
 - the extension of the right to request flexible working to carers of adults

- Establish a new website, *employee direct*, due to launch in 2005, to provide employees with comprehensive, tailored information on the full range of their employment rights
- Work with employers to raise significantly the proportion of UK young people under 30 achieving skill Level 3 (A levels or the vocational equivalent), with expansion focused on the skills needed to meet sectoral and regional priorities

The first priority to close Britain's skills gap remains training our own domestic workforce. But our economic success also depends on attracting talent available across the world. We must not strip developing countries of their desperately needed skilled workers and we have taken steps – for instance, through the NHS ethical recruitment codes of practice – to protect poorer countries. But many developing countries also encourage people to emigrate, at least temporarily, since the money they send back to their families is an increasingly important source of export earnings. And a growing number of highly skilled workers, including through from other developed countries, are looking for opportunities around the world.

Britain benefits when the world's brightest and best choose to work here and Britain, with its open, diverse culture, is well placed to attract and retain these highly skilled and mobile workers. So the DTI and the Home Office will:

- develop proposals to better target the Highly Skilled Migration Programme in order to attract global entrepreneurial talent and academic expertise to the UK, and establish a comprehensive policy towards the recognition of foreign credentials, while continuing to monitor all our migration schemes to ensure they are robust against abuse
- develop new policies to attract and retain foreign students who successfully complete a PhD in a shortage subject at an accredited UK university. This will build on existing proposals, set out in the Home Office migration plan, to attract and retain graduates in shortage subjects, including science and engineering and MBAs

In addition DTI will:

- Increase the focus UK Trade & Investment places on foreign direct investment into the UK, and in so doing attracting skilled and talented people to the UK

Competition and Consumers

In our partnership with industry, we want open, dynamic markets – in which newcomers can constantly challenge incumbent firms and give consumers greater choice, better quality and lower prices. They promote innovation. And they attract new investment, reinforcing the virtuous circle of competition and innovation.

We have strengthened the UK's competition regime so that the Office of Fair Trading (OFT) and the Competition Commission take competition decisions independently and proactively investigate markets which are not working well for consumers. Anti-competitive behaviour costs the UK economy around £10 billion a year and imposes higher costs on consumers. This problem is now being dealt with more firmly because of our competition reforms. As a result of our reforms, the UK's competition regime is now ranked third in the world.⁴

Our offer to UK consumers

We have already improved the enforcement of consumer law and empowered consumer bodies to make 'supercomplaints' to the OFT and other competition authorities about dysfunctional markets. But still more needs to be done, particularly to strengthen the Trading Standards service and improve co-ordination to tackle consumer fraud. This is the basis of our offer to consumers.

Over the next five years we will:

- Work closely with consumer groups such as the National Consumer Council, Which? and Citizens' Advice to improve the information and redress available to consumers
- Complete the national roll-out of Consumer Direct by the end of 2006 to provide consumers with advice and information via the phone or web
- Modernise consumer credit legislation, providing a simpler, fairer framework which enables consumers to make more informed choices about managing their credit and debt arrangements
- Take forward our strategy for 'Extending Competitive Markets: Empowered Consumers, Successful Business', which includes:
 - easier access to dispute resolution, to help consumers who have a complaint against a trader
 - empowering consumers
 - clearer and simpler consumer law, which will be easier for both business and consumers to understand

⁴ 'Peer Review of Competition Policy', report by KPMG for DTI, May 2004

- action to improve consistency in enforcement by trading standards

A New Partnership

The offer to business, employees and consumers constitutes a new partnership. Government will create a competitive environment that gives business and employees the freedom to make the most of the opportunities of the global economy. We will remove barriers and will ensure they have access to the skills, knowledge and finance needed for success. We will better understand the needs of business and employees, in order to more closely tailor services to support them.

We will ensure that government at every level is responsive to business. UK Trade & Investment is being refocused. The Regional Development Agencies have a new freedom to determine what is in the best interests of their region, while contributing to national Public Service Agreement Targets. We will also work with Regional Development Agencies to boost their policymaking capacity – especially in areas such as building the evidence base. The regional management of Business Link has also been devolved to the Regional Development Agencies, so that business support is closer to the customer and integrated with regional economic strategy.

Many businesses identify themselves as part of a sector, rather than by geography. We have therefore established Sector Skills Councils, with powerful business involvement, and reformed DTI's relationship management approach by focusing on the key companies that are able to influence the performance of the rest of their sector. Achievements include facilitating the creation of training academies in the automotive sector, and the development of innovation and growth teams (IGTs).

IGTs are specific projects in which business, unions, government and other experts come together to identify the key issues that will shape the future of their sector, and consider how the UK can best respond to the competitive challenges it will face. So far IGTs have reported on the aerospace, automotive, bioscience, chemicals, environmental goods and services, and software and digital content sectors. The electronics IGT will report later this year.

At the core of this new partnership is an understanding of modern business issues that allows DTI to be a credible champion of all industry and businesses across Whitehall. This helps ensure that the services government provides and the investments it makes reflect the real needs of companies – of whatever size, wherever they are located and wherever they do business.

CHAPTER 3

A NEW APPROACH TO REGULATION

In all modern economies, some regulation is both necessary and desirable. Effective regulation can help correct market failures and, if well designed, deliver both greater equity and economic efficiency. For example, the National Minimum Wage has helped up to 2 million low paid workers. And there are many EU Directives that help underpin the Single Market, and thereby opening up new markets for UK companies to trade in.

However, unnecessary or poorly delivered regulation damages economic performance, reducing flexibility, and restricting employment growth, innovation and competitiveness, particularly for smaller firms. The European Commission's 2003 review of the European economy⁵, concluded that regulation is one of the principal factors inhibiting Europe from achieving the goals of the Lisbon agenda for economic reform (see chapter 4 for more on the Lisbon agenda).

Our priority is to ensure that the regulatory system works for UK business.

Action on regulatory reform

Overall, international surveys show that the UK is one of the best countries in the world to do business. The World Bank's 'Doing Business in 2004' report⁶ put the UK in the top 10 countries (out of 130) with the least regulation. An OECD review (2004)⁷ found that, *'Competitive pressures appear relatively strong in the UK, with economic and administrative regulations inhibiting competition and barriers to trade amongst the lowest in the OECD.'*

Moreover, DTI is taking forward reforms to reduce regulatory burdens, including exempting nearly 900,000 small firms from statutory audit requirements, and ensuring that all employment law changes come in on only two dates each year. And the Government is consulting employers on phasing out payment of Working Tax Credit by employers, potentially reducing pay roll burdens for up to 1.2 million employers.

Planning is often cited by business as a barrier to investment. The Government has legislated to make sweeping reforms to the planning system, reducing red tape and introducing more strategic thinking at the

⁵ 'The EU economy: 2003 Review', European Commission, COM (2003) 729

⁶ The World Bank: 'Doing Business in 2004', October 2003

⁷ OECD Policy Brief: 'Economic Survey of the United Kingdom', January 2004

regional level. It has invested extra resources in planning departments with a new incentive grant worth £130m this year. The Government welcomes the Barker report on housing, which has recommended further planning reforms. The Office of the Deputy Prime Minister's five year plan will set out further proposals in this area.

DTI is also working closely with the Cabinet Office and other relevant departments to strengthen the scrutiny mechanisms across Whitehall for new regulatory proposals affecting business and to look at ways to speed up the process for taking through deregulatory measures.

One key element of this will be accelerating the programme of Regulatory Reform Orders (RROs). RROs allow primary legislation to be amended without recourse to a new bill. Twenty Orders have been made to date across government, a number generating significant savings to business. For example, the reform of the business tenancy regime will bring savings of around £6.5 million a year. But the process needs to be reformed, by removing some of the current restrictions, if we are to make full use of these new powers.

So there is no room for complacency. In a world where competitive pressures are increasing all the time, we need a regulatory regime that is as 'light touch' as possible. By improving the effectiveness of regulation, and making it more targeted, we can serve better both the interests of consumers and businesses.

We want to build on the start we have made to change the approach taken to regulation right across the Department. We need to move towards less, but more effective regulation. To achieve this, we will need stronger incentives for civil servants to deregulate and to maximise the deregulatory impact of policy initiatives. We need to deliver on our commitment to make the use of regulation a last resort, only to be used once all the non-regulatory alternatives have been considered and rejected.

DTI is seeking to better understand the costs and benefits of regulation, and to strengthen the evidence base for appraising future policy.

We recognise that it is often the overall burden, and changes required by the flow of new regulation, that cause the most problems for business. Assessing the cumulative impact of regulation is complex since impacts change as business, employees and consumers adapt to changes in the framework. This is why we are placing a firm commitment to innovative measures to reduce the cumulative impact at the centre of this Five Year Programme.

Over the next five years we will:

- Reduce the regulatory burdens on business arising from DTI regulations by more than £1 billion over the lifetime of this Five Year Programme. Further detail on this target and the overall cost reductions sought will be published by DTI in January 2005

To promote better regulation we will:

- Limit the introduction by DTI of all new domestic regulations to two common dates per year and introduce this model across Whitehall within the lifetime of the Programme
- Pilot a one-stop shop on enforcement, with trials in the retail sector. We will consider the results of these trials in the context of the forthcoming Hampton Review of regulatory inspection and enforcement
- The Better Regulation Task Force (BRTF) is looking at the 'one-in, one-out' principle for new regulations and, alongside the Hampton Review, targeting reductions in administration costs of regulations along the lines of the approach taken by the Dutch Government. DTI will work alongside the BRTF in its assessment of these ideas and in particular will evaluate all DTI regulation and identify the scope for simplification or removing all existing legislation before new legislation is implemented
- Consider, with Cabinet Office, the case for reforming the Regulatory Reform Act 2001, to allow more Regulatory Reform Orders to be delivered
- Deliver our existing regulatory reform order programme, with a new drive on deregulation and simplification
- Extend the successful "VIPER"⁸ approach to regulation in other sectors
- Launch an automated service through www.businesslink.gov.uk that will notify users of any new or changed regulation that is relevant to their business
- Reform company law so it is simpler for smaller companies and less burdensome for all

In addition, the Prime Minister's Panel for Regulatory Accountability will vet the implementation of all major regulatory proposals to ensure there

⁸ The Vehicle Industry Policy and European Regulation (VIPER) Group is a Whitehall and UK industry stakeholder network of experts, focused on the automotive sector, that provides a joined up approach to the Government's policy and regulation formulation in the UK and the EU.

are compensating deregulatory measures, and all new EU Directives to ensure light-touch regulation is adopted wherever possible, and to prevent 'gold plating'.

DTI plays an active and important role in the Government's push for regulatory reform in the EU. About half of all major regulations affecting business in the UK now come from the EU. Hence, if we are to improve the regulatory environment in the UK, and to make progress on the Lisbon Agenda of economic reform in Europe, we must promote less, but also more effective EU regulation.

That is why, as part of the '4 Presidency' initiative on better regulation, we will be introducing competitiveness testing for all new EU regulations, and putting forward to the Commission with other Member States over 300 proposals for simplification of EU law.

Better regulation will be a major focus of the UK Presidency next year. DTI will use our Presidency to promote measures that can bring benefits to business, like completing the single market in services. We will also work closely with other Member States to prevent unnecessary regulatory burdens, through examining alternatives to regulation (like the voluntary agreements agreed with the European car manufacturers to reduce vehicle emissions) and through using greater competition as an alternative to regulation.

In addition, over the next five years we will:

- Continue to press for an ambitious simplification programme to reduce the burdens imposed by the stock of existing EU law
- Push for phased implementation of EC directives (sunrise clauses), wherever appropriate
- Pursue extended implementation dates for EU environmental legislation to drive innovative solutions from industry
- Promote the VIPER approach at the EU level. The Commission has already established a group for the automotive industry and we will push for this model to be extended to other sectors, for example, energy intensive industries

CHAPTER 4

A NEW DRIVE FOR REFORM IN EUROPE

The Challenge in Europe

The European Union is the world's largest single market and the UK benefits greatly from being part of it. Its citizens enjoy some of the world's highest living standards and its companies are some of the world's most innovative and competitive. Almost 60% of UK trade is with our EU partners. The internal market has created 2.5 million new jobs and £877 billion in prosperity during the last 10 years.

But just as Britain needs to raise its game for its citizens to continue to prosper in the more competitive global economy, so must the whole of the EU. The Government has led the charge in the EU to liberalise key markets such as electricity, telecoms and transport, and to modernise the EU competition regime. Consumers have benefited from lower prices, more choice and better quality. For example, telecoms liberalisation within the EU has helped slash the cost of long distance calls across Europe by almost 50% since 1998. And the cost of flying to EU countries has halved over the last 10 years because of EU rules encouraging greater competition in the air travel market.

At the Lisbon Summit in 2000 Europe's leaders recognised this imperative and set out an ambitious plan for economic, social and environmental advance. In particular, they committed the European Union by 2010 *'to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.'*

The Lisbon agenda represented a step change in EU economic thinking, moving away from a regulatory agenda and towards creating a framework of flexibility and competition in which enterprise, innovation, employment and sustainable development will flourish.

The UK is recognised as a Lisbon high performer, with low long-term unemployment (the UK has already reached the Lisbon target of 70% employment by 2010), the increased quality of UK public spending, good performance in meeting Kyoto targets and positive steps towards making R&D and productivity improvements. But progress across Europe since 2000 has fallen short of expectations and the European Commission's 2003 review of the European economy⁹ concluded that regulation is one of the principal factors inhibiting Europe from achieving its Lisbon goal.

⁹ 'The EU economy: 2003 Review', European Commission, COM (2003) 729

The Government believes it is essential that the Union and its Member States commit themselves to speeding up the pace of economic reform, in order to meet the 2010 targets. The Mid-Term Review of the Lisbon Agenda in Spring 2005 will be a key opportunity for clarifying the objectives and developing stronger incentives.

Moving Forward

We will use the UK Presidencies of the EU Council of Ministers and the G8 in 2005 to drive forward economic reform.

Specific objectives for our EU Presidency are likely to include promoting employment, better regulation, open and sustainable markets in an outward facing Europe, and boosting our economies' potential for innovation and research. Together with taking forward the EU's inherited agenda, we will reinvigorate progress towards the Lisbon goals.

We will:

- Work to improve the operation of the single market by pressing for continued market opening, particularly in services, and by promoting the proactive use of competition policy to ensure that the economic benefits of market integration are realised
- Act as a strong voice in Europe for consumers – ensuring that our consumers have the same confidence to shop across borders as they do in the UK
- Promote the further liberalisation of international energy markets and the use of sustainable energy to secure a diverse range of future energy supplies
- Encourage the promotion of a new social model to ensure that everyone is offered the opportunity of work, skills and enterprise, promoting labour market flexibility and inclusion to help deliver the ambitious Lisbon employment targets
- Promote better regulation principles within the EU (see chapter 3)

Liberalising services

The British Government is strongly committed to freeing up the European services market. As the second largest exporter of market services in the world, the UK has considerable benefits to gain. But despite strong progress on market reform, there is still more to do.

Although the services industry produces around 70% of the UK's economic output and 80% of all UK jobs, it accounts for only 20% of

intra-EU trade. There are still significant barriers to trade in services in the EU. For example, prohibitive legal requirements prevent service providers from establishing or providing services in other Member States and stop consumers buying services from other Member States. And many SMEs, after an initial investigation into other Member States, decide not to expand their businesses because they simply cannot deal with the excessive burden of administrative obligations.

The proposed Directive on Services in the Internal Market will oblige Member States to cut the red tape that currently prevents businesses from offering their services across borders or from opening premises in other Member States. For every 1% fall of the administrative burden, the administrative cost saving across the EU is estimated to be €1.2 billion¹⁰.

Opening up the services market by encouraging cross border activity and boosting competition would increase choice, improve quality and bring down prices for consumers and also for businesses that use services. The effect on the economy as a whole would be to improve competitiveness and create high quality jobs. We must, of course, ensure that important safeguards – such as strong health and safety protection – are retained. But with that proviso, we will continue to press strongly for services liberalisation and make this a priority for the UK Presidency next year.

Globalisation

In Europe we are a leading advocate for economic and political reform and a strong advocate for market liberalisation. Barriers to trade are costly. The World Trade Organisation (WTO) has estimated that the 1994 Uruguay trade agreement increased world income by between \$109 billion and \$510 billion.

In our recent Trade and Investment White Paper¹¹ we firmly rejected the old-style mercantilist approach of trade negotiations that demanded market opening from other countries, while seeking to protect our own markets against others' exports. Through DTI's leadership, Britain has become a leading advocate, both in Europe and in the WTO, for free and fair trade.

¹⁰ DTI/HM Treasury estimate based on EU 15 data for 2001, Eurostat

¹¹ Trade & Investment White Paper July 2004 – Making Globalisation a Force for Good

Trade & Sustainable Development

Our approach to trade and investment is part of our broader commitment to sustainable development – making economic, social and environmental progress in such a way that we achieve development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Britain, as one of the world's oldest and most open trading nations, the second largest investor in the world and a key player in the European economy, can and should play a leading role in promoting global investment and trade for the benefit of all.

Trade & Investment White Paper, 2004

The main challenge over the next five years will be to help bring the Doha round of WTO trade negotiations to a successful conclusion. These negotiations offer a major opportunity to make the world trading system freer and fairer and, in so doing, to contribute to increased prosperity and growth, improved global security and the achievement of the Millennium Development Goals. A Doha Round involving significant liberalisation could increase world prosperity by \$400 billion, with clear gains for developing countries. The UK has an important part to play as a key member of the European Union and as a major world economy with strong links to developing countries.

We will continue to be a leading player within the European Commission and WTO to help stimulate wealth creation across Europe and the world.

UK Trade & Investment currently assists over 20,000 businesses a year through its trade development and inward investment services. It will continue to help UK-based companies to export and form joint ventures abroad – including in emerging economies – while stepping up its efforts to attract foreign companies, particularly those with big R&D investments, to the UK.

Over the next five years we will:

- Step up our role as a leading advocate for free and fair trade and use the UK Presidencies of the EU and the G8 to push for a successful completion of the Doha Development Round
- Work through UK Trade & Investment to help UK businesses to access the global science base, export to new markets, sell their innovation capabilities globally and attract corporate and entrepreneurial investment to the UK, bringing with it skilled people and entrepreneurs

CHAPTER 5

A NEW DTI

The world has changed and so has the DTI. In the 1970s, governments believed they knew better than the market how to run profitable business. In the 1980s and early 1990s government believed the market alone had all the answers. The DTI's predecessors spent around £15 billion on industrial support, compared with less than £1 billion today. Our focus is on where government can really make a difference by investing in science and innovation, supporting skills and setting the overall market framework.

Already we have reduced the number of business support products from over 100 to nine, grouped around the areas where businesses are most likely to need help. Until recently firms faced a confusing array of advice on government services. The new award-winning website www.businesslink.gov.uk has changed that and now acts as a comprehensive one-stop-shop for information on, and access to, all relevant government services.

Business – both employers and employees – want to feel that the DTI is making their case in Whitehall. They need to feel that they have a department in government that fully understands their concerns – particularly over regulation – and the kinds of pressure they face each day. With every senior official now required to spend at least a week every year in business or another relevant organisation, and with a well-established business secondment programme, DTI is becoming the strong voice in Whitehall that business needs.

Moving Forward

This Five Year Programme sets out the how the Government will work with key stakeholders – business, employees and their trade unions, consumers and the science base – to help make this transition by focusing on science and innovation, enterprise and investing in people. We will operate at every level – regionally and nationally to Europe and the WTO.

Bringing this together is central to a modern industrial policy. We need a new DTI to make it happen – more streamlined and flexible, more agile and much smarter. A DTI that knows when to help markets, and when to let business lead. One that is more customer focused, more professional and capable of operating across the spectrum of business issues. A department that provides a voice for industry and innovation in Whitehall. There is still more to do, but we are on the way.

Over the next five years we will:

- Become a stronger voice for business in government, working in particular to streamline regulation and partnering where appropriate with other government departments on business and industry sponsorship
- Act as a champion of innovation across government, leading pro-enterprise and innovation policies across government, and taking forward the procurement reform agenda
- Adopt a radical new approach to our organisation and handling of significant policy development projects, enabling us to focus our policy capabilities on areas of highest priority and to redeploy them quickly when priorities change
- Continue our reform programme by reducing our staffing in the core Department by over 20% by 2008 compared with 2003 and continuing to relocate posts out of London and the South East

This is an exciting and challenging agenda for the DTI. Over the next five years we are pledged to deliver it.



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