

The Rt Hon David Cameron MP
Prime Minister
10 Downing Street
London
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5th May 2011

Dear Prime Minister

AN OPEN LETTER FROM THE NATIONAL SME INNOVATION ALLIANCE

You have said that the country must back the 'big businesses of tomorrow'. You, and other Ministers, have indicated that SMEs form the only sector that can act with sufficient dynamism to provide growth against the necessary backdrop of reduced state spending. You have all also recognised the key importance of high technology and manufacturing in this renaissance.

We applaud your aspirations and we believe that the UK high technology SME sector could rise to this challenge. However, after years of governments following a very different course, there remain severe structural barriers that are actively preventing this renaissance. Moreover current actions of government are perpetuating the difficulties we face: given your stated aims we can only presume that this is simple inertia in Whitehall, and, perhaps, a lack both of direct experience and of specialist expertise in the civil service. Unless and until HMG gets to grips with the real problems, we do not believe that your plans for the economy can succeed.

We urge you to adopt policies for change based upon our concerns, some of which are as follows:-.

- There needs to be new understanding within the civil service that innovation for the most part is carried out by SMEs, not major corporations nor Universities. SME representation must be built into the strategic processes that determine the structures for Government support. Civil servants need to listen to SMEs first and define policy later : at the moment, the opposite remains the case. Currently, alongside the civil service, the vested interests of the less innovative groupings lead and make-up almost every board, panel, consultation or team that reviews the legal or financial framework, and determines who should be funded. These structures inevitably produce procedures that hinder innovative growth and neither do they invest appropriately. This, to our members, is obvious, so we wonder quite what influence is being brought to bear for this situation to carry on as before.
- The banks are not lending sufficiently, but nor are most companies willing to borrow from the banks. Trust has been lost. The required personal guarantees of directors are onerous and a severe barrier to growth. Bank costs are too high and they are simply not competing for business. We desperately need new financial institutions, or radical reforms of those that exist. Without change, their potential source of funding for SMEs to develop long-term

industries, that can build the foundations for future jobs and export success, is not realistically available.

- Risk capital is in very short supply. Very few investors are willing to invest long term, so much of the investment that does go on is cherry picking of short term, high return, low risk projects. Other capital comes from abroad, which results in exporting UK technology. The capital to build the high technology SME sector into the 'big businesses of tomorrow' is almost entirely absent. We have members who, because of lack of risk finance, are in danger of having to give up their businesses, their technology and their patents.. This is happening continually and is a drain of the lifeblood of UK technology. Exporting technology and know-how before it can create UK wealth and employment is not what UK plc needs.
- The patent system is effectively broken so far as SMEs are concerned. The UKIPO and the Minister for Intellectual Property, on the other hand, suggest instead that most SMEs do not know how to protect their innovation. Most know only too well the failure of the patent system and have given up. The reality is that the UK offers no effective means of patent enforcement for SMEs in the home market and thus no cash to seek further enforcement abroad. Patents do not do what the UKIPO claims when it sells them, which is to offer 'protection'. We live in hope that the current IP review will reflect our reported concerns, but the way in which this review was set up does not fill us with confidence, as we have made clear to Baroness Wilcox and the Chairman of the review panel. Of course the big companies, who are the only businesses represented on the panel, like the system just the way it is: and that tells its own story.
- The university sector has become bloated, turning out graduates without regard to the strategic needs of the country. The universities have also sold a false prospectus to Whitehall: HM Treasury and UKIPO data confirm that they are not the source of most new technology in the UK. It comes from the SME high technology sector, our membership. This has deflected from the need for high quality technician training: you are to be congratulated on the provision of more apprenticeships, now you need to push up the training quality and job status of technicians.
- We have a public sector 'business support' industry that has evolved into box-ticking and endless and largely useless 'networking events' and 'workshops'. Most taxpayer's cash is swallowed up by their waste, so very little ever provides any net benefit to any real business. We advise you simply to close them down and put the cash into the excellent SME R&D tax credit scheme. The Technology Strategy Board, an example of a structure devoid of experienced SME business leaders, demands both 50% matched funding as well as collaborative projects, which immediately kills off most innovation from SMEs. Apart from this being bad policy, it is deeply offensive to those who risk all their personal wealth to get businesses going.

This is just a summary of our main concerns.

The Germans are leading Europe out of recession. That is no happy co-incidence: it is because they take industry and technology far more seriously, at every level and in every part of society, and they

have done so throughout the UK's false boom. They have a far stronger privately owned SME sector and a more effective patent enforcement system.

We strongly believe that, if significant changes are made to meet our concerns, then we can rebuild UK manufacturing, based on UK high technology innovation. One thing is very clear to us: the policies we seek, of a return to a longer term, more stable, manufacturing based economy, with real jobs and real skills, are exactly what the UK population want, so there is a real window of opportunity open to both government and business.

We would like to engage with Government in a truly constructive manner in order to help meet the stated objectives of Government. We look forward to hearing from you and hope to work with you to develop a workable strategy for our sector.

Yours sincerely

John Mitchell, Chairman; Chris Wilde, Director

The following signatories are all members of SMEIA:-

Dr Patrick Andrews, Break-Step Productions Ltd
Paul Andrews, Oaktec Hybrids
Rupert Armstrong-Evans, Evans Engineering
Alan Bennetts, Bay Systems Ltd
Dr John Bannard, Siltech Ltd
Paul Bottomore, Pago Systems
Peter Brewin, Concrete Canvas Ltd
Viv Broughton, The Premises Studios Ltd
Ashley Bryant, VTOL Technologies Ltd
John Christopher, Innovative Electronic Technology Ltd
Dr John Clarkson, Atlas Genetics Ltd
Tim Crocker, Scimar Engineering Ltd
Ian Dell, Chemian Technology Ltd
John Edgley, AeroElvira Ltd
Clive Green, Quartlock Ltd
Paul Hague, BiBC Ltd
Stuart Hibbert, icomplete Ltd
John Hoare and Brian Prince, JKH Drainage Units Ltd
Dr George Kretsis, Anaglyph Ltd
Robert Kybird, The Electric Widget Company
Martin Lawrence, Cambridge Optical Sciences
John Mitchell, Allvoice Developments Ltd
Sabine K McNeill, 3D Metrics
Dave Overall, Redvers Consulting Ltd
Wajid Rasheed, Smartreamer Drilling Systems Ltd

Beric Read, BJR Systems Ltd

Mark Sheahan, Compgen Ltd

Nick Shotter, The Four Wheeled Motorcycle Company Ltd

Henry Tuck, SPI Developments Ltd

Andrew Webley, The Smarter Web Company Ltd

Anders Widgren, ATC Industrial Group

Chris Wilde, Interdental Ltd