



How to trade outside of the UK, potential opportunities and overcoming perceived barriers

- How to identify and pursue potential opportunities
- The potential barriers, and how to overcome them

Thursday 9th June 2022

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What I will cover today

- ADS Group and its place in the UK's Industrial Landscape
- How ADS tries to assist its Member Companies to export
- The help that is available from the UK Government
- Market intelligence
- Export and Trade Control Licensing
- Business Ethics issues
- Offset, countertrade, industrial participation-type mechanisms
- Questions?

ADS Background



ADS represents & supports over 1 100 UK businesses operating in the aerospace, defence, security and space sectors.

ADS membership benefits include:

Dedicated business development support

A tailored events programme

Representation through one influential voice

Specialist insight and knowledge



Farnborough International Limited (FIL), which runs the Farnborough International Airshow, is a wholly-owned subsidiary of ADS Group Ltd.

Farnborough International Ltd

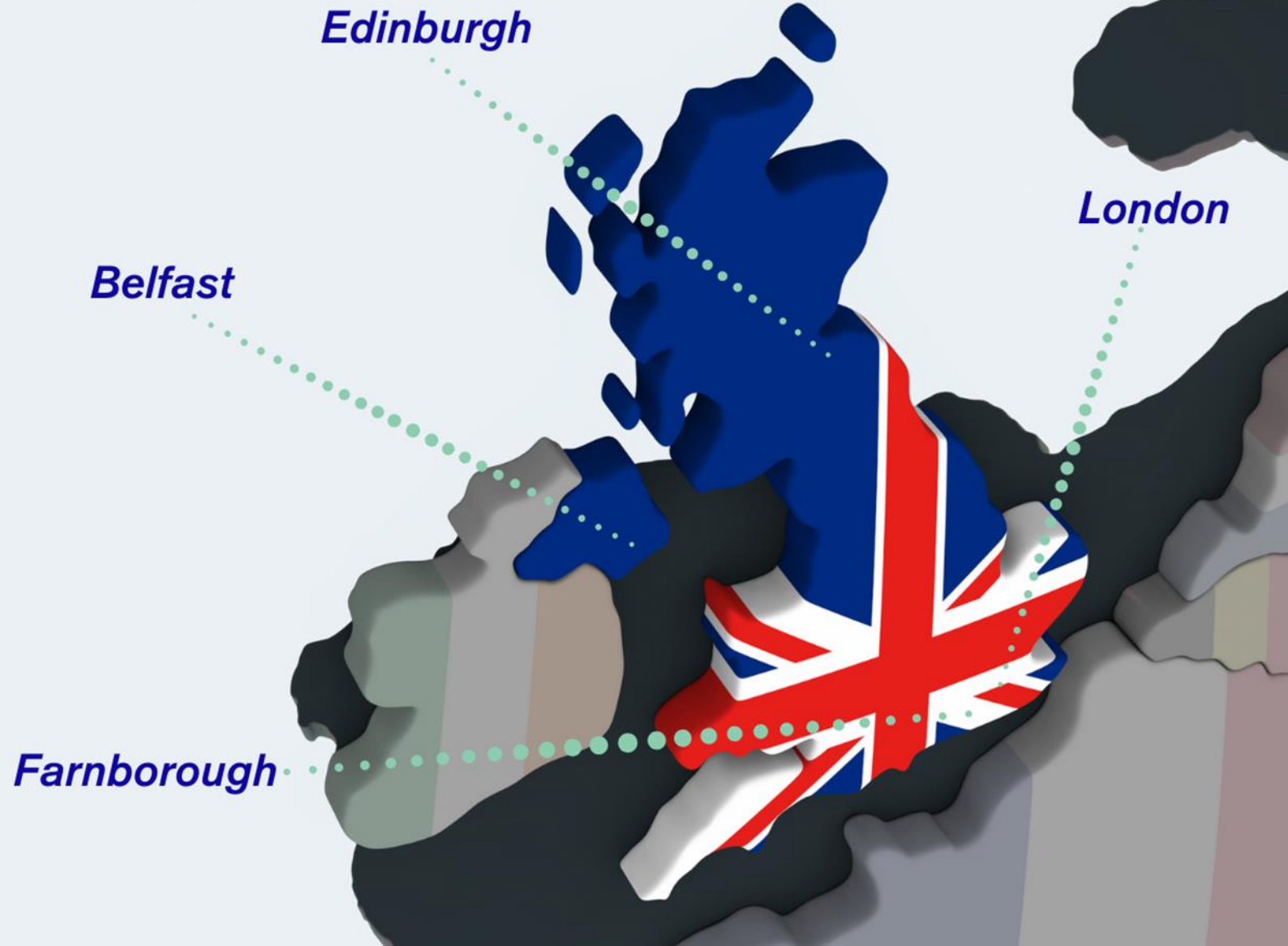
The logo for Farnborough International Ltd. It features a stylized 'F' icon to the left of the word 'Farnborough' in a large, bold, sans-serif font. Below 'Farnborough', the word 'INTERNATIONAL' is written in a smaller, all-caps, spaced-out sans-serif font.

- Farnborough International Ltd (www.farnborough.com/) is a subsidiary company of ADS.
- FIL has a three-strand business as the organiser of the biennial Farnborough International Airshow (FIA), operator of Farnborough International Venue and Events (FIVE), and as international consultants for civil, defence and business aviation events including Bahrain International Airshow (9th to 11th November 2022) and India Aviation, and a new airshow to take place in China.
- The next FIA is due to take place on 18th to 22nd July 2022.

ADS Teams

Aerospace
Defence
Security
Policy and Media
Membership
Events
SC21 Team
Security Vetting
NATEP

ADS Northern Ireland
ADS Scotland
ADS Toulouse



Sector: Size & Impact



Europe's No 1 second only to the US globally

Generate approx. £30bn to the UK economy

Support 1 million UK jobs

Export £20bn+ annually

Invest £3bn in R&D annually

Sustainable Britain the success of these industries will help re-balance the economy away from it's dependence on financial services



Events

- In a normal year ADS is involved in organising c.170-190 events per annum, these comprising a mixture of:
 - Exhibitions
 - Outward Trade Missions
 - Inward Trade Missions
 - Conferences
 - Seminars
 - Briefings
- Currently, almost all of our activities have, where possible, been delivered in an on-line format

Exhibitions

- ADS has organised the UK National Pavilions at a very wide range of major international defence exhibitions, including (BOLD = currently in ADS' portfolio):
 - UK – **DSEI** and **FIA**;
 - Americas – AUSA, I/ITSEC and SOFIC (USA); CANSEC (Canada); LAAD (Brazil)
 - Middle East – **IDEX** and **Dubai Airshow** (UAE); **IDEF** (Turkey); **SOFEX** (Jordan);
 - Africa – AAD (South Africa)
 - Asia – **DSA** and **LIMA** (Malaysia); **DEFEXPO** and **Aero India** (India); **Singapore Airshow** and IMDEX Asia (Singapore); Seoul ADEX (Korea)
 - Europe – **Eurosatory** and **Paris Airshow** (France);

My Role at ADS

- My fundamental role is to provide help, advice and guidance to our Member Companies on any and all export-related matters;
- I liaise closely with many relevant branches of UK Government, especially the ECJU, FCDO, UK MoD, HMRC and DIT DSE
 - I act as Secretary to a number of “Special Interest Groups”;
 - These include:
 - Business Ethics (Business Ethics Network)
 - Export Controls (Export Group for Aerospace, Defence & Dual-Use)
 - Market Intelligence (Defence Export Strategy Group)
 - Offset, Industrial Participation and Countertrade, etc (British Industrial Participation & Offset Group)
 - Section Five

The Essential Need for Collaboration



Few (if any) countries want to be viewed as potential “Markets”

Most nations want to be viewed as potential “Partners”

There is a need (especially amongst SMEs) to try to identify reliable, local, collaborative joint venture partners

Thus, ADS has created a network of MoUs to assist our Member Companies to international business



International Relationship - MoUs

- FAD (Denmark), November 2009
- CII (India), February 2010
- CADSI (Canada), June 2010
- NDIA (USA), June 2010
- KDIA (Korea), June 2010
- AIAD (Italy), July 2010
- UAI (Russia), July 2010
- FEMIA (Mexico), July 2010
- ASSAD (Russia), July 2010
- AIDN (Australia), July 2010
- GIMAS (Morocco), November 2010
- ABIMDE (Brazil), April 2011
- SOFF (Sweden), April 2011
- AMD (South Africa), Sept 2011
- FSI (Norway), April 2012
- SaSaD (Turkey), Nov 2012
- AFDA (Finland), January 2013
- FICCI (India), February 2013
- SIATI (India), February 2013
- PCNDM (Poland), June 2013
- SJAC (Japan), January 2014
- EDIA (Estonia), May 2015
- FSDI (Latvia), May 2015
- LDSIA (Lithuania), May 2015
- PINHANTANAS (Indonesia) May 2021

The help that is available from the UK Government

- There is a lot of help available from the UK Government, and it is not true that “*The most feared words in the English language are ‘Hi, I am from the Government, and I am here to help you’*” (President Ronald Reagan)
- Apart from the Department for International Trade, there is also the Home Office, the Department for Transport, the Department for Business, Energy and Industrial Strategy, and others
- HMG employs International Trade Advisers
- HMG employs staff in embassies and high commissions around the World – the Overseas Market Introduction Service (OMIS)
- The Export Market Research Scheme (EMRS)

Market Intelligence

Knowing your market

- There are 194 universally recognized countries (193 members of the UN plus the Vatican [Holy See]). Places like Palestine, Kosovo and Taiwan are partially recognized which increase the count
- The UK has 73 sanctions, embargoes, etc in place on nations - <https://www.gov.uk/guidance/current-arms-embargoes-and-other-restrictions>
- No matter what your sector, you need to know where to focus your efforts and resources

The Information you need

Essential background information

- Political and economic situation; trends; market structure; military and security background; perceived security threats; the organisation and relationship of the military, security and police forces; traditional supply links; apparent and real barriers to entry; local customs and ethics affecting business relationships; competition and potential partners in-country; the need for local partners, agents and/or representatives.

Market information for each organisation

- Size and structure; autonomy and buying power; procurement authorities responsible for the evaluation and purchase of materiel and services and how they operate; local budgets (where available); possible foreign aid programme funding; attitudes towards agents and distributors; methods of entry into each market sector; main points of contact; the nature of known existing and future requirements.

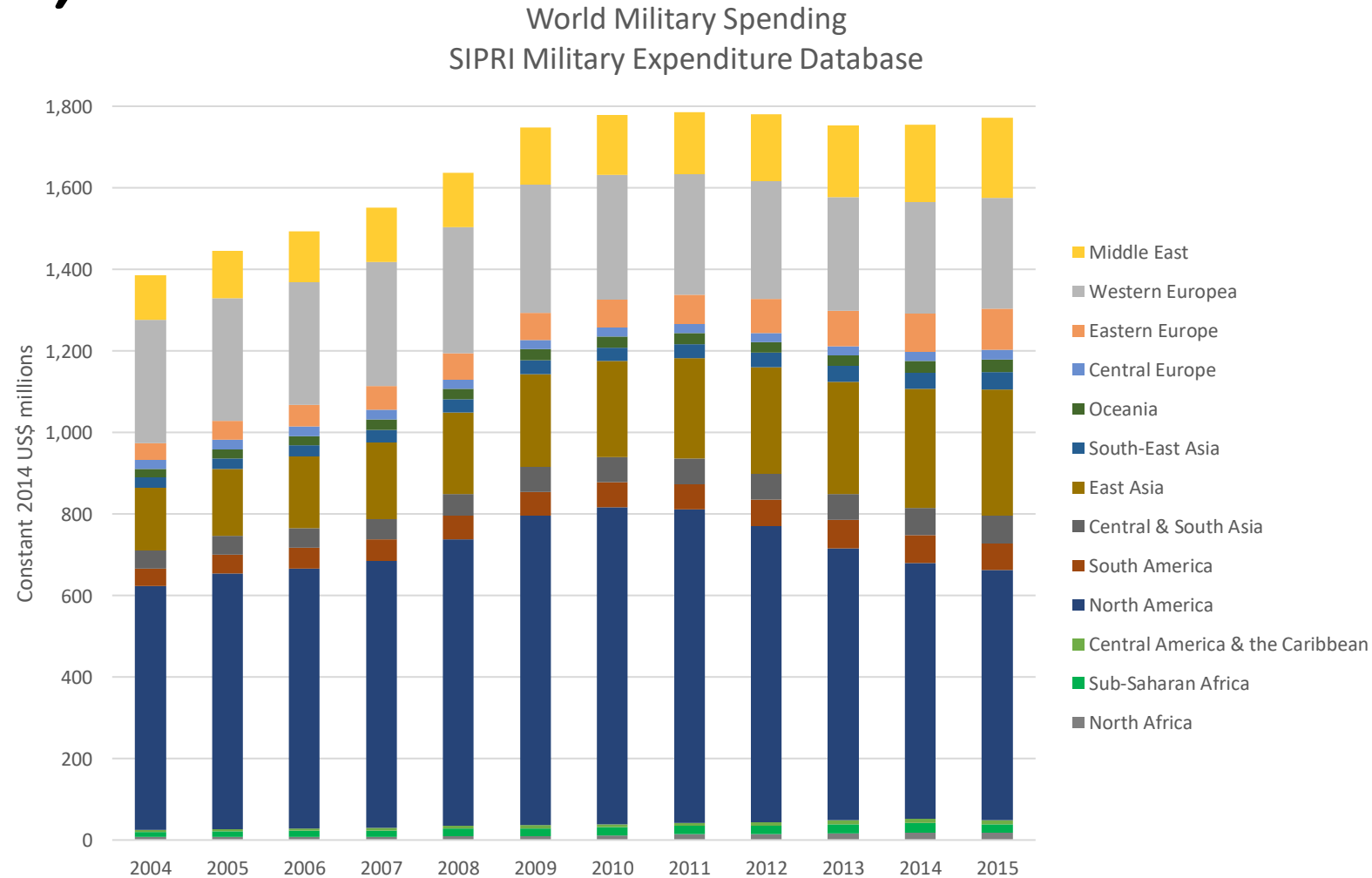
Opportunity analysis

- Priority markets and reasons for selection; segmentation; historical size; fluctuation and UK market share; likely future changes in market size; economic growth factors; changing threats; the risk of bribery and corruption, etc; sources for further information.

Advice on promotion, exhibitions and trade missions

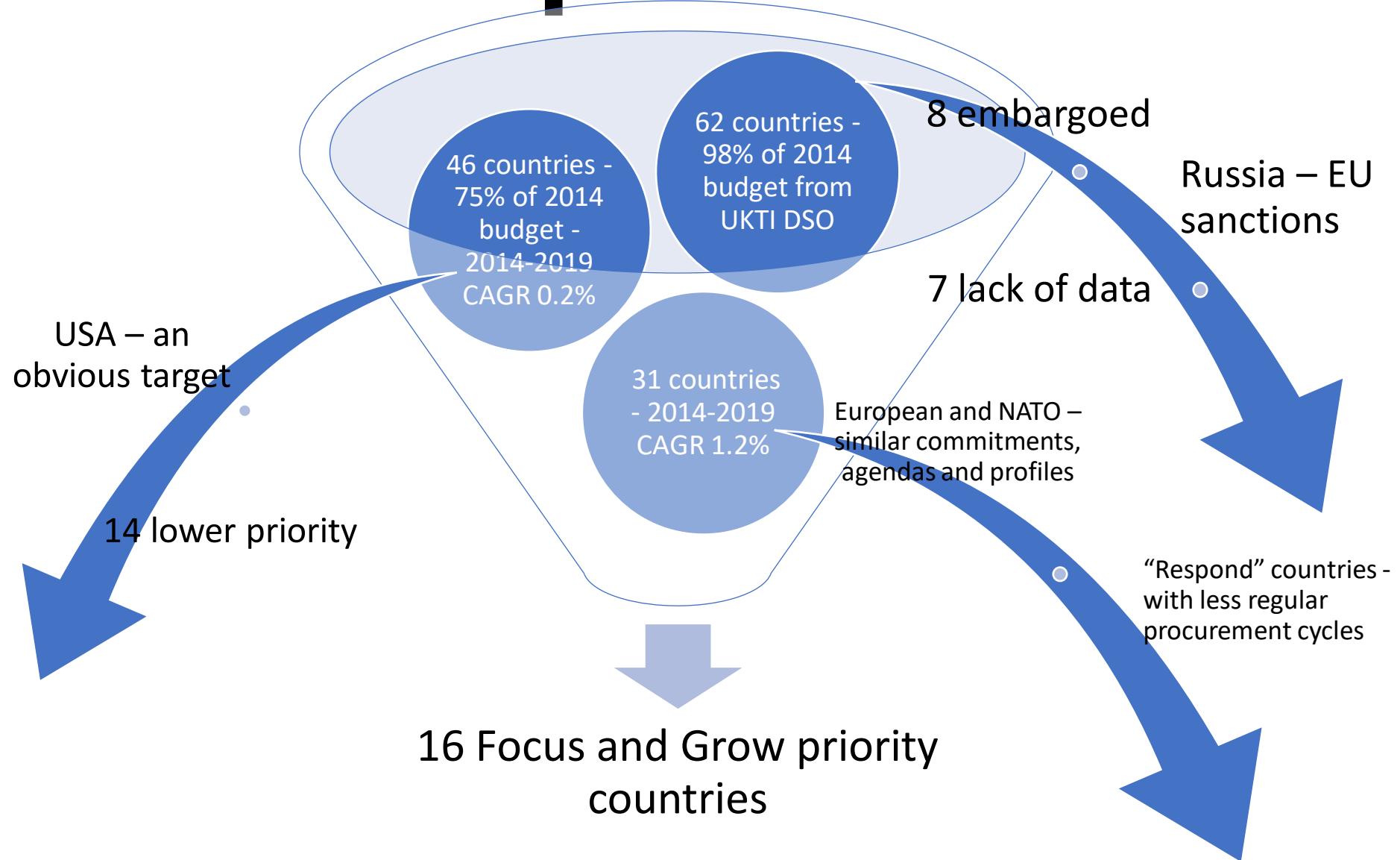
- Costs; grants; timings; literature and invitations to key visitors.

“World military spending resumes upward course”, SIPRI



Source: Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database

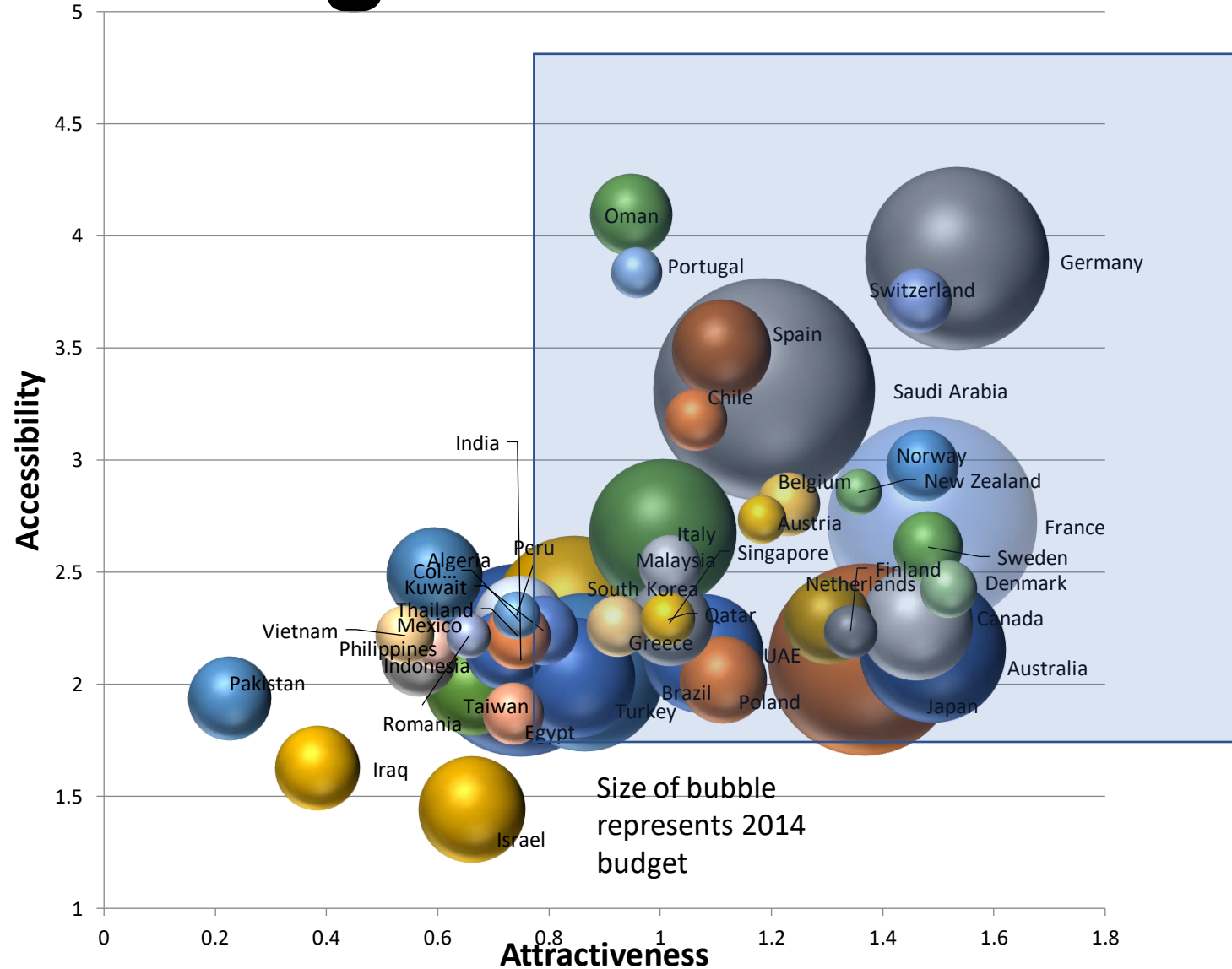
Prioritisation process



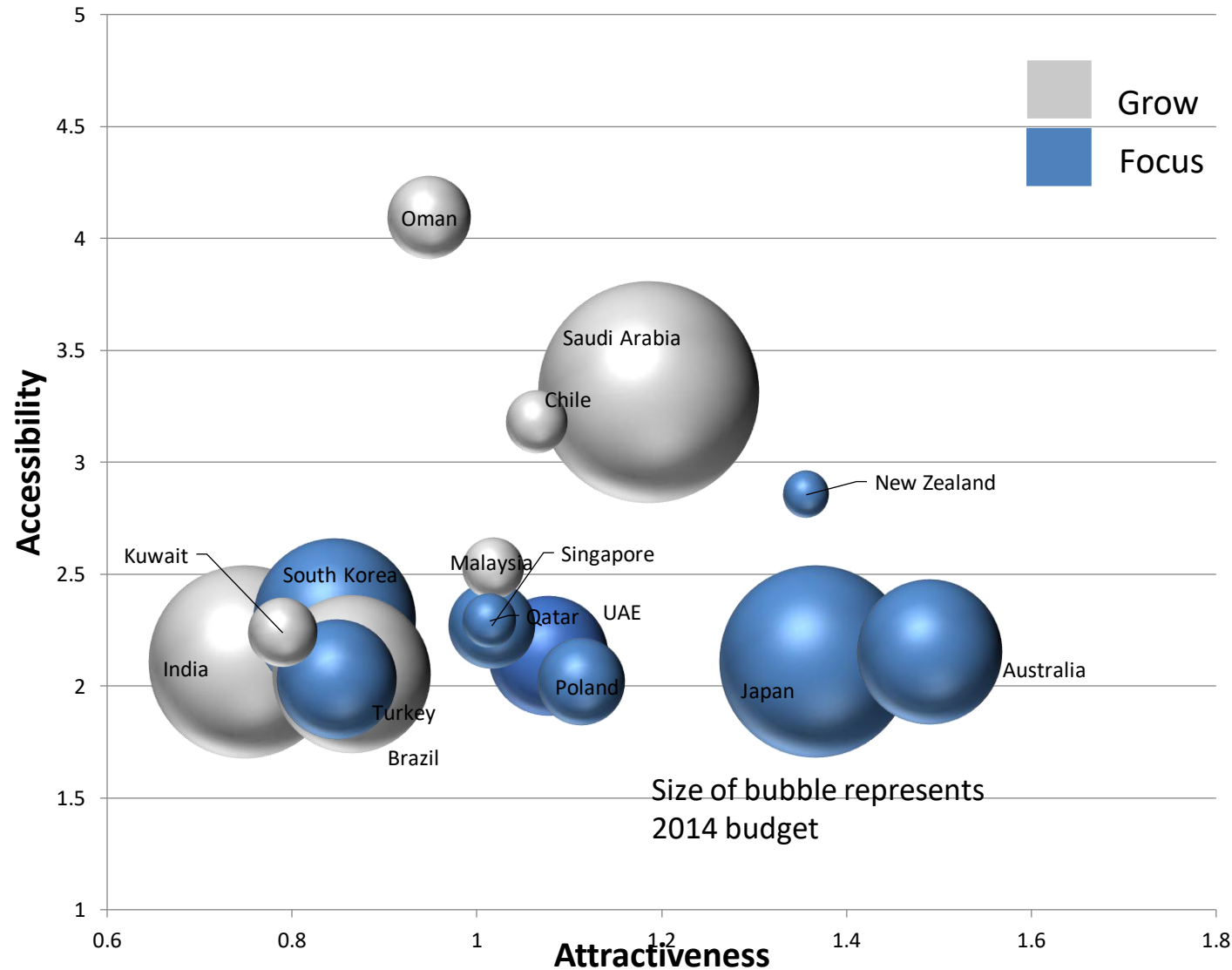
Criteria

Attractiveness (normalised)	Weighting
Defence budget 2014, (Source: DSE)	0.4
Forecast CAGR 15/16-18/19, DSE	0.3
Transparency International Overall Corruption Perception Index	0.15
Protection of IP	0.15
Accessibility (normalised)	
Level of acceptability under UK export controls	0.2
UK share of defence imports 2009-2014, DSE	0.5
Lack of indigenous competition	0.2
Low complexity of offset requirement	0.1
Ease of doing business	0.1
Derived from The World Bank: Ease of Doing Business Index: 2015	

Prioritising markets



16 'Grow' and 'Focus' countries



Typical country data

SAUDI ARABIA – GROW

Political Developments

- Recent succession of Salman bin Abdulaziz Al Saud and appointment of [son] Mohammed bin Salman as Minister for Defence, in order to focus on evolving economic and security threats
- Concerned over concurrency of US policy on Iran, Iranian / Russian assistance to Syrian regime and Yemen insurgency; all viewed as part of wider 'encircling' threat to GCC and KSA with a mixture of political, strategic, cultural and religious aspects
- Reconsidering current international relationships in light of evolving regional situation, with greater recent collaboration with GCC, Egypt and Turkey. Internally, seeking to reduce public subsidies and evolve internal ministry power to enable rapid, focussed responses to internal and external concerns.

Economic considerations

- Significant oil price fall has undermined economic calculations and budgeting for 2016, though progress over last 12 months has reduced predicted deficit to c.12%. Saudi Arabia retains considerable financial reserves and can sustain spending on key items, including defence, though it has suggested that external borrowing is being considered
- Revenue fall has spurred ongoing efforts to improve training, industrial development and greater high-value work for the indigenous population. Significant efforts to improve efficiency in oil, water and electricity industries are to be expected.

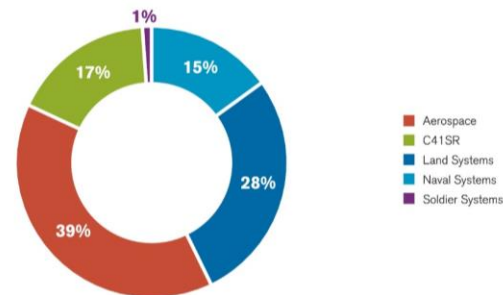
Defence Implications

- The innate, perceived, potential intimidating threat posed to Saudi Arabia by the possibility of strategic encirclement by Iranian-influenced factions and the possible risk that these might pose to its free access to commercial shipping routes (eg Iran and the Straits of Hormuz and Yemen and the Bab el Mandeb Straits, as well as the threat posed to the Suez Canal by increasing instability in the Sinai) plays a significant factor in determining military posture
- Given concerns over regional dynamics, defence and security spending will remain protected from cuts with 2016 spend at US\$87 billion. This continues the trend of high growth and is likely to remain generally unaffected by wider economic restructuring, though some projects may be subject to delay or adjustment in order to keep budgets under control
- Far greater focus on technology and skills transfer for future defence contracts, with greater degree of partnership and local work required. Potentially increased competition as Ministry of Defence considers widening its client base, though US unlikely to be dislodged from dominant position.

Illustrative Country Opportunities

End User	Programme Name	Programme Description	Anticipated Contract Award (years)	Size (£m)
Navy	Saudi Arabian Frigate	Required new frigate for the Eastern Fleet	1-2	1000s
Air Force	ABM	Theatre-level ABM system	1-2	1000s
Air Force	New Tactical Transports	New aircraft to replaced aging C-130s and provide improved capability	1-2	1000s
Navy	MAP	Airborne Surveillance Platform	1-2	1000s
Air Force	Long Range Air Surveillance Radar	Long range, land based air surveillance radar to replace the existing capability	1-2	100s
Navy	Saudi ASW Helo Opportunity	Naval helicopter to replace the AS 532SC Cougar	2-3	100s
Air Force	AWACs	Replaced for aging E-3Ds, though these were upgraded around 5 years ago	2-3	100s
Air Force	MALE UAS	Outstanding requirement for persistent ISR	2-4	100s
SANG	New Fire-Support	Additional artillery systems	3-4	100s
Army	New MBT	Replacement of M-60 / AMX vehicles	3-4	1000s
Army	New IFV	Replacement of older AMX-10s; possibly jointly with SANG	3-4	1000s

Figure 13: Saudi Arabian Sector Wise Expenditure Share (%), 2016–2026



Source: SDI analysis

ADS Priority Actions: GCC Countries (Kuwait, Oman, Qatar, Saudi Arabia, UAE)

- 1 To organise a briefing in the UK on defence sector opportunities in the GCC States.
- 2 To consider organising UK Pavilions at appropriate in-country trade shows. See other Gulf States' country profiles for major international events in the region. To explore with Global Offset and Countertrade Association (GOCA), how best to support its activities in the organising of major international offset conferences in the region.
- 3 To explore new opportunities as they arise and develop a strategy to engage with key industry defence organisations.
- 4 To support government to government activity undertaken by UKTI DSO and the UK MoD.
- 5 To encourage UK Ministers, Business Ambassadors and senior Government Officials to present the UK's defence sector capabilities to primes and Government Departments when on official visits and provide relevant background briefing.

Export and Trade Controls

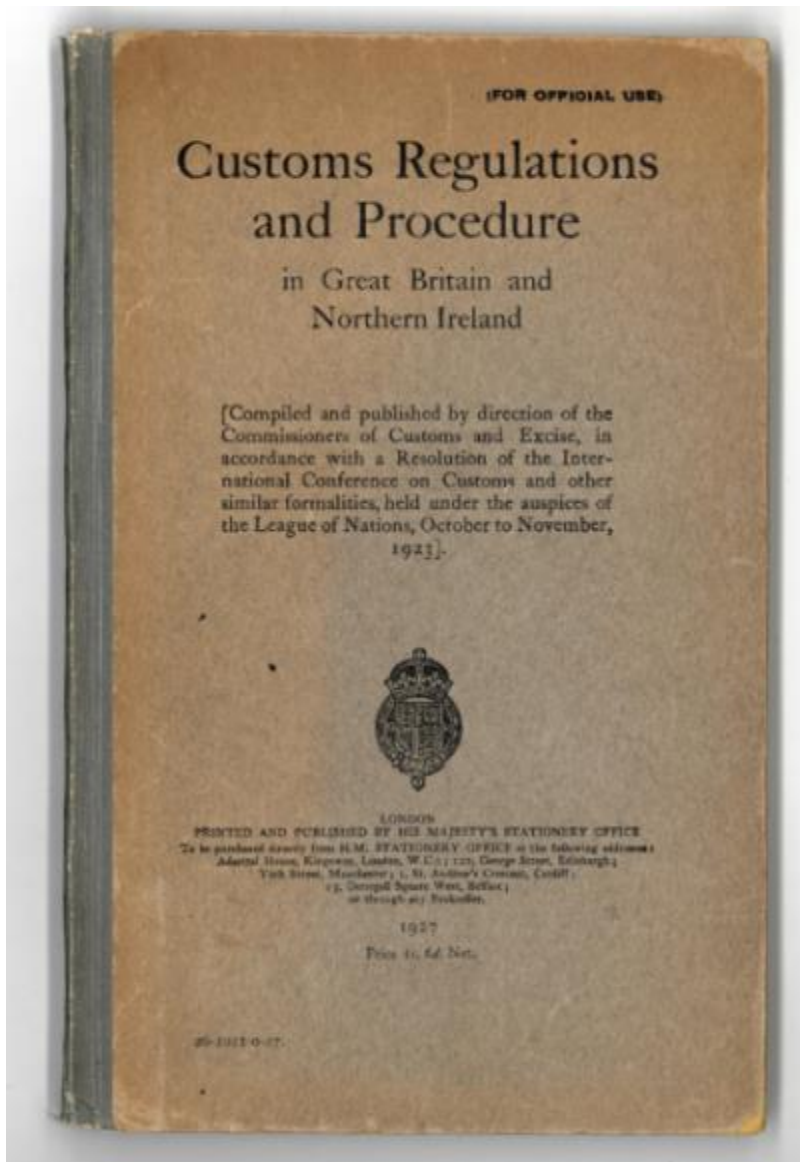


History of Export Controls

- Samuel Slater (*"Father of the American Industrial Revolution"* [Andrew Jackson] and *"Slater the Traitor"* [UK version!]))
- Born in Derbyshire, England, in 1768
- At the age of 10, he got a job at a cotton mill, and, by age 21, he had gained a thorough knowledge of the organization and practice of cotton spinning
- He learned of the American interest in developing similar machines, and he was also aware of British law against exporting the designs. He, therefore, memorized as much as he could
- He emigrated secretly (dressed as a woman) to the US in 1789
- Took with him in his head the technical knowledge for how to build and operate textile machinery
- Thus, the whole of US global industrial and economic strength and pre-eminence is based on an export control violation!
- Now you know why they are so anal about it, as they have been the historical beneficiaries of a deliberate and pre-meditated export control violation, and a "deemed export" one at that!!

History of Export Controls

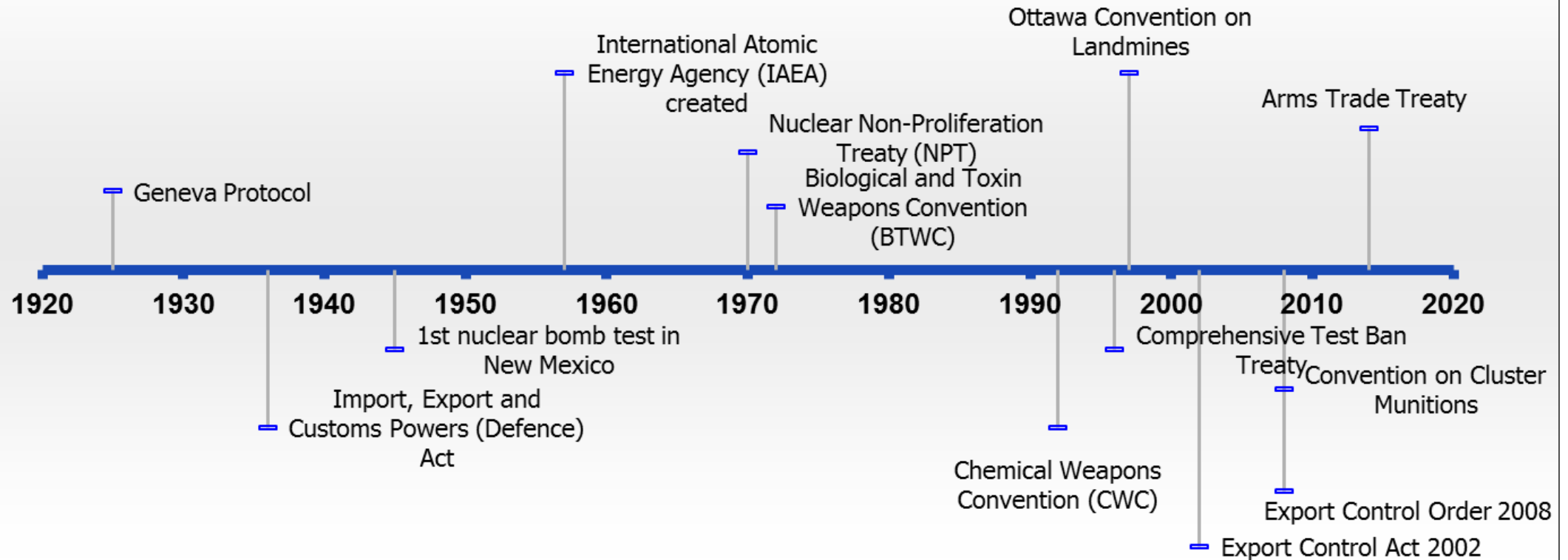




History of Export Controls

History of controls

History of Export Control



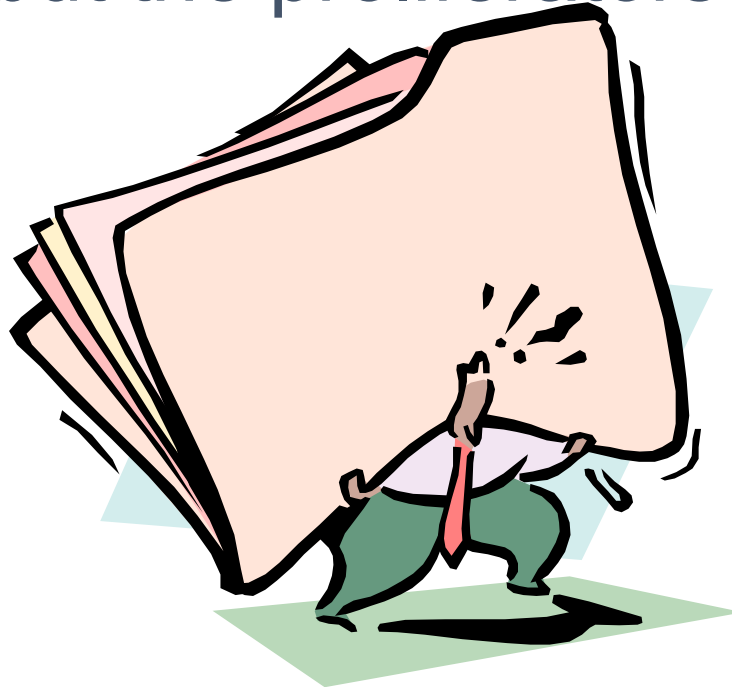
Diversity of Systems

- National export control systems have developed egocentrically with little (if any) relationship to those of other nations (due to diversity of foreign policies);
- Almost no two export control systems anywhere in the World are totally 100% identical in terms of policies, systems and procedures;
- This diversity in export control systems means that proliferation cannot be prevented, but only delayed (at best);
- This has created a fertile environment for proliferators, a bureaucratic nightmare for legitimate Industry, and a lack of confidence in each others' systems.

Perceived Need for Controls

- Especially in “trafficking and brokering”, licensed production overseas and end-use (eg the risk of diversion)
- US already has fully extraterritorial controls
- UK and others are increasingly introducing trade controls
- This arbitrary introduction of extraterritorial controls will create enormous potential for future jurisdictional conflicts between nations

Result: Legitimate Industry (especially multinational companies) is facing increased bureaucracy, and projects (especially multinational collaborative ones) are becoming increasingly bureaucratically burdensome and difficult...but the proliferators still flourish!

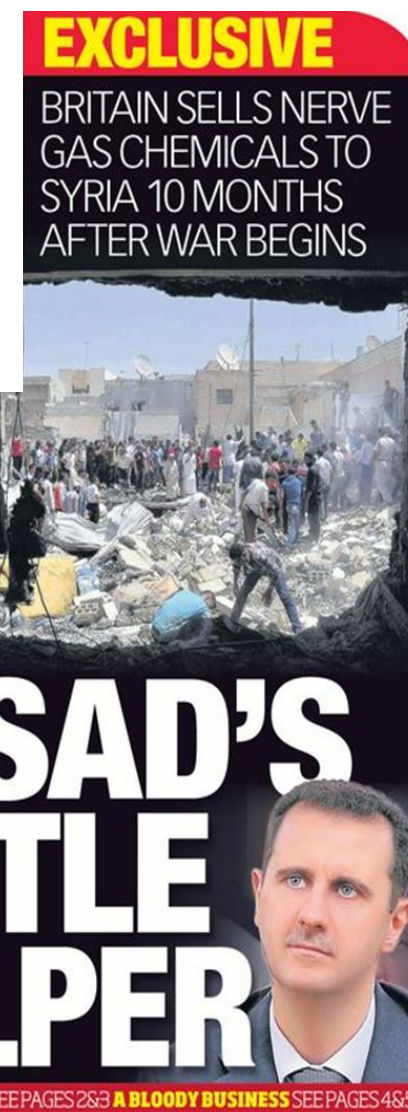


Reduction in Bureaucracy

- “*Business has gone global, whilst the political world has remained fundamentally based on the concept of the nation state*”
(Miss Rhian Chilcott, CBI);
- An effective Arms Trade Treaty (ATT) should benefit both customers and suppliers within global supply chains, as well in joint venture partnerships, making their lives easier and simpler;
- However, the first significant test case in the ATT-era, is defence sales to Saudi Arabia.

Revealed: UK Government let British company export nerve gas chemicals to Syria

UK accused of 'breath-taking laxity' over export licence for potassium fluoride and sodium fluoride



UK Situation

- Following the “Scott Report” in 1996, the UK radically overhauled the UK’s export controls system, and the Export Control Act 2002 was drafted;
- With its balance of Open Licensing and Standard Licensing, the UK had one of the most effective systems in the World;
- Since c.2007, with reducing resources, yet increasing workload, it has been struggling to cope in an efficient manner.

Scott Report (1996), K3.1

- The Scott Report recommended that the new legislation should include "*provision for government to prescribe procedures whereunder applications for export licences will be dealt with expeditiously and with fairness to exporters*". A number of possible features to be prescribed were set out, including the form of application, time limits for decision making, licensing by default, written reasons for refusal and an appeal procedure.

Challenges

- Exportability assessment – clarity on policy and guidance
- Requests for further information – are they really ALL warranted?
- Lengths of time to get a licence
- Dissatisfied Customers
- Differences of interpretation across allies
- OIEL Renewals
- HMRC and Freight Forwarders

The Two Aspects of Export Controls

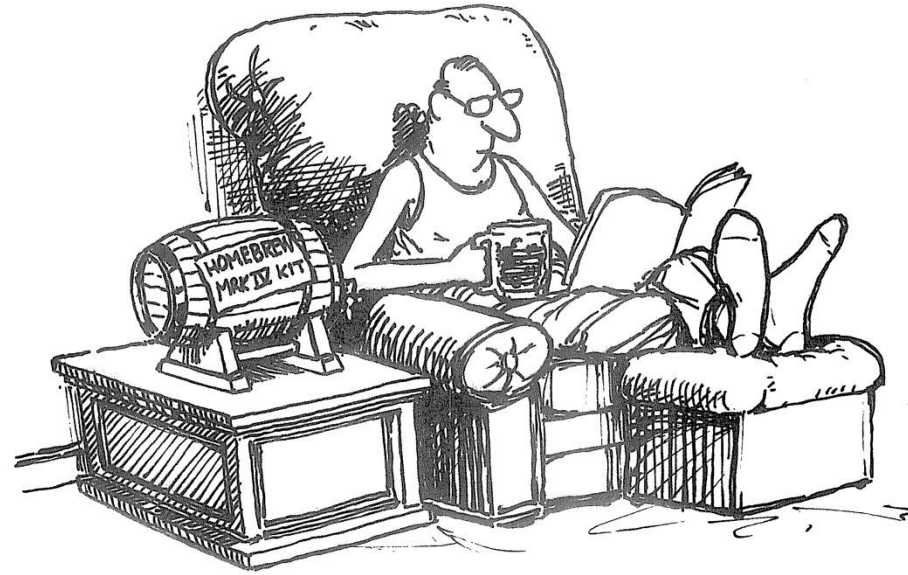
- The Overall Strategic Policy: what should be allowed to be supplied and to whom - this is what predominantly concerns Politicians, NGOs and the Media
- The Practical Implementation of the Policy: when is an export licence needed and how does someone go about trying to get and use one - this is what predominantly concerns Industry

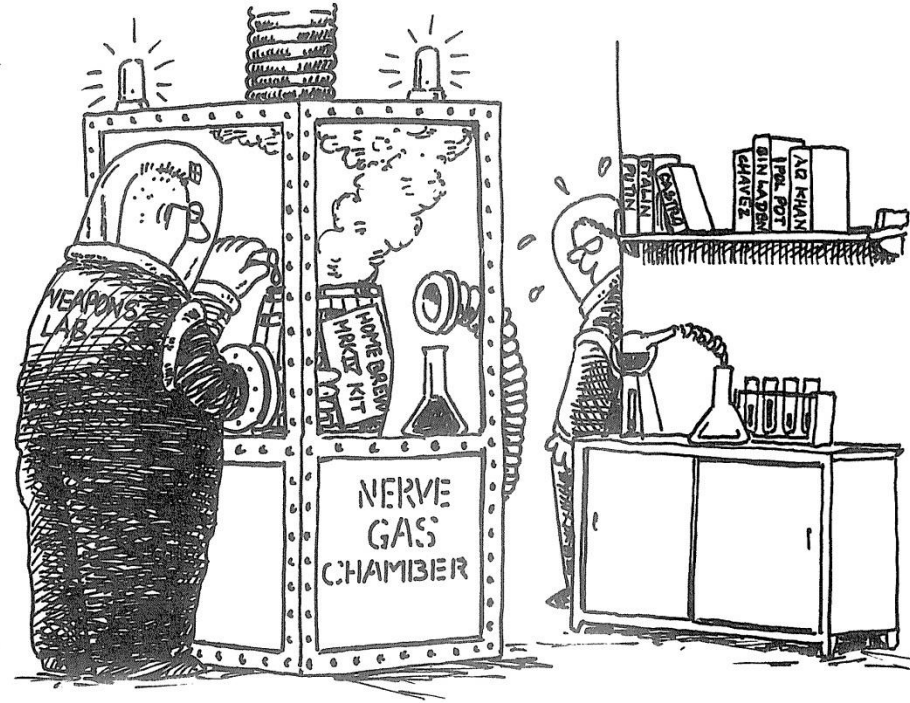
What is Controlled?

- Military List
- Dual Use List
- End Use

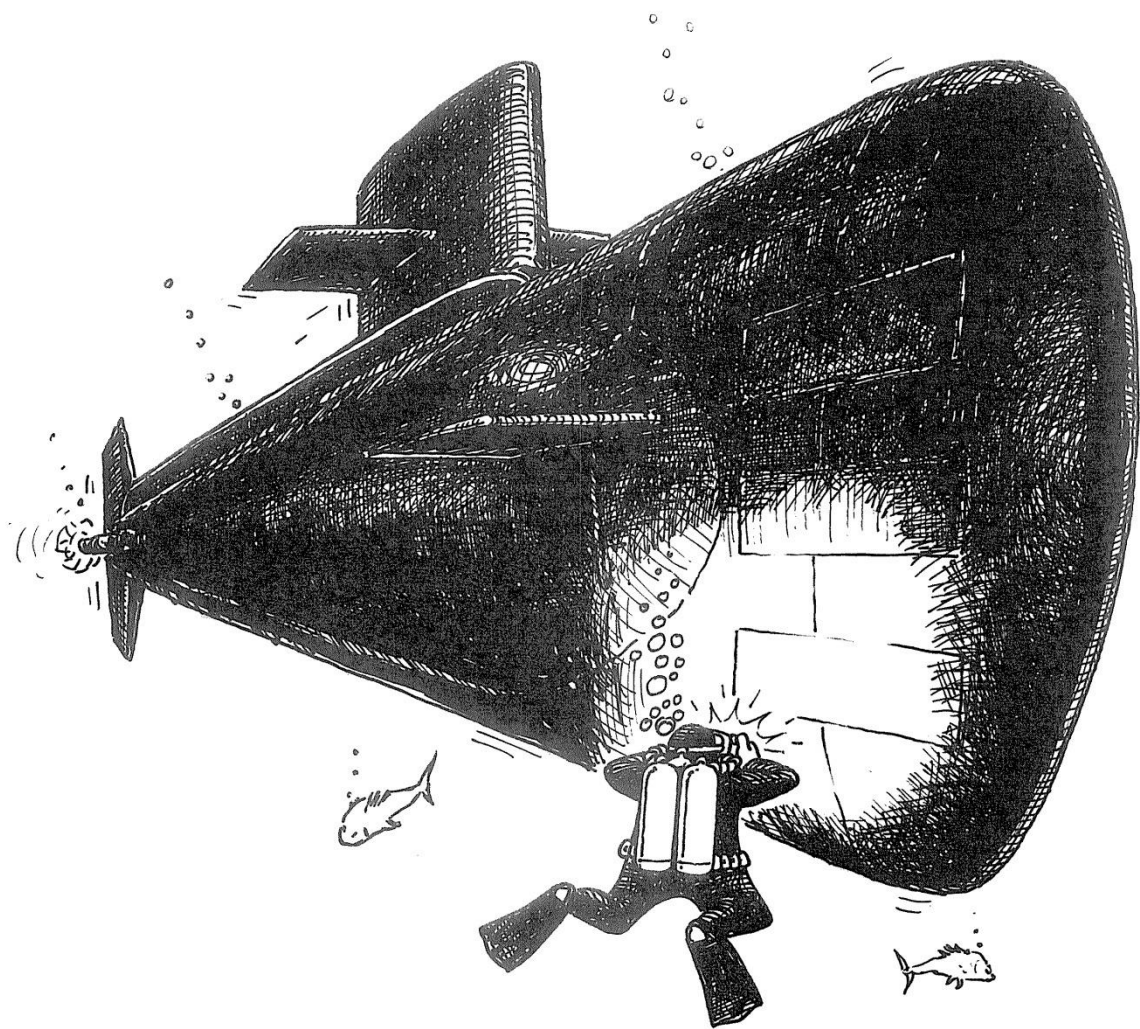
“Why do I need a Licence?”

- “But I don’t deal with arms!”
- “But why are ***** licensable?”
- “***** Ltd down the road don’t apply for licences, so why should I?”
- “But we’ve been exporting for over 30 years and never applied for any licences before – why do we need them now?”



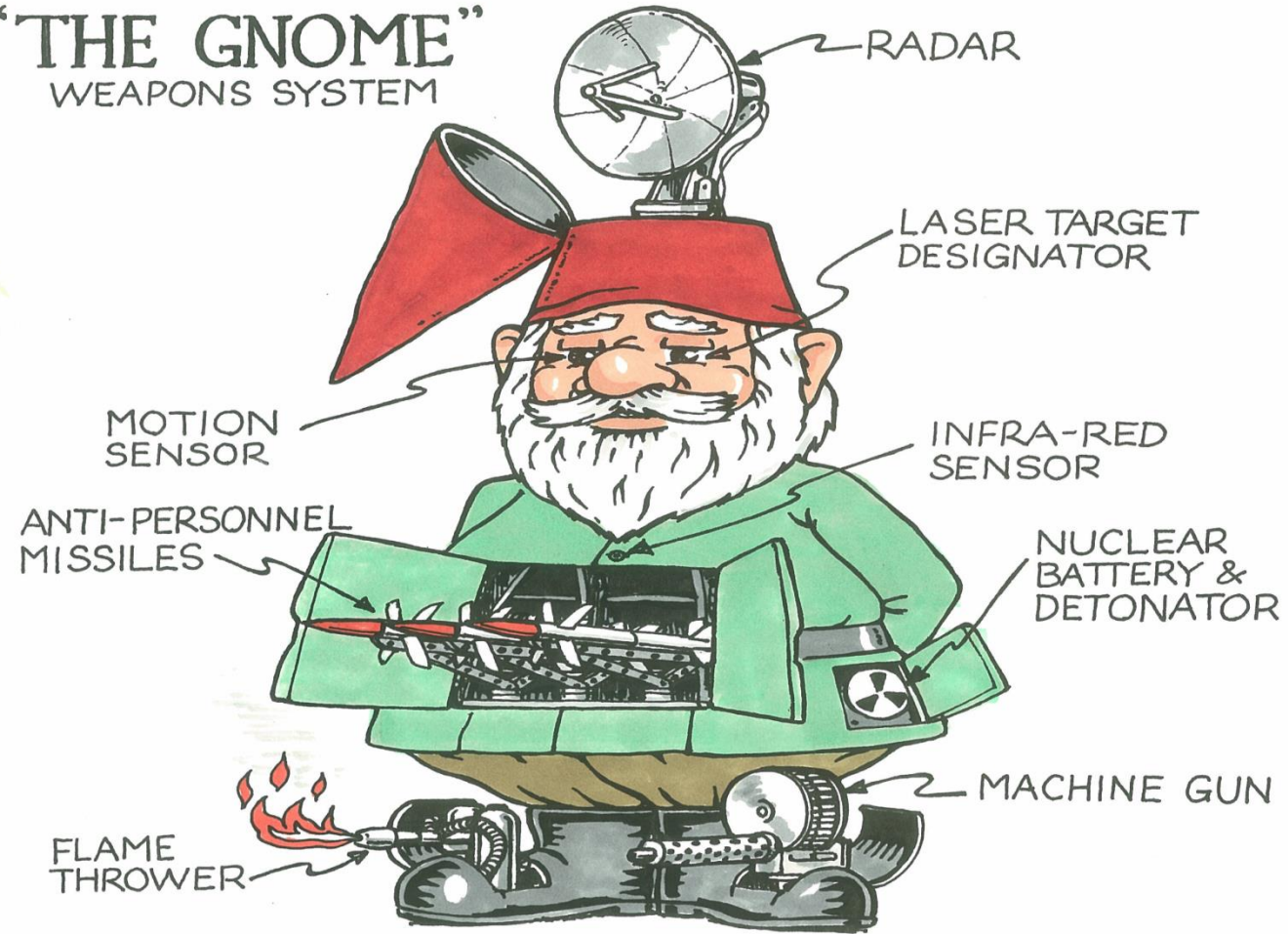








"THE GNOME" WEAPONS SYSTEM



Lists

- **Military List (Export Control Order 2008 Schedule 2)**
- **Dual-Use List (EC Regulation 428/2009)**
- EU Human Rights List at EC Regulation 1236/2005
- UK dual-use List (Export Control Order Schedule 3)
- Trade Control Lists
- Annex IV lists
- ...
- ...
- ...ZZZZ



ML1 and ML2 – All rifled and smooth bore ‘weapons’

ML3 - Ammunition and components for ML1, ML2 and ML12

ML4 - Bombs, grenades, rockets, missiles

ML5 - Devices for fire control and countermeasure equipment

ML6 - Ground vehicles

ML7 and ML8 - Explosives and chemicals

ML9 – Military and militarised Vessels,

ML10 - Aircraft, unmanned airborne vehicles, aero-engines

ML11 – Guidance/navigation equipment, electronic equipment

ML12 - High velocity kinetic energy weapon systems

ML13 - Armour plate, body armour, military helmets

ML14 - Simulators and training equipment

ML15 - Imaging equipment

ML16 - Forging, castings and unfinished products

ML17 - Miscellaneous goods including diving equipment, ferries, containers

ML18 - Production equipment

ML19 - Directed weapon systems

ML21 & 22 Software and Technology

PL5017 - Equipment and test models

PL5001 - Paramilitary goods



What does it take to be Military?



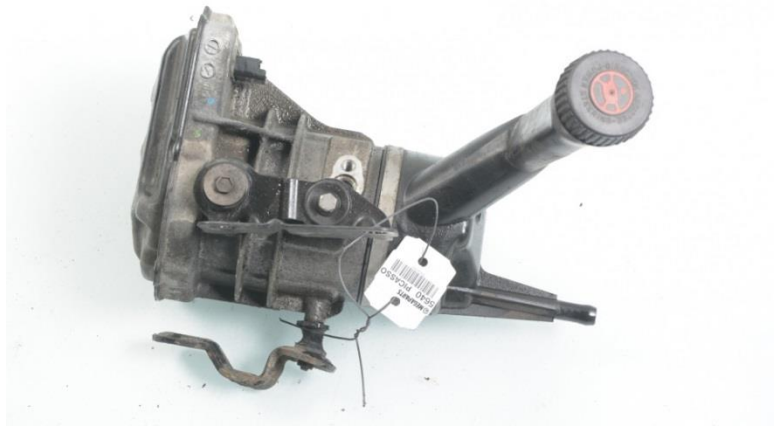
Military?

- Often difficult to tell what is Military



The **DUKW** (colloquially known as **Duck**) is a six-wheel-drive amphibious truck that was designed by a partnership of Sparkman & Stephens and General Motors Corporation (GMC) during World War II for military purposes involving the transporting of goods and troops over land and water and for use approaching and crossing beaches in amphibious attacks.

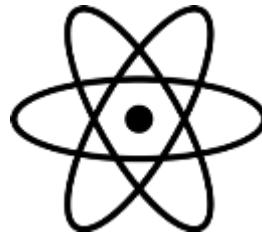




Dual-Use Categories

Categories:

- 0 – Nuclear Materials, Facilities & Equipment
- 1 – Special Materials and Related Equipment
- 2 – Materials Processing
- 3 – Electronics
- 4 – Computers
- 5 – Telecommunications & Information Security
- 6 – Sensors & Lasers
- 7 – Navigation & Avionics
- 8 – Marine
- 9 – Aerospace & Propulsion



Dual Use?



Dual Use?



- Sport Cars
- Sunglasses
- Uranium Enrichment Centrifuge
- 1A002/1C010/1C210



Dual Use Control Language

- Controls headed with an '**as follows**' means that there are a series of parameters to be considered.
- Controls linked with an '**all**' or '**both**' mean there will be more than one parameter that needs to be met, usually linked with an '**and**'.
- Controls linked with an '**or**' mean there are options, usually meaning at least parameter need to be met.

Dual-Use?

Can depend on what you are made of:



15mm PVC valve

Vs



15mm PFP valve

How to interpret control text

Valves and components, as follows:

- 2B350g
 - 1. Valves, having **both** of the following:
 - a. A 'nominal size' greater than 10 mm (3/8"); **and**
 - b. All surfaces that come in direct contact with the chemical(s) being produced, processed, or contained are made from '**corrosion resistant materials**';
 - 2....

Technical Notes:

- 1. For the purposes of 2B350.g., 'corrosion resistant materials' means any of the following materials:
 - Nickel/alloys, nickel chromium alloys, glass, tantalum, titanium;
 - **c. Fluoropolymers (polymeric or elastomeric materials with more than 35% fluorine by weight);**

Dual-Use?

Can depend on what you are made of:



NLR

Vs



Dual Use
2B350g1

The UK's National Arms Export Licensing Criteria

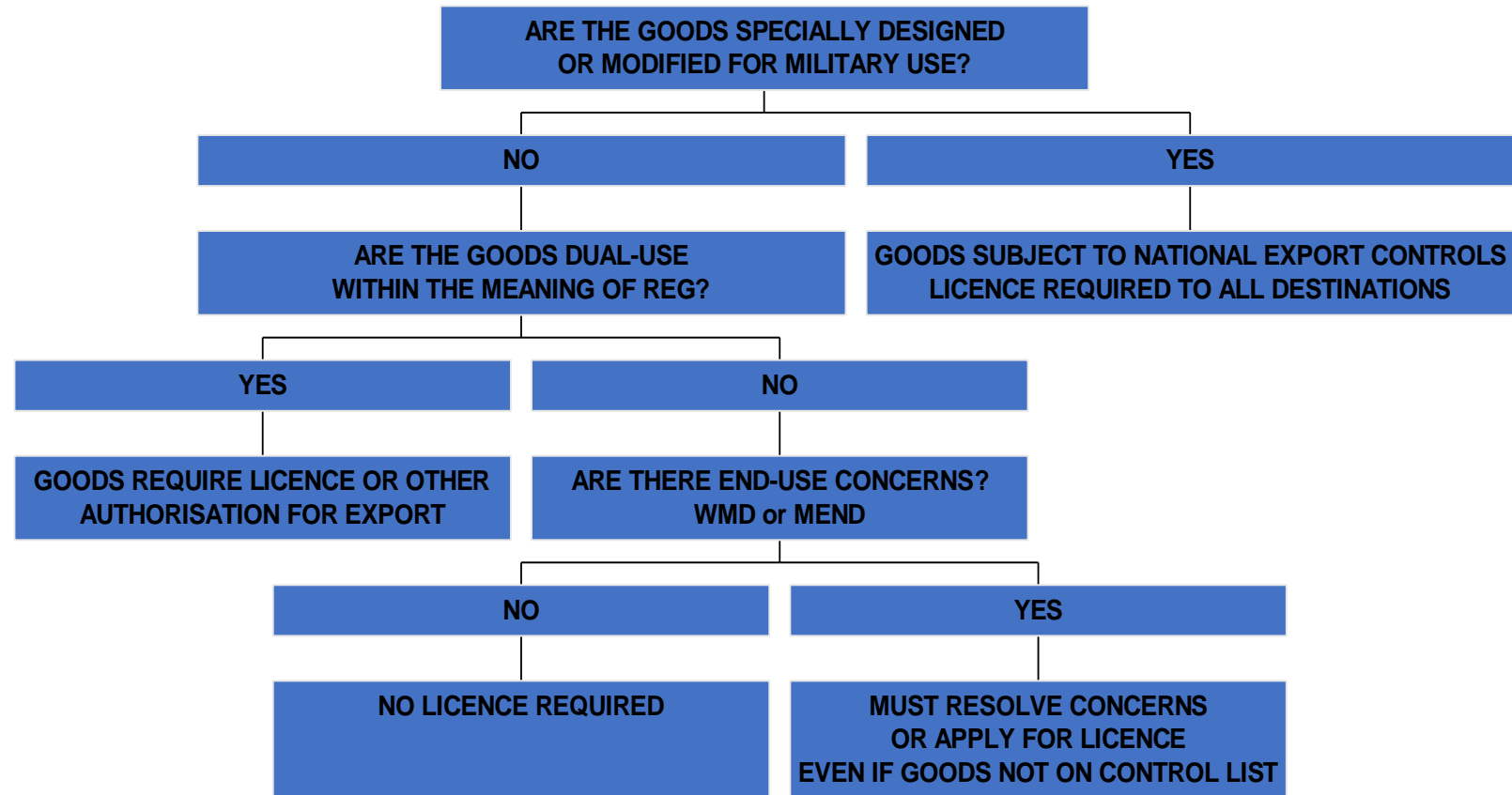
1. UK's International Commitments
2. Internal Repression
3. Internal Situation of recipient country
4. Regional Stability
5. National Security of UK and allies
6. Behaviour of recipient country
7. Diversion
8. Economic Sustainability

Industry's Role in Export Controls

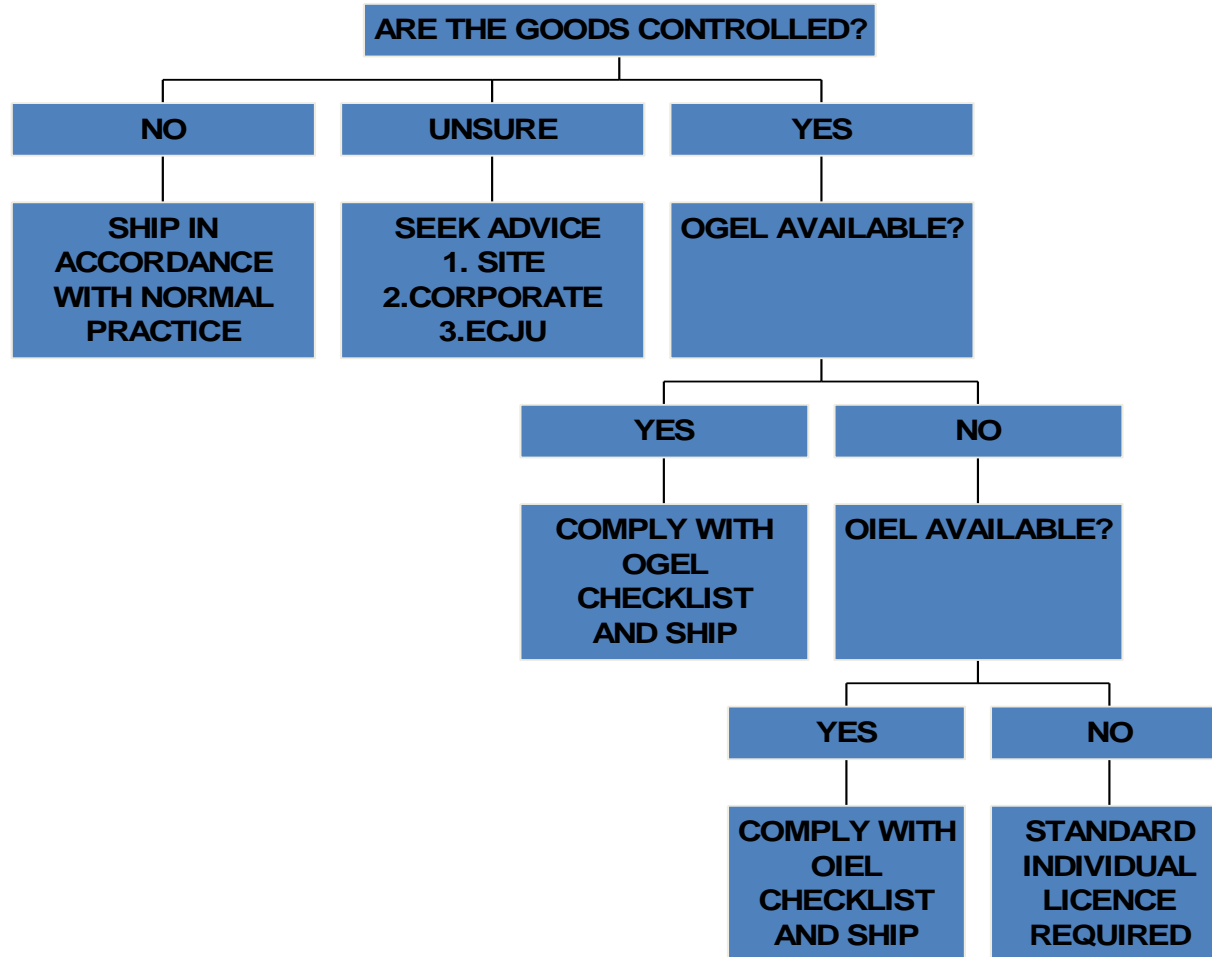
- Prior to ELA

- Know whether the goods are export licensable or not
- Be aware of which type of export licence to use
- Be aware of any “suspicious” approaches
- Be aware of HMG's Commitments
- Liaise with HMG

THE CONTROL STATUS



THE LICENSING DECISION



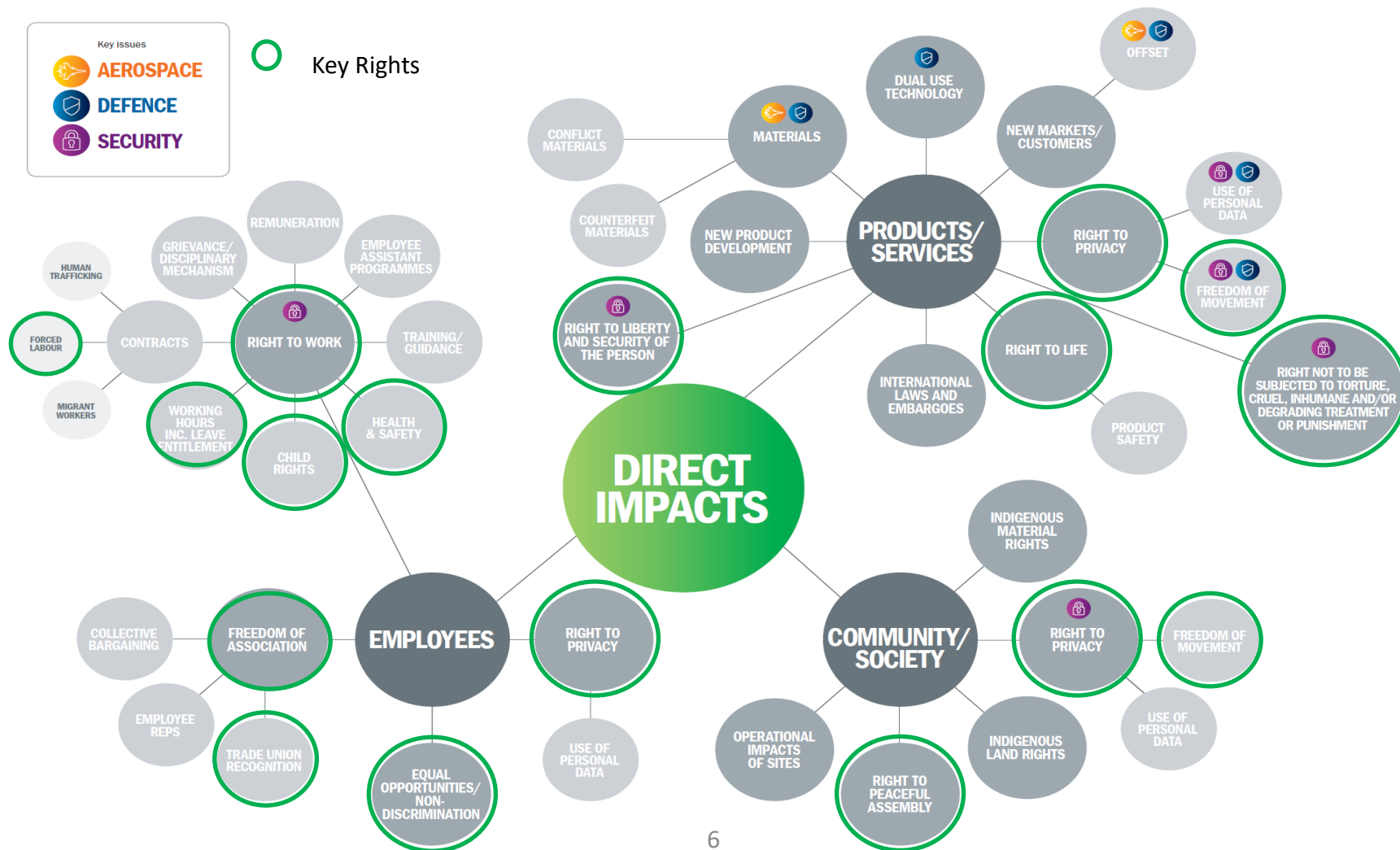
Business Ethics

Strategies for navigating corporate social responsibility in global supply chains

- The fundamental need to undertake effective due diligence
- Increasingly this has to be in some detail
- How does a responsible company undertake effective due diligence during a global pandemic?
- Human Rights is increasingly in the spotlight
- The use of “Forced Labour” (ie modern day slavery) is becoming a particular focus
- Many other issues as well (eg conflict minerals, tax evasion, bribery & corruption, data protection, competition law, etc, etc)



 Key Rights



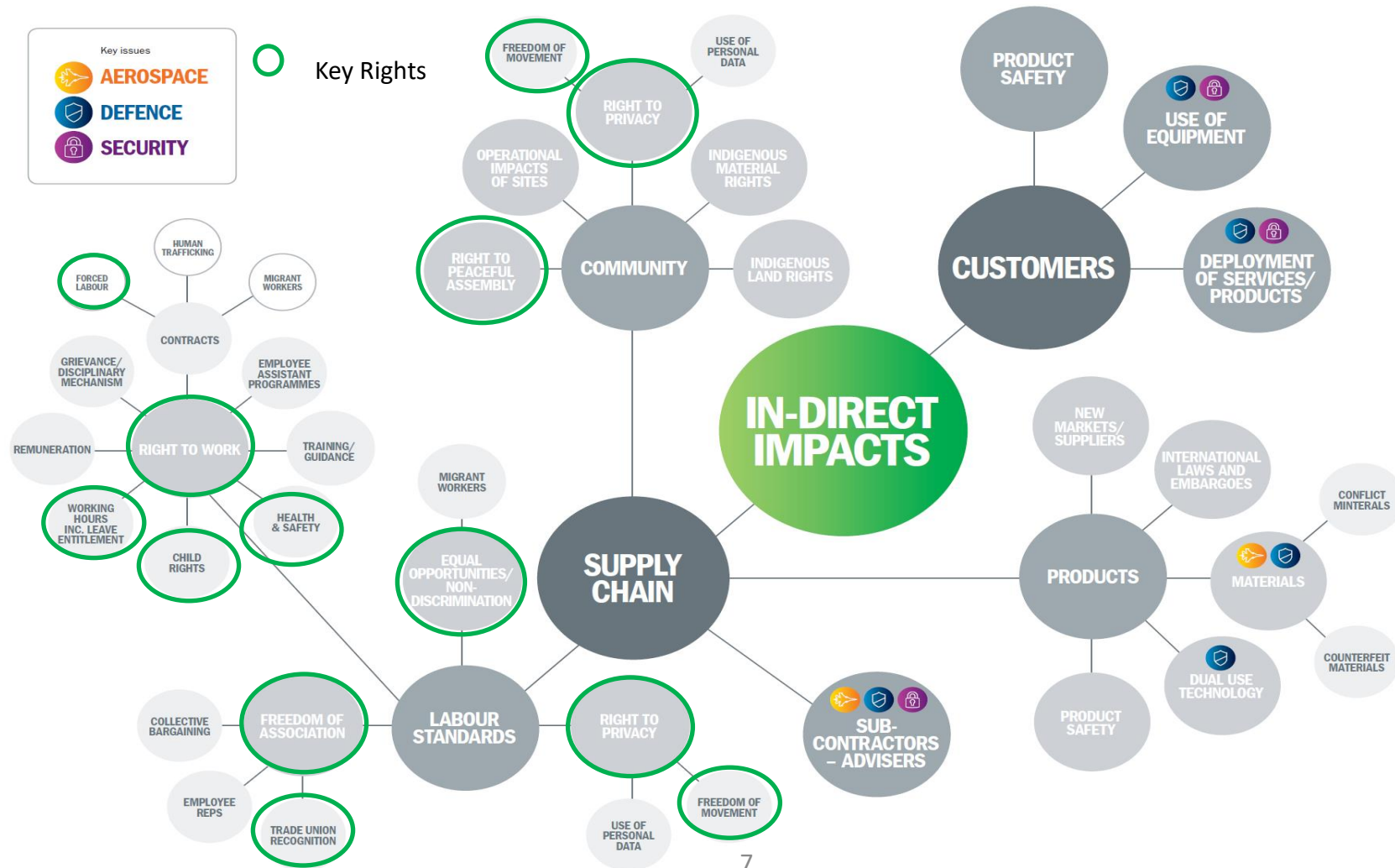
Key issues

 **AEROSPACE**

 **DEFENCE**

 **SECURITY**

○ Key Rights



UN Global Compact 10 Principles

Human rights

- **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
- **Principle 2:** make sure that they are not complicit in human rights abuses.

Labour standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- **Principle 4: the elimination of all forms of forced and compulsory labour;**
- **Principle 5: the effective abolition of child labour; and**
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Our Human Rights Public Statements

COMPANY	PUBLIC STATEMENTS ON HUMAN RIGHTS
Lockheed Martin	<p>Efforts to Eradicate Human Trafficking: We expect our suppliers to:</p> <ul style="list-style-type: none"> • Comply with all applicable laws and regulations in their country of doing business • Treat people with respect and dignity, promote equal opportunity and help create an inclusive & ethical culture. • Not engage in the use of forced, bonded, indentured labor, involuntary prison labor, slavery, or trafficking of persons • Ensure that child labor is not used in the performance of work. <p>References policies on Good Corporate Citizenship, Combatting Trafficking in Persons (FAR 52.222-50), Code of Conduct and compliance with UK Modern Slavery Act 2015 and CA-TISCA 2010</p>
BAE Systems	<p>Our company is committed to respect human rights wherever we operate, within our sphere of influence. How we act on this commitment is outlined in our global policies and processes, including our: Responsible Trading Principles, Code of Conduct, People Policy, Product Trading Policy, Pursuit of Export Opportunities Policy, Health & Safety Policy, Supplier Management Process, Mergers, Acquisitions & Disposals Process</p> <p>Our procurement teams assess suppliers on a range of ethical, labour, safety, human rights and environmental standards during selection and ongoing assurance. For major suppliers, we conduct extensive due diligence</p>
Thales	<p>Thales joined the United Nations Global Compact in 2003 and adopted its ten principles, in particular those related of human rights and labour practices which are based on the Universal Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. These principles are implemented through a series of agreements and best practice guidelines to ensure that our business activities are conducted in a responsible way</p>
Rolls-Royce	<p>We recognise our responsibility to respect human rights. We are committed to protecting and preserving the rights of our employees, those employed in our supply chain, and those affected by our operations and references terms including child, forced labour, trafficking, slavery, inclusion, discrimination, diversity, immigration</p> <p>RR Human Rights Policy references UK Modern Slavery Act, CA-TISCA and RR Code of Conduct & Supplier Code</p>
Airbus	<p>Airbus supports the principles of the UN Global Compact and IFBEC's Global Principles of Business Ethics which set a benchmark for high ethical standards globally. Airbus suppliers must comply with all applicable laws and regulations of the countries in which operations are managed or services provided and be conducted in a manner compatible with the Airbus Supplier Code of Conduct</p>

What do Other Sectors Say About Human Rights?

COMPANY	PUBLIC STATEMENTS ON HUMAN RIGHTS
L'Oreal	<p>In the framework of the United Nations Global Compact, L'Oréal's is committed to supporting and implementing, within its sphere of influence, the ten fundamental principles relating to human rights, labor standards, the environment and corruption.</p> <p>We have a responsibility to respect internationally recognized human rights per our Policy and take steps to address any adverse impacts through our own operations or our business relationships. We also play our role as a responsible corporate citizen.</p> <p>- L'ORÉAL Human Rights Policy</p>
GSK	<p>We support the UN Guiding Principles on Business and Human Rights. We are committed to upholding the Universal Declaration of Human Rights and embrace the core labour standards set out by the International Labour Organisation. GSK is also a signatory to the UN Global Compact and supports the transparency requirements of the UK's Modern Slavery Act and similar legislation</p> <p>Our contracts with suppliers, business partners and collaborators contain a labour rights clause which is based on the International Labour Organization's conventions and the UN's Universal Declaration of Human Rights.</p>
Balfour Beatty	<p>We promote all the principles set out in the United Nations Universal Declaration of Human Rights and the UN Global Compact as well as the International Labour Organisation's standards regarding child labour and minimum age.</p> <p>We do not tolerate forced, debt bonded, indentured labour practices, or human trafficking. In the UK, we expect every party who we have dealings with to adhere to the principles of the Modern Slavery Act 2015, as we do ourselves</p>
Clarks	<p>We require our business partners to abide by all applicable laws and regulations, including those regarding human rights, workplace safety and worker compensation and treatment. We do not use child labour or forced labour in any of our operations. No children under 15 years, or the minimum school leaving age of the country where it is higher, are to be employed by Clarks or its business partners. No form of forced or compulsory labour or modern slavery is tolerated by Clarks within our own operations or those of our business partners</p>
P&G	<p>We support the U.N. Guiding Principles for Business and Human Rights which respects and honors the principles of internationally recognized human rights consisting of: 1) Those rights expressed in the International Bill of Human Rights (i.e., Universal Declaration of Human Rights and the International Covenants on Economic, Social and Cultural Rights and Civil & Political Rights.) and; 2) The principles concerning fundamental rights as set out in the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work</p>

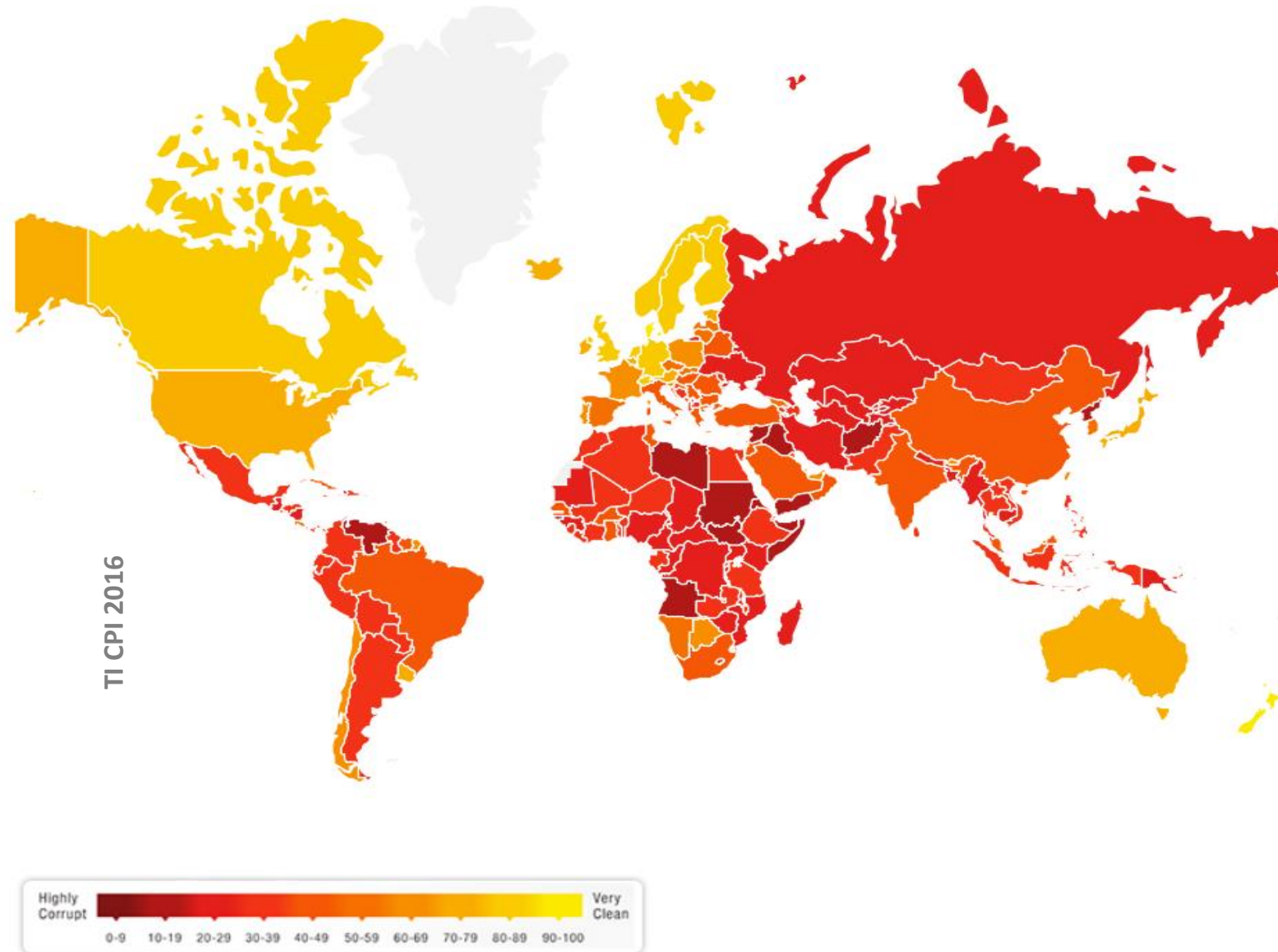
Corruption, not just brown envelopes



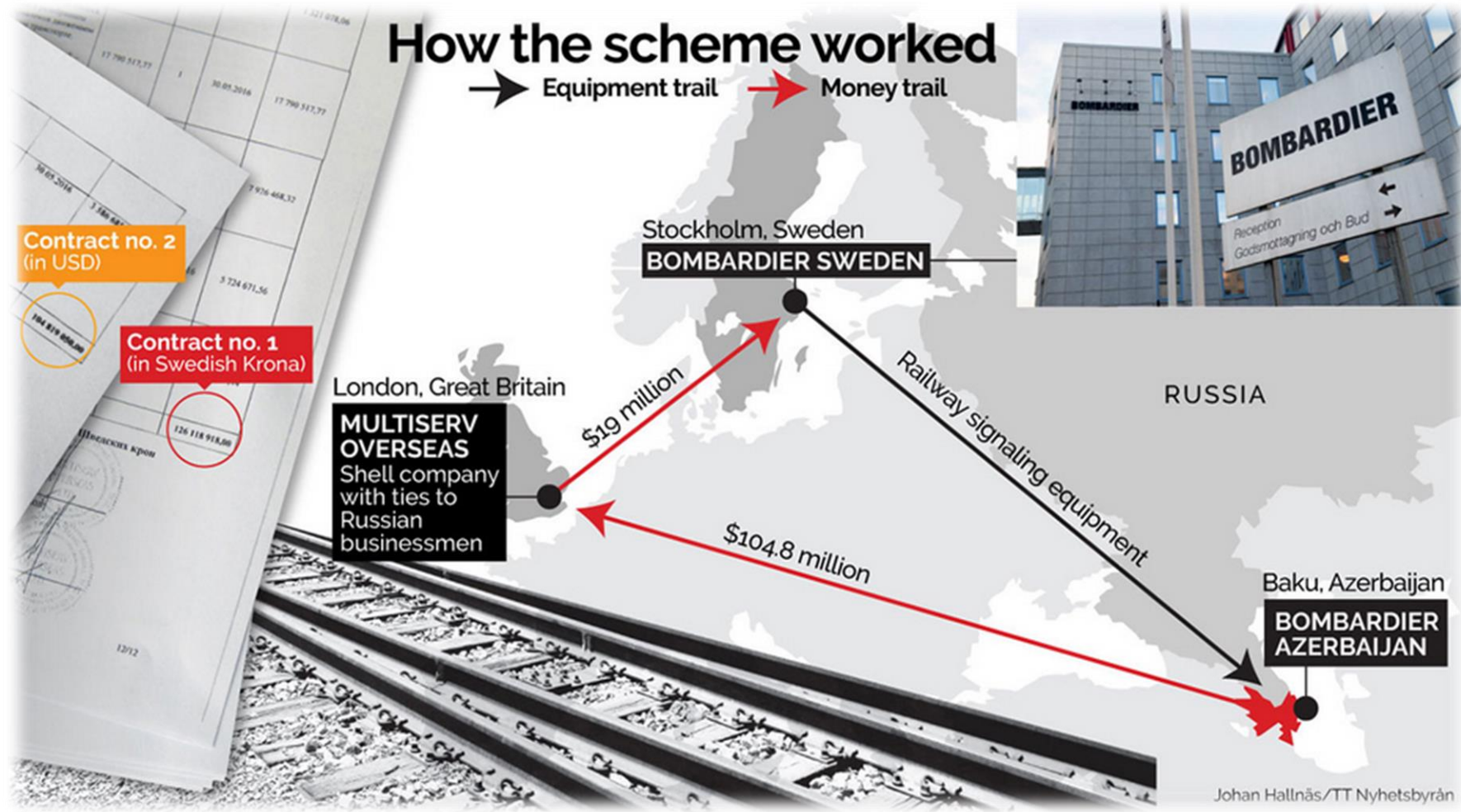
Often using internet and likely to involve money laundering



Market risk



Bombardier – how was it done?

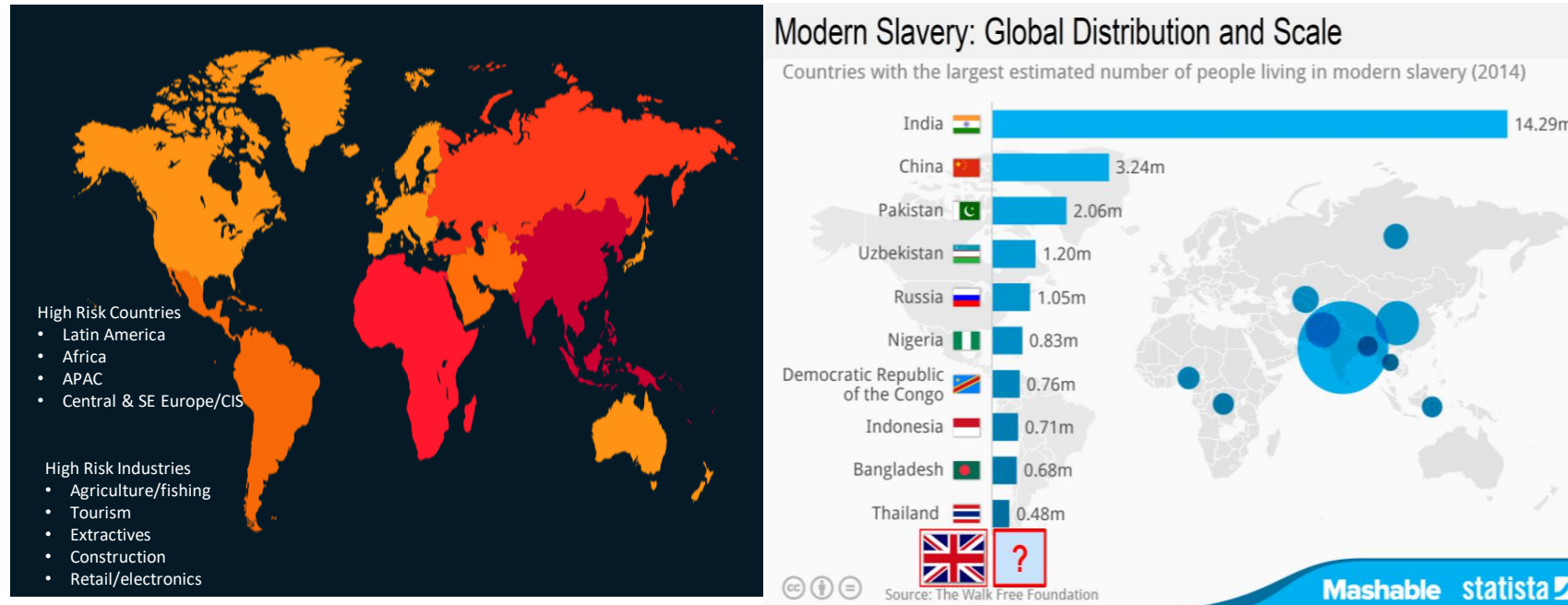


So what's changed of late?

- Public attitudes to ethics worldwide - communication is global
- Impact of media – e.g. Panama Papers - corruption no longer secret – not if but when! *“it’s too late when the allegation hits the media!”*
- New abc laws with corporate liability offences combined with greater international enforcement cooperation
- Companies really need to know with whom they are doing business – (so do your bankers!) – proper due diligence
- Higher demands for evidence of anti-bribery “adequate procedures to prevent” - new ISO 37001 standard – Singapore, Peru, Walmart, Microsoft, Alstom and others
- Cost of compliance - fraction of cost of loss of IP, data or a bribery allegation
- Underpins supply chain sustainability



Human Rights – where does it happen?



ILO Estimate 21M+ victims globally (\$150Bn); 90% in Private Business, 13,000 in UK

Red Flags relating to supplier workforce

Key if suppliers or customers are in high risk countries

- **Restricted movement:** victims kept against their will & unable to escape
- **Overtime:** little/no breaks just to make minimum wage
- **Recruitment fees/loans:** charged to work; high living costs deducted from wages
- **Documents:** withheld by employers so workers cannot leave
- **Payment:** in cash vs a documented system showing rates, hours worked, taxes etc
- **Workers Subcontracted:** throughout supply chain, increased risk of exploitation
- **No complaints procedure:** workers unable to raise grievances/protect their rights
- **Living conditions:** living together on site or in poor employer accommodation
- **Slave behaviour:** fearful of retaliation, prevented from speaking, limited possessions

Don't rely on audits; suppliers can hide evidence of slavery

What should you do?

Ensure awareness & training in your organisation & supply chain on Human Rights issues

Conduct a risk assessment: ask questions about your organisation, suppliers & clients:

- Where do we procure our office supplies and equipment?
- How extensive is our supply chain - for everything we purchase?
- Where do our suppliers source their products?
- Where are the products manufactured and with what raw materials?
- In what types of industries do our clients do business and where?
- How do we employ and recruit local suppliers like cleaning staff. If through an agency, how are they recruited and treated?

The less information a supplier divulges about itself, the greater the risk of slavery

Offset-Type Mechanisms

The Importance of Exports to UK Industry

- It now represents a very considerable proportion of UK Industrial Production in some sectors
- It benefits the national economy
- It reduces equipment costs to HMG
- It directly sustains many thousands of jobs
- It helps to maintain the viability of the UK's indigenous manufacturing and technological capabilities

The “downside” of exporting - Offset

- Offset is now a key factor to success in many of the most important export markets around the World
- Many people have very negative views on Offset
- Most companies have inadequate resources dedicated to Offset

The Importance of Offset

- Offset is now a critical success factor in the highly competitive Worldwide defence export market
- Offset is now rapidly becoming **THE** key to winning future business
- The importance of Offset now transcends the traditional technical ones in the procurement decision making process
- Offset is now germane to the whole business of exporting

Offset - The Dilemma

- UK companies increasingly need to export to stay in business and to ensure the commercial health of the Industry as they cannot do so merely by securing work from UK...BUT
- Also increasingly, and fundamentally, export business is linked to having to enter into offset obligations with the customer nations

The Impact of Offset

- UK prime contractors are increasingly struggling to cope with the offset demands that they face as a result of winning the export contracts that they need in order to stay in business
- UK SMEs are effectively being killed off as their UK primes “give away” their work (and their own) to satisfy their offset obligations

Offset and SMEs

- Not just an issue for prime contractors
- Offset thresholds coming down
- Primes are cascading their obligations
- Offset opens up access to potential business opportunities to companies involved in other sectors
- Primes can offer much assistance (including financial)
- Offset obligors are “venture capitalists who do not want any of the business”

The Impact on SMEs

- **Negative** UK Prime Contractors are rationalising and consolidating their supply chains, whilst, at the same time, having to seek out suppliers from overseas nations where they have Offset obligations
- **Positive** However, overseas Prime Contractors are also rationalising their supply chains...and some of these have signed up to HMG policies, so they are seeking UK suppliers

It is not just a Defence Industry issue

- It began in the early-1970s in the Aerospace Sector;
- Some nations have started to extend it beyond aerospace and defence to other sectors;
- It can be used by aware companies in a whole range of other sectors (eg construction, education, water, road safety, etc, etc) who want to expand their international activities;
- The “Reverse Piggy-Back” theory.

The Future - Co-ordination

- By working together HMG and Industry can reduce the negative impact resulting from UK firms' offset obligations and the placing of commercial and government contracts overseas, and seek maximum benefit from them.
- This could be achieved by establishing a closer liaison between Industry and HMG in general, possibly resulting in the creation of a “National Offset Strategy”, involving all relevant HMG and Industry bodies

Finally - Untapped Resources

- A huge amount of bilateral trade and investment takes place between the UK and overseas - how can UK Industry “tap” into this to help to satisfy its Offset obligations?
- ADS has lobbied HMG for more information on bilateral trade/investment, and been told that none is available – why?

Summary: What we would like to see

- The creation of a “National Offset Strategy”;
- Greater awareness, networking and liaison: within companies; between companies; and between Government and Industry;
- The creation of some form of centralised database within HMG on bilateral trade and investment.

What I have covered today

- ADS Group and its place in the UK's Industrial Landscape
- How ADS tries to assist its Member Companies to export
- The help that is available from the UK Government
- Market intelligence
- Export and Trade Control Licensing
- Business Ethics issues
- Offset, countertrade, industrial participation-type mechanisms

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Thank you

Thank you

- **QUESTIONS?**