

The Right Honourable George Osborne MP
Chancellor of the Exchequer
HM Treasury, 1 Horse Guards Road, London SW1A 2HQ

The Right Honourable Sajid Javid MP
Secretary of State for Business, Innovation and Skills
BIS, 1 Victoria Street, London SW1H 0ET

Jo Johnson MP
Minister of State for Universities and Science
BIS, 1 Victoria Street, London SW1H 0ET

The Right Honourable Greg Hands MP
Chief Secretary to the Treasury
HM Treasury, 1 Horse Guards Road, London SW1A 2HQ

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Monday 4 July 2016

Dear Sirs,

The impact of the EU Referendum outcome for the Innovation, Research & Technology Sector in the UK


The outcome of the EU Referendum has significant implications for UK science and innovation. Our immediate course of action as the representative body for the UK's £8Bn1 Innovation, Research and Technology (IRT) sector is to minimise any negative impact on both the sector, and on UK science and economic growth more widely.

We realise that the Government now has a very complex task ahead, requiring difficult decisions to be made. Innovation is, however, intrinsically coupled with the prosperity of the economy, so it is important that economic leverage of scientific and technological advances, which are the core goals of AIRTO and its members remain well-resourced in terms of ability to access established partners and sources of finance for research and innovation. We request therefore that a high priority is given to recognition of the criticality of sustained investment in innovation, particularly in the underpinning skills, infrastructure and science and engineering disciplines. AIRTO is keen to assist the Government in this process in order to mitigate potentially damaging impacts on the economy and to provide any necessary understanding of the vital issues now likely to affect innovation, jobs and the economy together with the continuing strength and competitiveness of the UK's IRT sector. We hope that it will be helpful to your immediate planning for us to identify the key issues and actions to be addressed. An attached summary of key topics is enclosed for your reference. We should be happy to engage further on these points in due course when you are ready. However, of particular immediate importance is the need to address the following:

- i. **Access to EU research and innovation funding** for UK organisations with current applications and those wishing to submit new applications – guidance and clarity is needed to avoid uncertainty in the way these will be handled by the EU and to give confidence to potential collaborators – **damage is already being done** and positive statements about the UK's continued engagement are needed to reassure the UK's European industrial and research partners and to ensure that applications are being fairly assessed and progressed by the Commission officials and expert examiners;
- ii. **Access to additional UK sourced research and innovation funding** will need to be made available to industry and the IRT sector as well as to universities in the transitional period and also thereafter if access to EU funding sources cannot be secured post BREXIT. It is inevitable that granted research and innovation funding from EU and other non-UK sources is going to fall in the immediate BREXIT aftermath as UK organisations are even now cautious about making applications, and uncertainty will undoubtedly deter potential partners of UK organisations from collaborating on new bids; loss of momentum is a threat to the UK's skills base, technology ownership and competitiveness, while European competitors will seek to capitalise on any emerging UK weaknesses;
- iii. **Organisations in the IRT sector should be involved as extensively and as soon as possible in discussions and planning for BREXIT** going forwards, so that the issues are fully understood, experiences shared and the best possible solutions sought.

We would reiterate AIRTO's offer of support to the task of renegotiation of the UK's future deal with the EU and planning the continuing support for innovation. We stand ready to discuss these and other actions for strengthening the economy.

Yours sincerely,



On behalf of the Board of Directors of AIRTO

Professor Richard Brook OBE FREng
Dr Neil Sanderson
Mr Peter French
Dr Peter Bonfield OBE, FREng
Mr Dick Elsy
Dr Derek Craston
Dr Paul Howarth FREng
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IMPACT OF BREXIT - KEY ISSUES IDENTIFIED BY AIRTO, JUNE 2016

1. **Research and Innovation funding:** continued access to, or replacement of, EU multi-annual Research and Innovation Framework Programmes must be ensured. The UK currently benefits by receiving over £1bn per year from these programmes, getting back far more than we contribute via our membership subscription. There is also a very immediate concern for clarity in the transitional period leading up to exit. We already have an anecdotal report of a current project proposal recently submitted for consideration by the EU being frozen, and are concerned European partners will be reluctant to engage with UK led projects given the future uncertainty over relationships. This will be damaging and could start to threaten jobs in the IRT sector. **Actions: to sustain the capacity and vibrancy of innovation in the UK either i) the new arrangements being negotiated with the EU will have to maintain access for the UK to Europe's Framework Programmes, or ii) some of the EU subscription money reallocated on exit to UK national priorities must go to support innovation, possibly via Innovate UK; the potential opportunity exists to capitalise on advantages that could be conferred by dropping the EU's procurement rules. Clear guidance is also urgently needed on whether UK organisations should be planning further funding applications to the EU ahead of the anticipated invocation of Article 50.**
2. **UK sources of funding:** The changes ahead will make generating research revenue harder for UK institutions, including Catapult Centres, Research & Technology Organisations (RTOs), and Public Sector Research Establishments (PSREs) and their industrial partners and clients (e.g. both large businesses and SMEs) who benefit from EU funding opportunities. The Government was already planning to introduce alternative funding arrangements to replace some grant funding from Innovate UK with loans. **Action: the UK Government needs to make more national funding available via Innovate UK to compensate for the fall in funding available from EU sources. Consideration should also be given to delaying the introduction of alternative loan based financing mechanisms via Innovate UK until there is greater certainty in the overall funding landscape for research and innovation.**
3. **Partnering:** There will be an impact on the UK's capacity to partner with: i) other RTOs and academic institutions in the EU; ii) large business partners; iii) SMEs. In the long run there will also be an impact on key regions through lost opportunity to leverage EU structural funds. **Action: the UK needs to plan additional outreach activities to EU partners e.g. via UKTI, to ensure that the UK continues to benefit from collaboration, especially in large consortium opportunities.**
4. **People:** The scarcity of skills to underpin innovation is a major challenge for the UK. The free movement of people is currently a benefit of EU membership but may be negatively impacted, and this would be very detrimental to IRT sector organisations wishing to attract EU talent. This would impact negatively on our capacity to work collaboratively, with many of the world's leading EU partners. **Action: the UK needs to ensure the continued free movement of people coming to the UK to study and work in UK science and industry. In addition the UK needs to see free movement of British nationals across EU borders for the purposes of study, research and innovation endeavours.**
5. **International industrial commitment to the UK:** Uncertainty surrounding the future prospects for the U.K. economy will be detrimental to the IRT sector. Investment in the UK by multi-national technology intensive businesses provides an important stimulus and commercial customer base for the IRT sector. This encompasses a wide range of sectors including pharmaceuticals, construction, aerospace, automotive and transport etc. **Action: The Government needs to continue sending important messages to the markets, and specifically to key multi-nationals operating or intending to operate within the UK. The Government must emphasise to industry that it will have a strong, continuing commitment to investing in the UK's infrastructure for science and innovation as a bedrock of industrial strategy for the future, and that the UK will continue to support its world-leading centres both within and beyond universities for science and innovation.**
6. **Innovation strategy:** The UK is already in the midst of reorganising much of its strategy for stimulating research and innovation with the advent of UK Research & Innovation (UKRI). There is a risk that key staff in BIS and other departments will be overburdened by the implications of the referendum vote. **Action: the Government should ensure that additional resource is drafted in to avoid delays in the development of the National Innovation Plan or the establishment of UKRI.**
7. **Regulation and Standards:** The ability to shape and influence the EU regulations remains extremely important as our members and their clients seek to collaborate with and export products and services to the EU. With respect to standards, in the immediate future some AIRTO members are Notified Bodies and are very concerned that the decision to leave the EU will potentially affect their businesses because Notified Bodies need to be based in an EU State to operate with EU clients. We are already aware that some customers are contemplating their long term certification partners and considering options for transferring to Notified Bodies outside of the UK. **Actions: every effort needs to be made to ensure that the UK has a voice in shaping relevant EU regulation going forwards. BSI must act to ensure routes are negotiated by which non EU countries can become (or remain) Notified Bodies as a matter of urgency.**
8. **Procurement:** There is the potential for the UK to benefit from being exempt from EU procurement rules. This could give the Government much more flexibility to support business and industry and indeed innovation through public sector procurement. **Action: the Government should identify what opportunities will now exist to use public procurement to support innovation. Dropping EU procurement rules could allow much more flexibility and this potential advantage should not be sacrificed in any deal to retain complete or partial access to the single market.**

Declaration of interests:

This submission is made by the Association of Innovation, Research and Technology Organisations (AIRTO). The organisation represents research and technology organisations operating in the space between the academic research of universities and the commercial needs of industry. AIRTO members undertake research and development, and knowledge/technology transfer. This submission does not necessarily represent the views of individual member organisations. AIRTO currently comprises organisations employing more than 40,000 scientists and engineers¹, with a combined annual turnover in excess of £5Bn (AIRTO Ltd is a company limited by guarantee registered in England No 1217006. Registered office address: National Physical Laboratory, Hampton Road, Teddington, Middlesex, TW11 0LW. AIRTO is a not-for-profit organisation funded by membership subscriptions, and managed under contract by NPL Management Ltd). The members of AIRTO currently are:

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AHPA	Health & Safety Laboratory	SATRA Technology Centre
AMRC	High Value Manufacturing Catapult	Science and Technology Facilities Council
Axillium Research	HR Wallingford	Smith Institute
BCIS	LGC	Thatcham
BHR Group	Lucideon Limited	Scotch Whisky Research Institute
BMT Group	Manufacturing Technology Centre	The European Marine Energy Centre
BRE	Medilink (Yorkshire & Humber)	Transport Systems Catapult
BSRIA	HORIBA MIRA	TWI
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