

POLICY SUBMISSION

ECONOMY, ENERGY AND TOURISM COMMITTEE INQUIRY INTO SCOTTISH EXPORTS AND TRADE PROMOTION

March 2010

SCDI is an independent and inclusive economic development network which seeks to influence and inspire government and key stakeholders with our ambitious vision to create shared sustainable economic prosperity for Scotland.

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Inquiry into Scottish Exports and Trade Promotion

1. SCDI is an independent membership network that strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI's membership includes businesses, trades unions, local authorities, educational institutions, the voluntary sector and faith groups.
2. SCDI has a rich history in trade development and promotion for Scotland. SCDI spearheaded the attraction of overseas manufacturing investment into Scotland in the late 1940s when it embarked on a campaign to attract companies from the United States – the first time a European country had pursued such a course. Since our first trade visit to Moscow in 1960, SCDI has organised and led 350 trade visits comprising over 5000 participants to 50 markets worldwide.
3. SCDI continues to organise an annual Trade Visits Programme for Scottish companies. These offer a high-profile and supportive vehicle for exporters from any sector to visit a market, to conduct market research, to appoint an agent or distributor or to visit existing customers. SCDI offers a range of business advice, including market information, administrative support, and marketing and networking in the market.
4. SCDI's trade visit programme is financially supported by UK Trade and Investment (UKTI) with a contract awarded annually by Scottish Development International (SDI). Funding has fallen in recent years and is currently £50,000 for the full programme. Markets selected for visits are agreed with SDI. The 2009/10 programme targeted India, South Africa, the United Arab Emirates and China.
5. With this comparatively modest financial support, SCDI's Trade Visit programme in 2008/09 involved 63 companies which generated overall business from the visits worth £6.5m. In the three years between 2005 and 2008, 270 participants in SCDI trade visits have reported business valued at £23.3m.
6. SCDI is also working with Glasgow City Council to deliver their 2010/2011 Glasgow Visit Programme. Glasgow companies are now being offered fully funded places on trade visits to four key overseas markets with direct links to the city, which are India, North America, Poland and the United Arab Emirates.
7. SCDI has published annual surveys of Scotland's exports since the 1960s. SCDI's International Business Committee meets on a quarterly basis to discuss issues and to exchange information relating to the international business arena.

Economic Rationale & Global Trends

8. SCDI warmly welcomes this inquiry by the Economy, Energy and Tourism Committee into Scottish exports and trade promotion. To focus this debate and Scotland's efforts and energies to ensure we maximise our international

competitiveness, SCDI was pleased to work again with the Committee in organising our conference on *Global Ambitions: Scotland's International Future*.

9. Scotland is a small, open economy. With a limited domestic population to increase demand for goods and services, exports have always been a priority. However, as with the rest of the UK, in the last decade the Scottish economy has become more dependent on domestic demand and more of a service sector economy as the manufacturing share declined. The Fraser of Allander Institute forecasts that economic recovery is likely to be weaker in Scotland than in the rest of the UK and that the Scottish economy will not return to trend growth until 2012.¹ With domestic demand also likely to be weaker over the next ten years, this will increase the challenge Scotland faces in raising its long-term economic growth rate and achieving the Scottish Government's economic targets. **A key priority will be to rebalance the Scottish economy, with fewer resources devoted to consumption and more to business investment and net exports.**

10. Exporting both benefits the company and adds value for the wider economy. An HSBC survey of around 500 SMEs highlighted that of the companies which were trading internationally 88% believe internationalisation is 'pivotal' in achieving growth². The findings of the latest UKTI survey³ provide evidence that companies with headquarters in developed countries and sizeable emerging market operations tend to be more profitable than those with little or no operations in the emerging world. Companies that export, including inward investors, tend to have relatively higher productivity and invest more in both Research and Development (R&D) and skills. Promoting higher exports from Scotland would therefore:
 - **Improve export earnings**
 - **Build more sustainable businesses**
 - **Improve Scotland's international image**
 - **Attract more foreign capital**
 - **Attract more human talent to complement local skills**

11. The opportunities for exports of goods and services are also vast. Emerging market economies have outperformed those of developed countries in 2009, with China and India in particular continuing to enjoy high growth. In his presentation to the *Global Ambitions* conference, Alan Keir of HSBC highlighted forecasts that **in the next 10 years emerging markets will grow faster than developed markets and global trade will grow three times faster than global GDP.**⁴ The latest UKTI survey shows that global firms continue to see a greater proportion of future revenues coming from emerging markets. Almost 60 per cent of

¹ <http://www.strath.ac.uk/media/departments/economics/fairse/Latest-Fraser-of-Allander-Economic-Commentary.pdf>

² <http://www.hsbc.co.uk/1/2/business/paid/business-support>

³ <http://www.scdi.org.uk/tm/Docs/EmergingMarketsintheGlobalRecession.pdf>

⁴ Alan Keir, Group General Manager, Commercial Banking, Europe and Global Co-Head, Commercial Banking, HSBC Group, Presentation to SCDI conference on *Global Ambitions: Scotland's International Future*, Tuesday 1 September 2009

companies expect to derive more than one fifth of their global revenues from emerging markets in five years' time—almost double the current proportion.⁵

12. According to 2008 OECD analysis of trade statistics of the G7 group of leading economies, between 1970 and 2003, the UK suffered the sharpest decline in manufacturing as a share of total employment of any advanced economy. The UK has an edge when it comes to developing and exporting high technology. But in the medium-high technology bracket it is way behind Japan and Germany.⁶
13. Accelerating globalisation, especially in the last decade, has acted to intensify global competition and specialisation in sectors where countries' comparative advantage is greatest. The implications for Scotland are that it will need to build on its comparative advantages and expertise, and focus on those sectors which will generate long-term demand for goods and services, most especially if that demand is outside Scotland or is highly additional and supports new or existing supply chains. This will put a premium on the performance of manufacturing in Scotland but, as Fraser of Allander Institute has highlighted, it will need the size, diversity and capability to take full advantage of the recovery of global demand.⁷

Scotland's Performance & Export Statistics

14. The recently published Global Connections Survey for 2008 showed a very creditable performance with Scottish exports increasing by 8%.⁸ However, manufactured exports account for nearly three quarters of Scottish exports to the rest of the world and, due to the global recession, the Scottish Government has estimated that there were large falls in manufactured export sales in 2009.⁹ More recently, RBS has reported evidence of a recovery. Its figures show that the value of exports by companies based in Scotland increased by £254m (7%) between Q2 2009 and Q3 2009. This compares to a 1% or £723m increase in the value of exports from firms across the whole of the UK in the same quarter.¹⁰
15. While the focus for the Committee's inquiry is international trade, it is worth highlighting that Scotland's main export market is the rest of UK which in 2008 accounted for nearly £42.3bn or two thirds of total Scottish exports. This was 37% higher than 2002 and over the same period the growth in overall Scottish exports has largely been determined by growth in exports to the rest of the UK.¹¹
16. There is a strong correlation between sources of inward investment and destinations for Scottish exports which demonstrates the benefits of openness and market accessibility. The USA is Scotland's top international export

⁵ <http://www.scdi.org.uk/tm/Docs/EmergingMarketsintheGlobalRecession.pdf>

⁶ http://www.oecd.org/document/54/0,3343,en_2649_34173_38726774_1_1_1_1,00.html

⁷ http://www.strath.ac.uk/media/departments/economics/fairse/backissues/Fraser_of_Allander_Economic_Commentary_Vol_33_No_2.pdf

⁸ <http://www.scotland.gov.uk/Resource/Doc/919/0093113.pdf>

⁹ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/Exports/IMEIntroduction>

¹⁰ RBS News Release, *Level of Exports From Scotland Increases By £254 Million*, 25 January 2010

¹¹ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/Exports/RUKExports>

destination and contributed 53% of total inward investment in 2007/08. A further 27% came from England.

17. Scotland has real strengths in exporting in sectors including electronics, energy, food and drink, chemicals, financial and business services, and education. In a UK context, Scotland's export performance appears respectable. The latest HM Revenue and Customs figures show that Scottish exports had a value of £14.4m of the UK's total exports of £223.8m and the figures from RBS show that Scotland accounted for 7% of UK exports, the fifth highest regional percentage. However, while figures suggest that, on average, Scottish exporters sell a higher value of goods abroad than UK exporters, there are fewer exporters in Scotland. RBS has found that the average value of goods sold abroad per exporter in Scotland increased by 12% between Q2 and Q3 2009 to £1.5m, while for the UK the increase was 6% to £1.1m. But of the 48,500 companies in the UK which export, only 5.29% (2500) are in Scotland, the eighth highest regional total. **Increasing the total business base of Scottish companies exporting should therefore be a priority.**

18. Distribution of robust export statistics would enable businesses to identify market opportunities and inform the export and trade promote strategy and support from the wider public sector. **SCDI continues to be concerned that the Global Connections survey lacks detail, profile among existing and potential exporters, and credibility with key export sectors.** Until 2001, SCDI received support to produce Regional Manufacturing Export Analysis for Ayrshire, the Borders, Dumfries and Galloway, Dunbartonshire, Forth Valley, Glasgow, Grampian, Highlands and Islands, Lanarkshire, Lothian, Renfrewshire and Tayside which highlighted local trends. Since 2007, local authorities have assumed an enhanced role in local economic development and deliver Business Gateway advice to new start and local businesses, but Global Connections no longer includes these local breakdowns. Feedback from SCDI members suggests that Global Connections is not made widely available in a way which is meaningful for businesses. Judging overall performance can also be confused because statistics in Global Connections can significantly differ from industry-wide returns published by HM Revenue & Customs, for example with whisky. **This regional data deficit needs to be addressed.**

19. Scotland has performed strongly in attracting foreign direct investment (FDI). FDI Magazine in 2008 named Scotland as the European Region of the Future. The Ernst & Young European Investment Monitor ranked the UK top in Europe in the number of FDI projects attracted in 2007, while a regional breakdown showed that Scotland was second only to the South East as a destination for FDI each year since 2004/05¹². Scotland has had particular successes in life sciences, energy and engineering, ship and marine, and business and financial services.

Exports

¹² <http://www.eyeim.com/pdf/EIM%202008%20Report%20final.pdf>

20. The scale of the economic challenge is such that exporters in all sectors need to be encouraged. But there are particular targets/ opportunities in key sectors:

- **Oil and gas** - the annual survey by SCDI and Scottish Enterprise of activity in the oil and gas sector has shown that overall sales have trebled in the 10 year of the research to £14.2bn and international activity now accounts for over 40% of the total.¹³ The subsea sector alone estimates that annual international exports could more than double to around £6.4bn in the next 5 years¹⁴. In SCDI's view, the supply chain could be as important a wealth creator for Scotland and the UK over time as North Sea production.
- **Clean energy** - capital expenditure for offshore wind in Europe over the next 10-15 years has been estimated at £150bn. The UK Government has estimated that clean coal technology could bring between £2-4bn a year into the UK economy by 2030, and support between 30,000-60,000 skilled jobs.¹⁵ At Longannet, Scotland has the best opportunity to deliver the UK's first big carbon capture and storage project within the UK Government's timescale.
- **Food and drink** - Scotland Food and Drink has recently announced a new target to grow Scotland's food and drink exports from £3.8bn to £5bn by 2017. Scotch whisky now accounts for over 20% of Scotland's manufactured exports and distillers are often trail blazers for Scottish food businesses in global markets¹⁶. There are major opportunities for Scotch whisky in emerging markets, especially if the industry can remove trade barriers. Removal of India's 15% import tariff on Scotch whisky would result in a five-fold increase in exports, valued at over £150m. (However, should minimum pricing be introduced in Scotland, it has been estimated that international copy-cat practice would cut exports by £600m a year, a 20% drop from current levels.)
- **Life sciences** – the number of companies in Scotland has doubled over the last five years and globally the sector has been forecast to grow threefold over the next five years. The priority is to commercialise research at new developments including the Edinburgh BioQuarter and the Centre for Health Science, Inverness, and for more Scottish companies to achieve scale.

21. **Given the ambitions of these sectors, and the opportunities in sectors such as Financial Services, Digital Media, Higher and Further Education, and Tourism and Events, SCDI believes that a stretching target should be set for Scottish exports. SCDI recommends that it should be possible to double the value of Scotland's exports in the next decade. This should be a challenge for industry as a whole to raise its sights. This should be underpinned by a more co-ordinated, long term export strategy at UK and Scottish levels, with greater focus and resources allocated on supporting companies to access markets.**

22. **No single public or private sector organisation can address all the needs which have been identified and deliver a Scottish export strategy and**

¹³ <http://www.scdi.org.uk/sr/Docs/OilandGasReport2007Final.pdf>

¹⁴ <http://www.subseauk.org/item.asp?item=1001&pid=5>

¹⁵ http://www.decc.gov.uk/en/content/cms/consultations/clean_coal/clean_coal.aspx

¹⁶ <http://www.scotland.gov.uk/Resource/Doc/919/0093113.pdf>

target. Partnership working which accentuates the powerful ‘Scottish brand’, especially in emerging markets, is essential. SCDI welcomes the creation of leadership organisations for sectors, such as Scotland Food and Drink. This has created opportunities for better joined up thinking and marketing, recognising the co-ordinating role that organisations such as VisitScotland can play in co-ordinating international branding and reputation.

23. Scotland’s enterprise networks, Scottish Enterprise and Highlands and Islands Enterprise, are the main delivery agencies in supporting the global ambitions of Scottish businesses. SCDI welcomes the additional funding in recent years for initiatives such as the Scottish Manufacturing Advisory Service which should support exports, but overall funding has been falling. **SCDI questions whether, in view of the economic challenge, the allocation of funding to them should not be greater. There is a need for a fundamental review of funding to the enterprise agencies to determine their role in rebalancing the economy. At the same time, there needs to be greater market determination and input into the allocation of resources and budgets.**
24. SCDI believes that training and advice should be more widely offered in order to encourage companies in manufacturing and service sectors to internationalise their businesses. SCDI understands that there was a valued Department for Trade and Industry programme called Inside UK Enterprise, where non-competing companies shared best practice, but that this was discontinued. **There is an appetite amongst many larger Scottish exporters and successful Scottish-based entrepreneurs to mentor SMEs trading overseas, but this has not been fully exploited to date. To tap into this expertise, SCDI recommends a higher profile for and agreed access to a domestically-based GlobalScot network.**
25. Market-specific intelligence is vital to improving the ease, efficiency and accuracy with which an SME assesses specific foreign market opportunities and needs. Feedback is varied on the support levels given to companies to access market intelligence. **It is important that Scottish Enterprise, HIE and SDI provide a consistently high-quality service and consider the growth potential of each business – not just whether it is in a priority sector - and that these services are made available to all companies which may benefit from them.**
26. In addition to this higher-level advice, analysis and support, SDI should not lose sight of their role in advising Scottish businesses in negotiating the practicalities of exporting. For instance, SMEs can face problems in obtaining their payments.
27. Access to finance remains a problem for businesses. SCDI welcomes plans for a Scottish Investment Bank and the consideration of a Scottish export credit scheme. **SCDI recommends that one of the Scottish Investment Bank’s key priorities should be to provide lending to support the internationalisation of SMEs which would be paid back as the company’s overseas sales grow.**

28. International trade visits are a proven way of facilitating entry to new markets by SMEs, mentoring and generating new business. There is no better way of learning about exporting and assessing a market than with support from peers in the market. Face-to-face meetings are vital in appointing an agent or distributor and making contact with potential customers. Trade visits also help SMEs to sustain their market presence and placement when economic times are tougher. Both sectoral and cross-sectoral trade visits have particular advantages. **Research and results demonstrate that cross-sector trade visits enable greater interaction and mentoring between participants. SDI and UKTI should support the expansion of this activity and introduce a guaranteed 3 year rolling programme of trade visits.** Larger emerging markets can be very challenging for SMEs because of the competition, costs, risks and cultural differences. They would benefit from visiting “less difficult/ nursery” markets first. **The programme should include a mixture of larger emerging markets and more familiar markets e.g. Eastern Europe.**
29. Government action at home should be informed by the impact in international markets. **A more commercial, export-orientated mindset should be ‘mainstreamed’ in all parts of government not just enterprise.** For example:
- **Life Sciences** – product development and clinical trials would be supported if NHS Scotland purchased them at an earlier stage not after overseas markets.
 - **Higher and Further Education** - Capitalising on the highly regarded Scottish education and qualifications systems, there are opportunities for colleges, universities and employers within key industry sectors to form alliances which export learning and skills development to global employers and governments.
30. Increasingly, governments prefer evidence of investment in local infrastructure and workforces when awarding contracts to foreign businesses. Scottish companies should be supported and given access to information to enable them to incorporate community-based propositions in international markets.

Inward Investment

31. If the Scottish economy is to be rebalanced, its high-value exports base will need to grow substantially and diversify. If this is to be achieved in a timescale in which it contributes to the short-term employment challenge and the medium-term growth targets, the attraction of the major inward investment will be required. **UK and Scottish Governments and agencies should work together on a strategy to provide targeted support for inward investment in key sectors:**
- **Clean energy** - SCDI recommends targeting support, including packages of grants and R&D incentives to companies that manufacture parts for offshore wind projects such as cabling, turbines, installation vessels and foundations, and the creation of a near-shore testing facility for offshore wind technology. Spatial framework for the development of key infrastructure required to support development of these sectors should highlight early investment needs at port and near port locations and approaches to funding and delivery.

- **Life sciences** – SCDI believes that the UK Government should speed-up the introduction of reductions in taxes on intellectual property held in the UK in order to incentivise more investment by large pharmaceutical companies in R&D. **SCDI is concerned that Scotland’s enterprise networks are not at present able to offer sufficiently large grants to inward investors to compete with countries such as Ireland and Singapore in the sector.**
 - **Financial services** – SCDI believes that there are opportunities to attract the headquartering of "boutique" banks and asset management companies.
 - **Digital media** – the UK and Scottish Governments should work together on a pilot programme of income tax relief and/ or non-domestic rates relief for computer games companies which promotes the competitiveness of Dundee.
32. Scotland enjoys many competitive advantages as a world-leading sustainable economy. **Scotland should explore the creation of low carbon industrial zones in the vicinity of onshore CO₂ transport infrastructure which could encourage carbon-intensive industries to locate (or re-locate) to Scotland.**
33. International investors should be embedded within and encouraged to nurture the local business community and specific supply chain gaps should be targeted. **Feedback from SCDI members suggests that there is a need to ensure that aftercare for inward investors in Scotland from SDI and the wider public sector is more consistently excellent.** It is also important that investors should be supported when they restructure to encourage confidence of other investors.

Scotland’s International Activity

34. **There is a continuing need to join-up international activity by the Scottish Government, SDI, and the wider public sector, and work with UK embassies and trade agencies.** While UKTI and SDI are generally working more closely together, feedback to SCDI indicates that there can be confusion on their roles abroad and the impression of duplication of effort at home. This is said to be the case especially in relation to oil and gas as UKTI has its Oil and Gas HQ in Scotland and is well-established.
35. Trade issues, such as those faced by the whisky industry, are dealt with by UK embassies and UKTI, but SDI offices should continue to keep abreast of them. There is an important role for the Scottish Government Brussels office in working with this industry and others to influence and interpret relevant EU legislation.
36. It is vital to make best use of Scotland’s international presence of 3 Scottish Government offices and SDI’s 21 offices. Trade promotion needs to be at the core of the role of all Scottish government staff in foreign markets. **SCDI believes that these overseas offices could have the potential to develop into ‘Scottish Trade Centres’.** These would attract investment to Scotland, help overseas investors gain a quick insight into investment opportunities and match them to appropriate companies or advisors. They would also provide information and research on opportunities in their markets, develop relationships and identify

useful business contacts, promote attendance at trade shows and offer facilities and services (e.g. press and marketing support) for visiting Scottish companies. They should be proactive in identifying emerging opportunities in the market rather than always responding to central directions or an individual company. **The private sector itself could have a significant role to play in the development and support of this Scottish Trade Centre network, working in partnership with the Scottish Government and SDI.**

37. **The benefits of the GlobalScot network should be maximised by increasing its profile and making it more open and accessible for Scottish businesses and linking members to Scottish Trade Centres.** International and knowledge collaborations should also be encouraged. For example, a sectoral approach could be taken to catalysing Scotland's energy and digital media Diasporas.
38. The Scottish Government has published a number of plans which outline their aims and aspirations for engagement with particular countries, including their contribution to Scotland's sustainable economic growth. **The engagement of the private sector in these plans is, however, weak and key industries may not feature. Communication with businesses needs to improve, with clearer links drawn between objectives and activity, such as increased trade visits, and with clear measurements and outcomes attached.**
39. Scotland's cities and regions have key strengths which should be globally marketed. **SCDI believes that international strategies should be developed for each of Scotland's cities and regions which align with Scotland's overall international strategy, and delivers against the cities and regions economic development agendas.**
40. Scotland's international activity should also be better aligned. **Ministerial activity, trade visits and tourism visits should be co-ordinated, especially in emerging markets.** Ministers should be accompanied by a delegation of businesses and help to facilitate meetings and host receptions. The Scottish Government and opposition parties should agree arrangements to ensure that the commitment of Ministers to international trade and tourism visits is not constrained by their presence being required at the Scottish Parliament. Scottish Ministers should be briefed on the trade issues faced by Scottish exports such as whisky so that they can lobby their counterparts during overseas visits.
41. **There should be greater synergy between Scotland's trade, tourism education and cultural activity.** Scotland's well-known strengths should be hooks for less well-known ones. It should aim to capitalise where cultural or education links could be used to improve business links or vice versa, for example the links which Edinburgh International Festival has established with other festivals. Scotland boasts a range of world class facilities and resources, making it one of the leading event destinations in the world. **The Scottish Government can help to building the international capacity of Scottish businesses in major cultural and sporting event delivery in partnership**

with Business Club Scotland. SCDI believes that the potential for growth in Scotland's events industry should make it one of the priority sectors.

Supporting Action

42. Exporters and inward investors highlight the importance of wider actions to improve Scotland's economic competitiveness, in particular on skills, including foreign languages such as Mandarin, on innovation and on connectivity, especially transport infrastructure and services, and high-speed broadband.
43. There is a need to continue to invest in routes to market for goods so that they can be transported quickly and efficiently. **Capacity at Scottish ports is inadequate to handle largest container vessels. SCDI welcomes the port investment plans which are included in the National Planning Framework 2.**
44. The development of a good airport infrastructure and direct air links to other economic centres are vitally important to the competitiveness and internationalisation of an economy. The expansion of Scotland's route network has stalled in the last few years following cancellation of the Scottish Government-funded Route Development Fund following more restrictive guidelines from the European Commission (EC) and the economic downturn. The EC is at present reviewing its guidelines and is expected to consult on any proposed revisions later this year. **The Scottish Government should seek to reinstate the air route development fund, subject to European legislation.**
45. The UK's only hub airport, Heathrow, is a gateway to international centres for Scottish businesses and tourism. As a result of domestic flights being replaced by long-haul flights, only six UK regional airports, including Aberdeen, Edinburgh and Glasgow, have access to Heathrow and these slots are also expected to be threatened. High-speed rail is not expected to relieve this pressure on capacity or be a realistic alternative to access Heathrow, especially from the North. **SCDI believes that it is essential that airport capacity at Heathrow should be allowed to increase to accommodate increasing demand and the economic needs of the whole UK.** As part of the planning conditions or traffic regulations for the expansion, a proportion of the new slots should be ring-fenced for flights from the main Scottish and English regional airports as well from Ireland.
46. The development of high speed rail between London and Scotland is expected to have an effect on the location and growth of existing businesses. It is expected that the benefits will largely take the form of increased development in the financial services, life sciences and creative industries sectors in Glasgow and Edinburgh because a UK survey has found that more than 25% of businesses in these sectors would like to make more use of rail services than at present.¹⁷ **SCDI believes that any plans for high speed rail should include Scotland.**

¹⁷ <http://www.transportscotland.gov.uk/reports/rail/j11298-02.htm>

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