ECONOMY, ENERGY AND TOURISM COMMITTEE

AGENDA

2nd Meeting, 2008 (Session 3)

Wednesday, 30 January 2008

The Committee will meet at 9.30 am in Committee Room 6.

1. **Decisions on taking business in private:** The Committee will consider whether to take item 4 in private.

2. **Proposals for the commissioning of research:** The Committee will consider an update on its proposals for the commissioning of research.

3. **Establishment by the Scottish Government of a national economic forum:** The Committee will consider correspondence from the Scottish Government.

4. **Tourism inquiry - Growing pains: can we achieve a 50% growth in tourist revenue by 2015?:** The Committee will consider a paper proposing a work programme for the inquiry.

Stephen Imrie
Clerk to the Committee
Room T3.40
0131 348 5207
Stephen.Imrie@scottish.parliament.uk
The papers for this meeting are as follows—

**Agenda Item 2**
Note by the clerk

**Agenda Item 3**
Note by the clerk

**Agenda Item 4**
Note by the clerk – PRIVATE PAPER
ECONOMY, ENERGY AND TOURISM COMMITTEE
2nd Meeting, Session 3
Wednesday, 30 January 2008

PROPOSALS FOR THE COMMISSIONING OF RESEARCH

Background

1. At its meeting of 24 October 2007, members considered and agreed to a series of research proposals – both internal (using SPICe) and external (appointing contractors) – to aid the Committee's understanding of a range of subjects and to help members decide, in due course, on the subject(s) of future inquiries. The research proposals agreed to at the time were as follows—

   • *The ‘black economy’* - looking at defining what is meant by 'the black economy', assessing the scale of this and outlining the implications for the Scottish economy and Scottish businesses (particularly small and medium-sized enterprises) and on public expenditure.

   • *The housing market and the Scottish economy and the impact of the ‘credit crunch’ in the UK/US financial sectors* - looking at the impact of the limited supply and high costs of housing in certain areas of Scotland on the growth of the Scottish economy, as well as the contribution of house-building to the Scottish economy. The research will also address some of the implications of the recent problems in the UK/US financial sectors.

   • *Tackling the productivity gap* - looking at the facts and figures behind the reported productivity gap in Scotland relative to other economies and seek to provide explanations as to why this exists. Some international benchmarking and examples of best practice will be considered as part of this research.

   • *The planning regime and the National Planning Framework (NPF)* - looking at the relationship between spatial planning, the planning regime and economic growth. It will also consider the process for developing the second NPF, which will be laid before Parliament in September 2008.

   • *Export promotion and international trade* - covering the current levels of exports and international trade activity amongst Scottish firms, the value of public sector policies and incentives and what more could be done to increase activity in this area. The research should pay particularly attention to the work of Scottish Development International and that of UK Trade and Investment. It will also look at the role that SMEs can play in this respect, through exports, mergers and
acquisitions. Some international benchmarking and policy case studies will be required.

2. This paper provides an update on the progress with each of the above proposals and, specifically, sets out proposed terms of reference for the research into export promotion and international trade for the Committee’s agreement.

**Update on progress with each of the proposals**

*The ‘black economy’*

3. The research proposal, looking at defining the size of the ‘black economy’ in Scotland and the implications for the Scottish economy and Scottish businesses (particularly small and medium-sized enterprises) and on public expenditure, is being taken forward by the Parliament’s Futures Forum. Its representatives have held at least one meeting (November 2007) with Christopher Harvie MSP who had a particular interest in this project and have discussed an outline of the project with the clerk.

4. It is envisaged that the Futures Forum will submit draft terms of reference to the Committee for its formal consideration by the end of February 2008. The intention is to approach a research institute or UK university to complete the work for the Forum and Committee. The intention is to have the work completed by the summer of 2008.

*The housing market and the Scottish economy and the impact of the ‘credit crunch’ in the UK/US financial sectors*

5. SPICe has agreed to prepare a briefing for the Committee on housing for mid-June. It will include four key areas:

- a description of the housing market in Scotland (housing supply, ownership and letting patterns, cost in relation to average income);
- predicted changes in demand according to geographical area and potential impact on economic growth in Scotland (patterns of increase in single households, projected population growth and decline, difficulties faced by key workers in accessing the housing market);
- the contribution of the housing industry to the Scottish economy (levels of house-building in Scotland and constraints experienced by the industry (skilled workforce, release of land, planning process etc.)
- the possible implications of the ‘credit crunch’ in the US/UK financial market and changes in economic growth levels on the Scottish housing market.
**Tackling the productivity gap**

6. This research has been completed by SPICe and was made available to the Committee and the general public in time for the Committee’s recent seminar with the STUC on the same subject\(^1\).

**The planning regime and the National Planning Framework (NPF)**

7. SPICe has agreed to prepare a briefing for the Committee on the planning regime and the National Planning Framework for mid-June. This briefing will provide information on progress in enacting and implementing the reforms included in the Planning etc. (Scotland) Act 2006, consider the proposals contained in the discussion draft of the NPF and the role that the planning process and the NPF has in relation to economic growth.

**Export promotion and international trade**

8. Annex A of this paper sets out a draft research specification for the commissioning of externally supplied research on this subject matter. In advance of this, SPICe have been in contact, as requested, with bodies such as the Scottish Council for Development and Industry to see whether similar research already exists but it would appear that it does not. Similarly, the clerk has discussed the outline of the research with other business organisations to gauge their views on the merits of the work. Feedback to date has been positive with, for example, the CBI Scotland indicating that “the Economy Committee’s proposed examination of Scotland’s export performance and support for trade promotion is encouraging.”\(^2\) A briefing from Scottish Development International (SDI) on its role and activities is attached for information at Annex B.

9. The Committee is invited to consider the specification and to agree to proceed with the project. The next step is for the proposal to be considered by the Conveners Group for its approval. Thereafter, SPICe and the clerk are responsible for conducting the competitive process of selecting a contractor and managing the research thereafter.

10. The intention is for the research to be completed by mid to late summer 2008 in order that it is available to the Committee in the autumn, as members will be considering the subject matter for new inquiries around this period. As with all research of this type, the clerk will ensure that members are kept up-to-date with developments and have the opportunity to consider the work of the contractor at key stages (e.g. project initiation, scoping papers, draft reports etc).

**Recommendation**

11. The Committee is invited to—

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\(^2\) CBI Scotland News Release, 22 January 2008
• note the developments in relation to the research proposal on the ‘black economy’ and task the clerk with bringing back draft terms of reference for approval by the end of February 2008;

• note the developments in relation to the research proposal on the housing market/Scottish economy and task the clerk with working with SPICe to complete the research by the end of June 2008;

• note that the research proposal into productivity has been completed by SPICe and that this may be a subject the Committee returns to when it considers the choice of subject for future inquiries;

• note the developments in relation to the draft national planning framework (NPF) and agree to continue with the principle of commissioning of the research by SPICe with a view to deciding, at a later date, the level of the Committee’s engagement with the NPF;

• consider the draft terms of reference for the research proposal on export promotion and international trade and agree to ask the clerk to seek the necessary approvals from the Conveners Group;

• consider whether there are any further issues where the Committee would like to consider procuring research studies.

Stephen Imrie
Clerk to the Committee
January 2008
DRAFT RESEARCH SPECIFICATION

PROPOSAL FOR COMMISSIONED RESEARCH

This pro-forma should be used when a committee has identified a need to commission social research from external sources. The form should be completed by the committee clerk and the relevant SPICe research specialist and forwarded to Denis Oag, Principal Research Specialist (CG.01), in electronic and (signed) hard copy for consideration by the Conveners Group (CG).

Please note that a full research specification is not required at this stage only a brief outline of the research proposed.

<table>
<thead>
<tr>
<th>Title of Research Proposal</th>
<th>Review of public policy to encourage export promotion, international trade and inward investment</th>
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<tbody>
<tr>
<td>Committee:</td>
<td>Economy, Energy and Tourism</td>
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<tr>
<td>Committee Convener:</td>
<td>Tavish Scott</td>
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<tr>
<td>Clerk team leader:</td>
<td>Stephen Imrie</td>
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<tr>
<td>SPICe researcher:</td>
<td>Jim Dewar</td>
</tr>
<tr>
<td>Main contact (Clerk team)</td>
<td>Stephen Imrie</td>
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<tr>
<td>Date submitted:</td>
<td>TBA</td>
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Why is this research necessary?
The Committee wishes to review the range and effectiveness of the public policy framework and the incentives for the promotion of international trade, exports and the attraction of inward investment and to consider what more could be done to increase the value of Scottish exports and the proportion of Scottish firms, particularly SMEs, that are active in overseas markets. The Committee also wishes to look at our history in this area and the likely trends in the future. The Committee sees a need for research to help decide whether to proceed with an inquiry and to help inform any subsequent inquiry.
Brief background to the proposed research: Exports and overseas trade are important components of demand in the Scottish economy. According to the Scottish Government’s annual Global Connections Survey, Scottish exports in 2005 were estimated to be worth £18.6 billion - up £0.9 billion on 2004 - with the USA continuing to be the top destination for exports. China was in the top 20 destinations for the first time at number 13 and along with other countries, such as India, Russia and Brazil (the BRIC group), increasingly of relevance alongside more traditional destinations for Scottish goods and services in the EU, USA and Far East.

Consequently, it will be difficult for the Scottish Government to increase the rate of growth of the Scottish economy and meet its targets without also increasing the rate of growth in exports and/or through encouraging a greater number of Scottish companies to be more active in overseas markets and thus increase turnover and profits. But Scottish exporters are facing increasing competition in international markets and the value of Scottish manufactured exports is currently 25% below the level achieved in 2000. Recent trend data from the CBI Scotland has suggested that activity in the Scottish manufacturing sector has been very subdued over the past six months. It indicates that there are some tentative signs that conditions might improve over the coming quarter and that Scottish firms expect output to increase, cost growth to slow and pricing power to improve. However, orders are expected to stay flat, employment growth is set to come to an end, and investment is being cut-back over the next year.

Therefore, the public policy framework necessary to encourage such firms to export and trade overseas in such an economic climate is challenging and worthy of further study. Do we have it right, can we improve and what are our competitors doing are all important questions to be addressed.

According to the Scottish Government’s main agencies in this field, in 2006/07, 625 organisations were helped to internationalise (including 87 from Highlands and Islands Enterprise’s area) through the services provided by Scottish Development International (SDI). Some 260 companies attended 36 exhibitions, missions and fact-finding trips around the world. The questions to be addressed in the research are: is this the right type of public policy, what more can be done and how, and how does this compare with the performance of other countries around the world?

In terms of inward investment, Scotland continued to enjoy strong overall levels of direct foreign investment during 2006/07. Scottish Development International reports that it secured 59 inward investment projects worth more than £313 million and created or safeguarded up to 7,500 jobs; nearly 1,800 of these were high-value jobs, with over a third more R&D investments coming to Scotland than the UK and European averages. According to the European Investment Monitor, Scotland won more R&D projects than at any time over the past six years during 2006, equaling the number won by London and the South East for the first time. The questions are, therefore, can this trend be furthered, what are the specific opportunities and challenges in the future and what is the best public policy framework that should be in place to assist?
Additionally, Scottish companies can access the services provided by UK Trade and Investment (UKTI) - the UK Government’s main agency supporting firms in this area. SDI works with UKTI to promote Scottish companies overseas and attract inward investment. In recent months, the role of UKTI has been examined in some depth by the UK Government and various select committees in the House of Commons. The research should summarise possible changes ahead for UKTI and its support for Scottish firms and look at the history of the relationship between UKTI and SDI and what improvements can be made. The research should also look at what UKTI products are offered to Scots firms, how many Scottish companies have taken them up, what has been their experience etc.

It is important to note that the research should not be limited to exports of goods but also cover services too. Similarly, the research should look at the role of outward investment versus exports, especially in breaking into new emerging markets, i.e. are firms deciding not to export, but instead set up production in situ to supply markets around the world? If they are not, why not and how does this compare to other countries? It should also look at the strategies used by SMEs in other countries to grow through mergers and the acquisition of foreign companies.

**Brief summary of the proposed research project including research aims and objectives:** See section above for background to the research and what is required.

The proposed research project will include the following stages: a desk-based literature review examining the latest facts, figures and trends, and a review of international best practice in export promotion, outward investment and the attraction of inward investment; interviews with a representative sample of businesses and other stakeholders including a proportion of SMEs investigating their perceptions of the effectiveness of government support; and a comparison of best practice with Scottish firm’s experience.

<table>
<thead>
<tr>
<th>When are the results of the research required?</th>
<th>End July 2008</th>
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<tr>
<td>What specific research or subject expertise is required?</td>
<td>Knowledge of the drivers of international trade and current Scottish Government, UK and EU policies for export promotion.</td>
</tr>
<tr>
<td>What are the expected outputs of this project?</td>
<td>Full research report, 4 page summary and presentation of findings to the Committee.</td>
</tr>
<tr>
<td>How will the outputs from this research be used?</td>
<td>To help determine whether the Committee should proceed with an inquiry on the subject and inform any subsequent inquiry.</td>
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</table>
Signatures:

Clerk Team Leader:
Date:

Senior Research Specialist:
Date:

Principal Research Specialist:
Date:

Please forward the completed pro-forma electronically to Denis Oag, Room CG.01 denis.oag@scottish.parliament.uk and in signed hard copy

If you have any questions with regard to the external research process, contact Denis Oag on 85369
BRIEFING FOR ECONOMY, ENERGY AND TOURISM COMMITTEE

SCOTTISH DEVELOPMENT INTERNATIONAL

What is SDI and what is its role?
Scottish Development International (SDI) is a joint venture between the Scottish Government and its economic development agencies, Scottish Enterprise and Highlands and Islands Enterprise. As the international trade and investment arm of the Scottish Government, SDI has two main functions. The first is to encourage overseas companies to invest in Scotland in order to help the economy grow. The second is to help Scottish companies do more business overseas and to promote Scotland as a good place to live, work and do business.

What exactly does SDI do?
SDI's role goes far beyond inward investment attraction and export promotion. SDI activities include helping foreign organisations license technologies, products and processes to Scottish companies; helping them strike partnerships with Scottish companies; bringing the opportunities to invest in Scottish industry to the attention of foreign venture capitalists; bringing career opportunities in Scotland to the attention of highly-skilled individuals; helping Scottish organisations license out their products, processes and technologies or otherwise develop partnerships with foreign organisations; supporting Scottish companies to make their own foreign direct investments; and working with the GlobalScot network to maximise their contribution.

Does SDI work only with companies?
SDI's role was expanded in 2006 and it now also works with Scottish universities and colleges to advise them on market entry strategies, provide market research and help them to identify suitable business partners.

How many people are employed by SDI?
SDI has a team of nearly 200 home-based and overseas staff located in Scotland's main overseas markets. SDI's home-based teams are aligned with those industries that offer Scotland the greatest growth potential (life sciences; energy; electronic markets; financial services; tourism; and food and drink), while overseas operations are geographically organised (with around 80 staff operating throughout Europe, the Middle East, Africa, the Americas and Asia Pacific regions).

How is SDI performing?
Figures published by the European Investment Monitor (EIM) for 2006 suggest that SDI's integrated strategy to attract knowledge intensive projects is working well:

- Scotland's share of foreign direct investment projects coming into the UK averages at 8.75% over the five-year period, second only to the South East of England.
- Since 2002, Scotland has nearly doubled its share of the R&D projects coming to the UK, winning 11% of these projects in 2002 rising to nearly 25.5% in 2006 - one in five of all the R&D projects attracted to the UK.
During 2006/07 SDI secured 1,775 planned high value jobs, exceeding its projected range of 1,200-1,500. Overall levels of inward investment in Scotland were also strong with a total of 59 inward investment projects worth more than £313 million. These created or safeguarded in the region of 7,500 jobs. And during 2006/07 SDI assisted 625 Scottish organisations in priority industries to do business internationally.

Are there any reviews underway of SDI and if so, what stage are they at?
A recent review of Scotland’s engagement in North America has resulted in the appointment of Robin Naysmith as the new Scottish Government Counsellor in North America. He has overall responsibility for delivering the government’s strategic objectives in the US and Canada. His duties include managing diplomatic relationships and coordinating the work of SDI, VisitScotland and other Scottish Government agencies operating in North America. He also supports Scottish ministers and other representatives visiting North America and works to promote business, tourism and cultural exchanges for the benefit of Scotland.

What are the Scottish Government’s plans for SDI, and do they change from the previous administration?
The Scottish Government has so far not announced any new plans for SDI, apart from the appointment of the Scottish Government Counsellor in North America mentioned above.

Has the post of chief executive of SDI been advertised yet, and if not, when will this be?
The post of chief executive of Scottish Development International was advertised as an open competition on Friday 18 January 2008.
Establishment by the Scottish Government of a national economic forum

Background

1. Members may be aware that the Scottish Government plans to create a national economic forum (NEF) to supplement other newly created advisory groups on economic matters such as the Council of Economic Advisers.

2. To further the Committee’s understanding of the Scottish Government’s plans, the Convener asked the clerk to request information on the NEF, its purpose and proposed membership. A copy of the response received from the relevant Scottish Government official is set out in Annex A.

3. Members may wish to note that the NEF has been one of the subjects of the predecessor Committee’s inquiry into business growth and was one of the central recommendations agreed by all of the then members of the Enterprise and Culture Committee.¹ The then Scottish Executive did not agree to the recommendation. An extract from the Enterprise and Culture Committee’s report is set out in Annex B for interest. The Enterprise and Culture Committee also called for the establishment of a ministerial-led strategic group with all the relevant NDPBs represented.² This was also disagreed to at the time but has now been established by the Scottish Government.

4. Members will note that one of the variations between what its predecessor proposed and the Scottish Government’s NEF is the absence of parliamentarians on this new body.

Recommendation

5. The Committee is invited to consider the correspondence received from the Scottish Government and any comments it wishes to make, if any, on the creation of the national economic forum, its remit and its membership. In doing so, members may wish to reflect on the views expressed by its predecessor on the purpose and composition of such a forum and for the potential for overlap between such a body and the annual meeting of MSPs and ministers with representatives of the business community and trades unions as part of the Business in the Parliament Conference series.

Stephen Imrie
Clerk to the Committee
January 2008

¹ Enterprise and Culture Committee, 5th Report 2006, para 4(ii).
LETTER FROM THE SCOTTISH GOVERNMENT’S DIRECTORATE OF ENTERPRISE, ENERGY AND TOURISM (15 January 2008)

Dear Stephen

NATIONAL ECONOMIC FORUM

You wrote to Graeme Dickson on the 14 September asking whether consideration could be given to whether MSPs from relevant parliamentary committees might be invited to participate in the National Economic Forum. In a subsequent email exchange you also asked for more detail on the first meeting of the Forum, due to be held on 6th February. As Graeme has now moved post, I have been asked to reply.

As plans have developed, we have sought Ministers’ views on a number of aspects of the Forum’s organisation, including the issue you raised in your letter and I can confirm that Ministers are not minded to involve MSPs in this body. The Forum is a numbers-limited group, focussing on what particular sectors of civic Scotland, including Government, can do to achieve sustainable economic growth for Scotland. Ministers consider that MSPs already have ample opportunity for engagement with the business community and for engagement with the Government in Parliament.

The Forum will bring together senior figures and thought leaders in business, trade unions, government, the wider public sector, and the 3rd sector, as an important aspect of the Government's strategy to achieve transformational change and higher sustainable economic growth throughout Scotland. The first meeting will offer the opportunity for a discussion of the Government Economic Strategy and to help bring about an increased, shared understanding of Scotland’s economic challenges and potential solutions. The Forum will also provide a further opportunity for new initiatives and partnerships to flourish as a new form of broad-based social and economic partnership for Scotland.

Membership will balance appropriate representation from established interest groups and the public sector with the need to ensure that the Forum encourages and benefits from positive debate, and remains open to fresh and innovative ideas and thinking. Delegates will therefore include, for example, business representative bodies, STUC, COSLA, and NDPBs, but also established and emerging businesses, business award winners, and successful social entrepreneurs. The Forum will not have fully fixed membership and will retain flexibility (in terms of both size and representation), according to the theme(s) to be considered, around a core membership. We expect around 120 delegates to attend the first meeting.

Peter Ford will already have indicated much of this to you, but I know you will appreciate having a written response to your queries.

JAMIE HUME
Deputy Director, Enterprise & Industry Division

2 Ibid, para 162.
The importance of consensus for the economy

The Committee believes that a fundamental change to the policy-making process is required in Scotland if we are to realise the objective of improving the rate of business growth over the coming decade.

To do so, sustained efforts will be needed to realise a consensus on the way forward. Such an agreement on the necessary policies must be between the political parties within the Parliament, between the Parliament and the Scottish Executive and between government, industry, academia and the numerous bodies that will have a part to play.

Achieving such agreement will not be easy. It requires a mature approach to be taken and compromises to be struck. In agreeing the far-reaching and bold reforms set out in this report, we have ourselves managed to build such a consensus. The Committee places on record its willingness to play its part in striving for broader agreement within the Parliament and to work with others to build on our conclusions and recommendations.

The central importance of creating a national consensus on the economy was affirmed during the discussions we had with politicians, business leaders and academics on our fact-finding visits to Helsinki, Stockholm, Hamburg and Bremen. It was also drawn out in the research commissioned by the Committee examining policies in other parts of the world. The purpose of the visits and the research was to look at how other countries, regions or city-states had managed to tackle industrial decline, increase their rates of business growth and utilise the public sector and bodies such as enterprise agencies to create a thriving economy and grow companies in many sectors of the economy.

A common thread running through the lessons learned was the importance of the consensus achieved between parliament, government (central and local), business, academia and the general public in agreeing the key priority areas of action for the economy and how to work together to achieve them. Establishing such an agreement at sectoral, regional and national levels was seen in all cases as a prerequisite to success.

Of course, the countries and cities visited by Committee members had different reasons as to why the building of a national consensus on economic policy was so important. In Finland, for example, the prevailing view amongst the organisations and individuals that the Committee met was that the economic recovery after the collapse of the Soviet Union in the 1990s – described as the worst recession to hit

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4 Reports of the Committee’s fact-finding visits and events are included in Annex D of the 5th Report
an OECD country since World War II – would not have been possible without a national consensus on the way forward.

Similarly, the importance of a consensus across parties and between government, industry and academia was emphasised during the visits to Hamburg and Bremen. There, the importance of establishing a "pro-business consensus" was seen as being vital to success and critical if the city-states were to tackle the major problems faced by a decline in previously dominant heavy industries. Recognition of the need for such consensus was also borne out by our discussions on policies in the Republic of Ireland and the creation there of a National Economic and Social Forum\(^6\).

Politicians in the three countries visited by the Committee – Finland, Sweden and Germany – all expressed the view that their aim has been to create a political environment that offers stability for long-term planning to the business sector in order to encourage private-sector investment and that this can best, indeed only, be done through a consensual approach.

Based on the evidence from other nations that have achieved much higher long-term rates of business growth than Scotland, the Committee believes it is vital that, before all the other recommendations we set out can take effect, parliament, government, business, academia and the public must pull together to develop a meaningful consensus on bringing about a step change in Scotland’s long-term rate of sustainable business growth over the next 10 years.

**Implementation**

Building such a consensus should be thought of as a continuing process rather than a one-event short-term goal. This will require a permanent mechanism to facilitate discussion and agreement.

The Committee recommends the creation of a national economic forum based on the "triple-helix" model at a national level, taking forward and ultimately replacing the work undertaken by the annual Business in the Parliament Conference.

We must bring together, on a regular and semi-formal basis, Scotland’s policy-makers, business people, academics and other interested parties to agree and take forward jointly the strategic priorities necessary over the coming years to markedly increase Scotland’s rate of business growth.

Such a forum must not just be a ‘talking shop’ or a duplicate of other bodies. The Committee’s goal is that the forum replaces, where necessary, other structures and becomes the single entity whereby the necessary strategy and policies are discussed and agreed.

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\(^6\) The National Economic and Social Forum was established by the Irish Government in 1993 to contribute to the formation of a wider national consensus on social and economic policy initiatives, particularly in relation to unemployment, equality and social exclusion. More details can be found at: http://www.nesf.ie/
Policies agreed in the forum would be the responsibility of all of its members. The implementation of any initiatives discussed has to be taken forward by all the different groups involved. Stimulating business growth is not the role of government alone. Too often in Scotland, there is a dependency culture that suggests that it is only government that has to take forward the solutions to the challenges we face. The *quid pro quo* of membership of the national economic forum would be a responsibility to speak up during discussions and subsequently help take forward any policies agreed.