The Committee will meet at 9.30 am in Committee Room 2.

1. **The public sector's support for exporters, international trade and the attraction of inward investment**: The Committee will take evidence from—

   Dr Mike Cantlay, Chairman, and Riddell Graham, Director of Strategic Partnerships, VisitScotland.

2. **VisitScotland - discussions and decisions on the post of chief executive**: The Committee will take evidence from—

   Dr Mike Cantlay, Chairman, VisitScotland.

3. **VisitScotland - discussions and decisions on the post of chief executive**: The Committee will take evidence from—

   John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth, and Richard Arnott, Head of Tourism Unit, Scottish Government.

4. **The public sector's support for exporters, international trade and the attraction of inward investment**: The Committee will take evidence from—

   John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth, Scottish Government;

   Ed Payne, Senior Manager, Strategy, Scottish Development International.

5. **Protection of Workers (Scotland) Bill**: The Committee will consider the referral of, and its approach to, the scrutiny of the Bill at Stage 1.

6. **Subordinate legislation**: The Committee will consider the following negative instruments—

   The Census (Scotland) Regulations 2010 (SSI 2010/211)
The Census (Scotland) Amendment Regulations 2010 (SSI 2010/215)

Stephen Imrie
Clerk to the Economy, Energy and Tourism Committee
Room T3.40
The Scottish Parliament
Edinburgh
Tel: 0131 348 5207
Email: stephen.imrie@scottish.parliament.uk
The papers for this meeting are as follows—

**Agenda item 1**

Note by the clerk EET/S3/10/20/1

**Agenda item 2**

Note by the clerk EET/S3/10/20/2

**Agenda item 4**

Note by the clerk EET/S3/10/20/3

**Agenda item 5**

Note by the clerk EET/S3/10/20/4

Protection of Workers (Scotland) Bill and accompanying documents EET/S3/10/20/5

**Agenda Item 6**

Note by the clerk EET/S3/10/20/6

The Census (Scotland) Regulations 2010 (SSI 2010/211) EET/S3/10/20/7

Note by the clerk EET/S3/10/20/8

The Census (Scotland) Amendment Regulations 2010 (SSI 2010/215) EET/S3/10/20/9
The public sector’s support for exporters, international trade and the attraction of inward investment

Background

1. The Committee has received a written submission from VisitScotland in response to the Committee’s request for written evidence.

2. The submission is attached in the annexe to this paper and Members are invited to take it into account in their deliberations when questioning today’s witnesses.

Stephen Imrie
Clerk to the Committee
June 2010
SUBMISSION FROM VISITSCOTLAND

INTRODUCTION

1. Scotland’s visitor economy has shown its mettle over the last 12 months, under testing conditions. Last year, in the context of one of the global economy’s most difficult years, Scotland is likely to show an increase in visitor numbers. Based on this performance, VisitScotland believes tourism can play a leading role in Scotland’s economic recovery and investment.

2. While Scotland fared well against this background we can by no means afford to be complacent. We have an ambition to grow the industry and in the current climate it is crucial that we work together to get tourism growth back on track. And to grow, we need investment. Investment can mean many things. For the tourism industry it’s about investment in infrastructure, investment in quality and investment in marketing. In recognition of this, the industry has identified investment as one of the key themes of the refreshed tourism framework for change to help Scotland compete on the global stage and deliver sustainable economic growth.

INWARD INVESTMENT

3. Scotland has potential for major development and the public sector plays an important role in creating an environment where people want to invest. Tourism is important not just for its own sake but because Scotland’s reputation as a tourism destination has a wider impact on the country’s international profile and image and its attractiveness for inward investment.

4. Based on a previous Committee recommendation, VisitScotland has been working with Highlands and Islands Enterprise, Scottish Development International and Scottish Enterprise to develop a National Investment Plan. The Plan sets out a strategic approach to investment by proactively identifying the most important investment requirements and opportunities to drive industry growth based on consumer demand.

5. The aim is that the National Investment Plan will give direction and guidance for both the private sector and for public agencies, co-ordinating efforts and shared objectives across the range of agencies and partners involved in the development of Scottish tourism.

6. While Scottish Development International has the lead role in attracting international investment to Scotland, VisitScotland plays an important role in supporting the investment agenda by providing intelligence on key markets and customer segments which informs where investment should be focused in order to best support growth of the industry.

7. A planned approach to tourism investment needs to be based firmly on consumer research, both currently and looking forward. Such an analysis allows investment to be focused on where it can support the development of Scotland’s tourism strengths and key markets. VisitScotland has undertaken
extensive analysis of tourism consumer trends, domestic and international visitors, customer segmentation, gaps in products and current supply, as well as current tourism and wider development agendas and emergent local, regional and government policies to provide a basis for the investment priorities outlined in the National Investment Plan.

8. We have recently seen some excellent examples of large scale tourism investment in Scotland’s cities, including the new five star Missoni Hotel in Edinburgh, Blythswood Square in Glasgow and Malmaison in Aberdeen. However, there remains a need to secure more capacity in our cities and we also need to take account of the fact that investment in rural area is imperative if Scotland is to grow its tourism industry. Much of the draw for visitors is the high quality scenery and access to the countryside and coastline to enjoy a wide range of activities. The National Parks provide a focus for investment in rural areas, but the wider rural area plays a very important part in delivering visitor experiences around touring, the forests and general countryside access. In many cases tourism is the major economic opportunity for rural areas and tourism related investment will both serve to meet the visitors’ needs as well as supporting the viability of local communities.

9. On this front, VisitScotland works closely with regional partners to develop local and regional tourism development strategies and plans as well as wider area tourism partnership action plans to inform investment priorities at a local level. As with the National Investment Plan, our major role is to share consumer insights and market trends to inform strategic development.

10. EventScotland also works to promote Scotland as the perfect stage for hosting world class events throughout the year. Its world class facilities and resources make it one of the leading global event destinations and help attract inward investment from internationally renowned events such as the MOBO awards, The Ryder Cup 2014 and the Glasgow 2014 Commonwealth Games.

11. A range of other public sector organisations have a significant role to play in supporting an investment plan and driving investment in Scottish tourism. In addition to local authorities and the enterprise agencies, organisations such as Historic Scotland, Forestry Commission Scotland, Scottish Natural Heritage, the National Park Authorities and Transport Scotland are all required to play a part in making investment which support the growth of Scottish tourism.

12. The role of the public sector also has a strong role in influencing policy, encouraging industry and facilitating the delivery of investment.

13. The area of planning is of particular significance in enabling Scotland to attract and secure inward investment. Industry feedback suggests that the current approach exhibited by planning authorities around the country can be inconsistent from one area to another and there is a perception that the process could be more effective.
14. Moving forward, it is imperative that maximum effort is made to encourage and enable the types of investment which can support the economic growth of tourism and other industries across Scotland.

15. The priorities set out within the National Investment Plan should not merely be the responsibility of the public sector to deliver and if true growth is to be achieved in tourism, the private sector has a part to play in making investments in quality and innovative products which will meet the needs of customers.

16. Therefore, the successful development and delivery of a tourism investment plan is highly dependent on collective ownership, commitment and partnership around the major investment requirements and opportunities which can support industry growth.

17. We also use our role in “Team Scotland” activities and promotions to support growth and the investment agenda. We are closely involved with public and private sector partners in the joined-up promotion of Scotland, especially overseas, at events, trade fairs and business meetings. By using our marketing skills in this way we can promote the wider Scottish agenda.

**SUMMARY**

18. We need to give direction and stimulus for both the private sector and for public agencies, co-ordinating efforts and shared objectives across the range of agencies and partners involved in the development of Scottish tourism. We are also working with the banking sector to try and develop an increased desire to choose Scotland and tourism for investment opportunities.

19. An integrated approach is therefore vital to identifying and prioritising the key investment requirements for Scotland. Investment in accommodation, attractions and activities, public realm, transport and many other aspects of tourism related “infrastructure” is required in order for the total experience to be of the level required to maintain Scotland's competitiveness.

20. We can no longer continue to develop tourism in the way we have always done. Scottish tourism needs a step change in the way it both thinks and delivers growth, and a co-ordinated and concerted focus on investing in the areas of greatest opportunity and need will help drive this change. Tourism continues to exhibit good growth potential and we must harness it.

VisitScotland
March 2010
Economy, Energy and Tourism Committee

20th Meeting, 2010 (Session 3), Wednesday, 16 June 2010

VisitScotland – discussions and decisions on the post of chief executive

Background

1. On 1 June, 2010, the Committee Convener wrote both to the Chairman of VisitScotland and the Minister for Enterprise, Energy and Tourism regarding the coverage in the media of the post of chief executive at the national tourism board. Copies of the letters and the responses received are attached in the annexe.

2. Members are invited to take these letters into account in their deliberations when questioning today’s witnesses.

Stephen Imrie
Clerk to the Committee
June 2010
Dear Mr Cantlay,

Re. VisitScotland

I am disturbed to read reports in the press in recent days that indicate that a board meeting of VisitScotland was held on 14 May in Inverness during which the chief executive of the national tourism board was reportedly informed he was to be removed from his post. Whilst I recognise that neither you nor any spokesperson for the tourism board would comment on the matter, neither have you issued any explicit denial.

As you may be aware, this Committee’s first parliamentary inquiry of the new session was on tourism and since then we have taken a detailed interest in how the public sector supports this vital industry, one worth over £4 billion per year to Scotland. The delivery of the various recommendations we made – many of which VisitScotland supported – is predicated on the work of VisitScotland and its ability to focus on the challenges ahead.

I am writing to you, therefore, in a personal capacity, to ask you as a matter of urgency to bring clarity to this matter and provide me with a full explanation of your plans for the future structure, governance and strategy within VisitScotland. This should include a clear statement on whether you intend to make any changes to the senior management positions in the agency before the end of this parliamentary session. You should also detail what discussions, formal or informal, you have had so far with the Scottish ministers and/or their officials.

I intend to circulate the information you provide to the rest of the Committee so that we can discuss the issue as soon as possible. As you are aware, the Committee has agreed to return to tourism matters, such as the value of The Homecoming initiative and the failings with The Gathering, in the coming months. Your response will be important in shaping those discussions.

I would be grateful if you could provide a reply on this matter before 11th June as this will enable us to consider the matter without delay. I am writing in similar terms to the Tourism Minister.

Kind regards,

Iain Smith MSP
Convener
Dear Minister,

Re. VisitScotland

I am disturbed to read reports in the press in recent days that indicate that a board meeting of VisitScotland was held on 14 May in Inverness during which the chief executive of the national tourism board was reportedly informed he was to be removed from his post. Whilst I recognise that neither the new chairman nor any spokesperson for the tourism board would comment on the matter, neither have they issued any explicit denial.

As you are well aware, this Committee’s first parliamentary inquiry of the new session was on tourism and since then we have taken a detailed interest in how the public sector supports this vital industry, one worth over £4 billion per year to Scotland. The delivery of the various recommendations we made – many of which you supported – is predicated on the work of VisitScotland and its ability to focus on the challenges ahead.

I am writing to you, therefore, in a personal capacity, to ask you as a matter of urgency to bring clarity to this matter and provide me with a full explanation of the involvement of you, other ministers or your officials in any discussions on the future structure and governance within VisitScotland. This should include a clear statement on whether the Scottish Ministers intend to make any changes to the senior management positions in the agency before the end of this parliamentary session.

I intend to circulate the information you provide to the rest of the Committee so that we can discuss the issue as soon as possible. As you are aware, the Committee has agreed to return to tourism matters, such as the value of The Homecoming initiative and the failings with The Gathering, in the coming months. Your response will be important in shaping those discussions.

I would be grateful if you could provide a reply on this matter before 11th June as this will enable us to consider the matter without delay. I am writing in similar terms to the new chairman of VisitScotland.

Kind regards,

Iain Smith MSP
Convener
RESPONSE FROM VISITSCOTLAND, 10 JUNE, 2010

Dear Mr Smith

VisitScotland

Thank you for your letter of 1 June 2010 in which you asked for clarity around the media speculation, which was the result of a malicious leak, regarding the VisitScotland Chief Executive. We very much regret that this has been played out in the media when it should have been a private matter.

You will be aware that VisitScotland released a statement on Thursday 3 June in which it was confirmed that Philip Riddle is in discussions with VisitScotland regarding his position. It was also confirmed that Mr Riddle will not undertake Chief Executive duties while these discussions are underway. As a result of governance obligations, an interim arrangement is in place where the current Director of Visitor Engagement, Malcolm Roughead, is acting Chief Executive Officer.

I am sure you will appreciate that I am not in a position to comment further on the position of the Chief Executive while these discussions are underway. However, I can reassure you that the team at VisitScotland, with the full support of the VisitScotland Board, is fully committed to delivering the objectives set out in the organisation’s corporate plan, including the exciting, new domestic campaign which was launched last week.

Given that I will be appearing before the Committee on Wednesday 11 June, I will clarify the position as best I can then. In the meantime, I can confirm that, in line with the terms of my appointment, I have kept Scottish Ministers and the Sponsor Team within the Scottish Government appropriately appraised of the situation.

Yours sincerely

Dr Mike Cantlay
Chairman
RESPONSE FROM THE TOURISM MINISTER, 10 JUNE 2010

Dear Iain,

VisitScotland

Thank you for your letter of 1 June 2010 about press reports relating to the position of the Chief Executive of VisitScotland.

As you know, I made a statement in the Chamber of the Parliament on Thursday 3 June, clarifying the Scottish Government’s position regarding the media coverage of this issue. I trust this explained the Government’s position. For the avoidance of doubt, operational matters and especially personnel matters within VisitScotland are the responsibility of VisitScotland’s Board and management. It is therefore proper that VisitScotland made a statement about Mr Riddle’s position on Thursday 3 June. That statement confirmed that Mr Riddle is in discussions with VisitScotland about his position at VisitScotland. In that light, it would be inappropriate for me to comment further until these discussions are concluded.

You also highlighted that VisitScotland must focus on the challenges ahead for tourism. I wholeheartedly agree. VisitScotland has a key role to play in driving forward the changes the industry needs to make if it is to make a contribution to the Government’s economic ambitions and to achieve its growth potential. This is precisely the reason that I wrote to the new Chair, soon after his appointment, emphasising that one of the key priorities that we wish to see VisitScotland taking forward is working in collaboration with other key public agencies to help industry achieve “step-change” growth in the sector.

I understand that the Committee intends to consider tourism matters again in the coming months and look forward to updating your members about progress.

Jim Mather MSP
Minister for Enterprise, Energy and Tourism
The public sector’s support for exporters, international trade and the attraction of inward investment

Background

1. The Committee has received a joint written submission from Scottish Development International on behalf of joint venture partners: Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise in response to the Committee’s request for written evidence. Scottish Development International has also sent the Committee a joint update to its original written submission.

2. The submission is attached in the annexe to this paper and Members are invited to take it into account in their deliberations when questioning today’s witnesses.

3. Members may also wish to take into account the news release issued by the Scottish Government on 11th June 2010, covering exports. This is also set out in the Annexe.

Stephen Imrie
Clerk to the Committee
June 2010
Introduction
1. Scottish Development International (SDI) is pleased to submit this paper to the Economy, Energy and Tourism (EE&T) Committee as a combined submission on behalf of its joint venture partners: Scottish Government (SG), Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE).

2. To win investment Scotland faces intense international competition to demonstrate it is the best location to invest. SDI’s core competence is in the delivery of world class sales and marketing to both attract investment to Scotland and to encourage and support Scottish businesses to increase their international trade.

3. Critical to future success in attracting investment and increasing trade will be effective partnership working both at a Scottish and UK level, including:
   - alignment across the public and private sector to enhance the global competitiveness of the business environment in Scotland including: skills, research, transport, infrastructure, regulatory and fiscal environment.
   - harnessing the full potential of international networks and influencers and working with partners to actively co-ordinate the wider promotion of Scotland globally.

4. Both exports and inward investment are vital in supporting Scottish economic growth. For example, in 2008 Scotland exported £20.7bn of goods to overseas markets\(^1\), the ratio of overseas exports to total turnover in Scotland is around 10%. Exports to the rest of the UK were estimated to be £42.3bn. While the 1,825 foreign HQd enterprises in Scotland employed over 263,000 people (15% of total) with combined turnover in excess of £61 billion (28% of Scottish total). If companies owned elsewhere in UK are included there are 4,595 enterprises employing 628,000 people (35% of total private sector employment in Scotland) with turnover of £115 billion (52% of Scottish total)\(^2\).

5. Within this context the focus of SDI over the coming three years is to concentrate our resources on the generation of trade and investment opportunities for Scotland that help strengthen Scotland’s competitiveness within the global economy. More than ever we need to: understand the global economic environment we are operating in; benchmark ourselves against our international competitors; respond fast; and play to our strengths.

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\(^1\) Global Connections Survey 2008
\(^2\) Government, ONS (IDBR), 2008
6. In our key sectors Scotland is/or has the potential to be globally competitive in both attracting overseas investment and talent and in Scottish businesses gaining market share overseas. For example, Scotland has both natural, technical and research assets which give us significant international opportunities to be a world leader in developing a low carbon economy. SDI and our partner agencies can play a vitally important role in attracting investment to grow our renewable energy sector and in supporting the indigenous supply chain to maximise the global economic opportunities from clean technologies.

7. To do this, we must focus our efforts on helping Scottish businesses to become more globally competitive; and effectively communicating the benefits of investing in Scotland to companies around the world in an increasingly challenging environment. We remain responsive to the needs of our customers and continue to help them respond to the short term challenges they face in the current economic climate as well as supporting longer term growth.

8. A key priority is to work with SE, HIE and other partner organisations to encourage businesses to consider their international aspirations and look beyond Scotland for opportunities to grow their business.

9. If we are to maximise the impact we have in supporting Scotland to become a more globally competitive economy, then we need to nurture our existing partnerships and develop new alliances with both the public and private sector. We need all our partners to get behind the common purpose of internationalisation with everyone playing to their respective strengths so together we can deliver more for Scotland. SE, HIE and Business Gateway provide a seamless provision of customer focussed business support to companies while SDI focuses on specialist international business development support. SDI continues to be both an integral part of SE and HIE while aligning with other public and private sector partners to strengthen Scotland’s competitiveness and create a globally competitive business environment.

Global Context
10. The IMF forecast\(^3\) in January that most growth this year is likely to come from emerging economies including China (10%), India (8%) and the Middle East (5%) with developed nations showing slower growth e.g. US (3%), Eurozone and UK (1%) and Japan (2%).

11. The devaluation of Sterling, (which is 23% lower against the $ compared to June 2008, 12% against the Euro and 34% against the Yen) gives an advantage to Scottish exporters albeit against the backdrop of weak demand in most market sectors.

12. An increased level of uncertainty in the world and increased sophistication from competitor countries means Scotland and SDI need to further increase

\(^3\) IMF World Economic Outlook, January 2010
flexibility and agility to respond to international opportunities. All this sets out a tough and fragile global and domestic environment within which Scotland needs to compete to attract investment and support Scottish companies to internationalise.

13. Scotland, in a global context, is a very small market and tends to closely track UK performance\textsuperscript{4} which has slow growth forecast in the medium term\textsuperscript{5}. Therefore overseas markets become even more critical in accelerating recovery through both increasing international trade and attracting further investment into Scotland.

**Structure of submission and key areas of focus**

14. For ease of the Committee’s considerations the paper has been structured around the questions asked. We have, wherever possible, explained the approach and then given examples to illustrate the approach.

15. In developing this submission we would in particular like to draw the Committee’s attention to the three themes outlined below:

1) The opportunity and need to maximise investment as part of the transformation to a low carbon economy. This is a major feature of the Economic Recovery Plan and the Government Economic Strategy and as we have outlined will require support at Scottish Government, UK Government and by the EU to ensure we maximise the opportunity to secure investment particularly in relation to renewable energy. Our discussions to date with the private sector have been helpful in confirming that working in partnership there is an opportunity to secure substantial inward investment particularly in relation to the development of the supply chain which would help to optimise the economic benefits related to renewables.

2) To raise the aspirations of more Scottish businesses to actively consider entering international markets. At this time, more than ever, we need Scottish businesses to exploit international opportunities and capitalise on the low value of Sterling to accelerate Scottish economic growth. In the submission we detail how with SCDI and Scottish Chambers International we are taking a partnership approach to this.

3) To continue to push for all public and private sector players to actively consider the international dimension of their work and how in partnership Scotland’s assets can both be developed and exploited globally to support the economic growth of Scotland. A good example of this is the Scottish Academic Health Sciences Collaboration highlighted in the submission.

**Q1. What is the economic rationale for trade development and promotion in Scotland and what have been the trends in international trade and inward investment?**

**Overview**

\textsuperscript{4} Scotland’s Chief Economic Advisor, State of The Economy, Dec 2009  
\textsuperscript{5} IMF World Economic Outlook January 2010, In 2011: World Growth 4.3%, UK Growth 2.7%
1. or (16) There is a considerable body of evidence highlighting the market failures and barriers to international trade and investment that amply justify public sector intervention, particularly in positively addressing information gaps, developing international networks and internationalisation skills. This includes the Committee’s commissioned work through Cogentsi, as well as independent reviews commissioned by SDI in 2009 which looked at the present body of evidence on the economic rationale for government assistance. The key findings are summarised below:

The key barriers which impede internationalisation are:
- in general companies over estimate the risks involved in exporting and entry into new markets and as a consequence become risk averse
- for businesses wishing to trade overseas there are irreversible sunk costs involved with entry and exit being costly undertakings. This has a scale element. In particular smaller companies, lacking diversified management structures, do not have specialist resources (e.g. a marketing manager) which enable them to begin exporting. Such investment may be beyond many in the short term without public support
- in many cases businesses become locked into markets and courses of action and don’t consider exporting. An outside stimulus (e.g. attendance at a course or an event) can make a company change its direction and consider new markets.

The key barriers to attracting investment in Scotland are:
- potential investors are unaware of the benefits of locating in Scotland in terms of such things as skills, research base, infrastructure etc.
- the private sector alone cannot maintain adequate institutions and networks that support international linkages and knowledge flows

Governments also play a key role in providing access to contacts and key decision makers, and to some types of information, which private sector service providers cannot. Government reputation, in particular for impartiality and trust, is also an important aspect.

It should also be noted that the attraction of foreign investment is highly competitive and therefore Scotland needs to focus efforts on where it has a globally competitive proposition.

The role of government:
Governments and their agencies are well placed to address the barriers highlighted above. There is strong evidence that companies engaged in internationalisation or inward investment activity on average generate higher levels of labour productivity, pay higher wages and employ more people than their competitors who are not internationally active. Even more compelling is that companies who do enter new overseas markets further increase productivity as they are exposed to new ideas which they then adopt.

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7 Inward Investment Evidence Review, June 2009, DTZ, and Internationalisation Review, May 2009, Professor Harris & Dr Cher Li
The information, contacts and financial support made available through government and its agencies helps encourage greater investment and reduces the perceived risks to businesses. While the multiplier effect (e.g. inward investors will source a proportion of its products/services locally) means the benefits are spread wider through the supply chain.

Global International Investment Flows
Research by the OECD⁸ suggest that international investment flows dramatically reduced in 2009 by 50% with some sectors particularly affected e.g. automotive. This is forecast to stabilise in 2010 however further declines cannot be excluded. Overall the policy emphasis by countries has been to ensure free trade is not restricted. However there is a general concern that policies may be implemented in a way which supports ’smart’ protectionism, this includes policies to support indigenous companies e.g. bailouts.

There has been a significant increase in Foreign Direct Investment (FDI) flows in emerging economies. In 2000 emerging economies in the G20 accounted for only 1% of G20 FDI outflows while in 2008 this had increased to 12%.

Trends in Trade
The WTO report for 2008⁹ shows that with the onset of the recession there was a weakening of demand for goods and services, and imports and exports quickly dropped. Trade has also been adversely affected by the lack of credit to finance imports and exports. As we can see from chart below, exports and imports began to fall sharply across the OECD economies during the third quarter of 2007 and throughout the remainder of the year, deteriorating markedly during the third and fourth quarters of 2008. This rapid contraction closely mirrored the reduction in GDP experienced across OECD economies during the final two quarters of 2008.

As we can see from Figure below, global exports rose sharply across the world during the early part of 2009 as the global economy emerged from recession. In fact, there has been a dramatic rebound in world trade.

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⁸ The global economy and the global investment agenda - an OECD perspective, remarks by Angel Gurría, OECD Secretary-General, USCh Global Investment Conference, Washington, 10 March 2010
Having fallen by as much as 40 percent during the second half of 2008, by the middle of 2009 growth in world exports had resumed. Some observers attribute this growth particularly to the demand for imports across Asia, especially the huge growth in China’s imports. In fact, China doubled its imports from $50bn to $100bn during 2009 which has obviously been a huge boost to the global trading system.

For Scotland the Global Connections Survey shows that estimated export sales from Scotland have steadily increased from £17.8bn in 2004 to £20.7bn in 2008 despite the onset of the worldwide recession. Scotland continued to grow its exports in all manufacturing and service areas but export growth slowed in areas such as electronics and instrument engineering, mining and agriculture. Scotland has managed to increase exports to European and North American economies during this period. The biggest reduction in exports was to Asia. Future export trends are difficult to assess, the present fragile state of the global economy means total demand is less while the relative low value of sterling presently makes Scotland more competitive.

**Trends in Investment**

The UN reported that overall FDI falling by 39% from $1,700bn to $1,000bn in 2009, with decreases across all major groups of economies. After severe declines in 2008, FDI flows in developed countries dropped by a further 41%, while transition and developing nations fared little better, with a slump of 39%. The US, the UK, France, Sweden and Spain all saw sharp dips.

In June 2009 Ernst & Young reported that inward investment into Europe was flat in 2008, demonstrating the global recession’s toll on investment projects into the region. The report, which examines figures for international investments into Europe, new projects or expansions, revealed that in 2008

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12 Global Connections Survey
13 United Nations Conference on Trade and Development (Unctad)
14 Ernst & Young’s annual Country Attractiveness Survey 2009
Europe secured over 3,700 investment announcements, the same as in 2007. The number of projects remained steady but the impact of the impending recession on new employment was severe. The number of jobs created fell 16% to 148,000, accelerating a downward trend underway since 2004.

**Longer Term Sectoral Trends**
In most cases trend data are used at a sector level and considers both investment and trade information. To illustrate this, the trends in Oil and Gas over the last 8 years are detailed below along with how this is used to target our efforts to support globally competitive companies to take advantage of these opportunities:
Oil and Gas Supply Chain Trends

The graph shows that the proportion share of international sales has increased from 28% to over 40% in the last 8 years.

This trend data is supported by looking at wider international data to understand SDI’s country focus. For Oil and Gas an analysis of 30 country markets which looked at capex and opex numbers, business risk and political and economic risk factors was conducted. From this countries were defined as:

- prime prospects included Houston, Brazil and China,
- stable opportunities included Malaysia, Norway, Abu Dhabi
- high risk opportunities included Russia, Nigeria and Iran. This was fed into a delivery strategy which was put together in 2001 and refreshed in 2005.

Based on these key strategic market opportunities, these markets were then matched to an assessment of Oil and Gas industry strengths and then further refined through a series of in-market research visits to assess the match between market opportunity and industry capability. On average SDI assist over 200 oil and gas businesses a year to successfully access these markets. Over the last ten years supported businesses have achieved in the region of £1bn in international sales from business development activities directly supported by SDI.
Q2. Are the current strategy, policy and type of public sector support programmes the right ones in terms of the needs of Scottish companies and other organisations? Is the support right in terms of the changing economic circumstances, particularly for key sectors such as manufacturing?

**Developing SDI’s Strategic Direction**
SDI working closely with SG, SE and HIE has just refreshed its Strategic Direction and Priorities for the next three years (2010-13). This has been developed taking into account: (1) SG, SE and HIE priorities e.g. key sectors (2) evaluation evidence; (3) customer demand; (4) changing global opportunities.

**Flowing from this strategic direction, SDI’s objectives are to:**
- attract investment and talent which builds on Scotland’s globally competitive sectors
- raise the aspirations and capabilities of more Scottish businesses to think, compete and trade globally
- actively work with others to increase the global competitiveness of the business environment in Scotland and to align the wider promotion of Scotland internationally

**The main changes in emphasis in the strategic direction include:**
- responding to the specific demands of each key sector with recognition of the growing opportunities particular sectors such as renewables given Scotland’s natural assets and technical competencies
- raising the aspiration of more Scottish companies to internationalise by working with others
- even deeper engagement with globally competitive companies who can add the most value to the economy.
- greater emphasis to be placed on exploiting emerging sectoral opportunities in growth markets particularly fast developing economies

Customer feedback and evaluation evidence demonstrate that the current products and services provided by SDI deliver real, tangible benefits and offer a balance of practical support, access to information, expertise and business networks. In particular SDI staff bring, specialist expertise across all key sectors, provide international market access through our overseas field operations, and remain close to customers through staff located in all parts of Scotland.

Just as importantly to support the efforts of Scottish companies to grow revenues from international markets is that SE, HIE and Business Gateway deliver a suite of other complementary interventions to increase the competitiveness of Scottish businesses. For example, innovation and leadership support are critical in raising competitiveness and enabling companies to exploit international opportunities.

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15 SDI Strategic Direction, Priorities and Approach, 2010-13
An example of this complementary support includes the Scottish Manufacturing Advisory Service (SMAS) delivered by SE. SMAS specialise in providing manufacturing firms of all sizes throughout Scotland with expert advice, one-to-one support, training and events including lean manufacturing and driving productivity improvements.

Scotland also has key strengths in advanced manufacturing e.g. photonics, imaging systems, sensors. The company base has extensive experience at providing end to end supply chain capability from research and design through to fulfillment and aftercare. This has been built up in Scotland over the last 60 years through the Electronics industry. The highly skilled workforce, world class university research base and support like SMAS make Scotland a very attractive location which SDI can sell to potential investors.

The Scottish Economic Recovery Plan: Accelerating Recovery
The role of internationalisation in accelerating recovery is one of the central priorities in the Government’s Recovery Plan. The Plan recognises that ‘we are likely to see a repositioning of individual economies in the global economy and restructuring of industrial sectors within these economies, Financial and trade flows will alter bringing new opportunities for Scotland to exploit its comparative advantage’

Within the Plan there is a firm commitment to scale up support for exports and emphasis on the central importance of internationalisation with a renewed strategy to target inward investment opportunities where Scotland has a strong global position.

Recent initiatives include:
- International Strategy support – helping companies deal with a changed economic environment;
- Export credit finance workshops – alerting the Department of Business, innovation and Skills (BIS) and UKTI on instances where access to credit insurance is cited as a constraint;
- Trade missions – offering practical support for internationalisation including an enhanced programme of trade missions, with the aim of supporting participating companies to generate in excess of £250 million in international revenue;
- Exhibitions and Missions programme – 490 companies received support to attend overseas exhibitions in the year to December 2009, helping to secure additional overseas business;
- Overseas Market Support – 554 companies in the year to December 2009 benefitting from market research and/or in-market support for their business development.

There has been a changing balance of inward investment activity recently to safeguard existing jobs while taking the opportunity to attract new investment.

HIE – [http://www.hie.co.uk/](http://www.hie.co.uk/)
where possible e.g. the success with Tesco PF in attracting 800 new jobs shows that opportunities do arise and a quick, co-ordinated response can result in positive outcomes.

Despite the very challenging global trading conditions, SDI has delivered many new projects to bring and retain jobs from overseas investors. Between 1 April 2009 and 28 Feb Jan 2010 SDI has secured 3,627 planned jobs through inward investment (of which 1,789 are planned high value jobs).

As a result of the highly developed approach to customer support and inward investor aftercare there is a high level of insight into the challenges facing businesses. By maintaining strong working relationships with company representatives we are able, in the vast majority of cases, to provide early warning of potential re-structures or closures and to work with the company and key stakeholders to ensure all avenues are explored before decisions are made e.g. Vestas/Skykon, Goldfish.

The internationalisation response going forward is fully reflected in SDI’s strategic direction articulated at the beginning of this question. As the economic situation evolves we remain committed to continually reviewing our activity and directing resources to areas of greatest opportunity.

Q3. Specifically in relation to Scottish Development International – the leading public sector body for trade promotion – how the international account management system operates, who gets access to it, what services they offer in market to support Scottish companies not account managed in Scotland, what does it cost to operate, how many companies are supported and to do what, and how is the return on investment of the public sector presence in overseas markets measured?

SDI’s support to all Scottish businesses
SDI is committed to supporting/working with any Scottish business that wants to trade internationally. It is also committed to raising the aspirations of more Scottish businesses to actively consider widening their target markets to include overseas markets.

SDI provides a range of products and services that can be accessed by companies at all stages of growth, development and international aspiration. Companies at the early stage of development who have perhaps some way to go before being in a position to engage in international markets can access a comprehensive catalogue of services and information via BusinessGateway.com including: online self help tools; practical guides to exporting; and industry overviews and regulations. In the last 3 months over 1,000 international enquiries have been handled by the enquiry service.

SDI can work with companies on a project by project basis based on the companies’ needs and the economic benefits for Scotland e.g. supporting

17 http://www.bgateway.com/bdotg/action/layer?site=202&topicId=1079717544
attendance at international trade show or can work with the business on a co-ordinated suite of activities to support market expansion. In 2008/09 SDI gave substantive assistance to over 1,000 businesses e.g. participate in a trade mission overseas.

We also work closely with UKTI and Enterprise Europe in supporting companies to access international markets; this is described in detail in Q7.

SDI is looking, with partners, to further expand its work in this area and raise the skill level and aspirations of many more Scottish businesses to actively consider trading internationally. The Intelligent Exporter initiative described below is intended to support 8,000-10,000 businesses over the next three years.

**Intelligent Exporter initiative**

To upskill the wider company base and maximise the potential of Scottish business growth SDI is currently developing a strategy to deliver services and support to a wider range of businesses. This will be achieved by:

- working with partners to deliver services
- delivery of new services
- delivery of services through web channels

It will encourage more SMEs to become exporters for the first time and will both reduce the risks and increase the benefits to them. The intention is to reach over 12,000 individuals over 3 years with support ranging from awareness raising to fully integrated international business skills training.

A joint ESF submission for £3.4m (total programme £7.5m) has been submitted by SDI, Scottish Chambers and SCDI to fund additional delivery of services to enhance management skills in Scottish companies to enable exploitation of growth opportunities in international markets.

**SDI support to growth companies (in partnership with SE and HIE account management)**

Growth Companies are account managed because of their potential for to achieve growth and economic impact. The objective with these companies is to raise turnover for each company by at least £1m per annum after 3 years. SDI's work with growth companies varies depending on the specific needs and objectives of the company itself. Part of the SE/HIE process of working with business customers is to prepare a growth plan, setting out the milestones and objectives on the path to achieving growth. This plan contains actions for both the company and SE/HIE/SDI. Support to companies is then tailored to this growth plan and can include advice, networking opportunities, market research, and acting as a gateway to other agencies and providers of

18 or 10%+, if the baseline turnover is above £20m
specialist expertise. In 2008/09 of the 1,000 companies SDI supported over 800 were growth companies.

Prior to any engagement with a business, we address a number of criteria to ensure that the intervention meets our economic objectives, adds value and is appropriate use of budget. These include:
- would the activity happen without intervention?
- is it enabling the activity to happen more quickly or on a larger scale?
- is it helping to retain activity in Scotland; and what level of other funding is the intervention bringing to the project?
- compliance with all relevant regulations e.g. European State Aid Rules

**SDI support to attract investment and talent**
SDI has developed a world-class sales and marketing approach focused on promoting the competitive advantage that Scotland’s globally competitive sectors can offer to existing and prospective investors. We promote Scotland as a place for businesses to invest, including the capabilities of Scottish based businesses and our research organisations as trade or investment partners. We also promote Scotland to globally mobile talent as a great place to further their career.

We ensure the sales and marketing approaches we choose to reach our customers are the most effective and represent good value for money. The power of face-to-face communication cannot be underestimated. Recognising the value of personal recommendation, we use Globalscots and other networks as advisors to Scottish business and as sources of new opportunities.

Scotland has a very positive image, although its business reputation is not always well understood. In a world where competition for investment is ever more intense, we, with partners, need to manage this reputation more effectively by increasing use of new channels (e.g. online) to both retain and improve our position and increase the return on investment.

In 2008/09, when global FDI was significantly down, SDI still managed to secure over 1,807 high value jobs of these:
- 90% were in key sectors, and
- 49% were R&D related (rising from just 12.5% in 2002).

In focusing on our key strengths we need to attract the type of investment which is sustainable and will make a long term difference e.g. Scotland has secured 22% of R&D inward investment projects\(^{19}\) into the UK in the last 3 years (up from 17% in 2004) with over 35 projects including PPD, Doosan Babcock and Chevron.

As well as new investment we need to ensure we continue to support and develop existing investors through effective aftercare. Last year, more than 80% of the high value jobs that were secured came from existing investors;

\(^{19}\) European Investment Monitor
demonstrating both their commitment to Scotland and the globally competitive offering Scotland has.

SDI has built up its sales and marketing competencies over many years. This has been externally acknowledged through a number of awards won, including:

- Ranked 6th out of over 210 Inward Investment Agencies by the World Bank in 2009 (and top in UK).
- This year voted 8th top region in Europe out of 142 by the Financial Times in their fDi awards (with Edinburgh being voted ‘Best Small City of the Future’ for the 2nd time in a row and Glasgow being voted 2nd for ‘FDI Strategy for Large Cities’).

This capacity needs to be continually developed for SDI to maintain its world class standing and comparative advantage over other trade and investment agencies.

Deployment of Resources
Detailed below is a summary of the key activities carried out by SDI both in Scotland and in overseas markets. It should be noted that resources are used flexibly between trade and investment activities e.g. overseas staff have sector expertise which they will fully utilise to both work with potential investors to Scotland while also supporting Scottish businesses to find new markets overseas.

Direct Customer Support Activity includes:
- Overseas offices in 22 countries
- Co-location of customer facing staff with SE/HIE staff in local offices
- Overseas sales force targeting strategic inward investment opportunities and securing further investment for Scotland;
- Specific work for individual trade and investment customers, ranging from market research to reaching senior decision-makers;
- Networking, contact-building and opening doors for business – up to and including the highest levels of business and key government contacts;
- Building links to Scotland’s science and education base;
- Creating and providing platforms to showcase Scottish excellence and enhancing Scotland’s reputation globally through events
- Attraction of talent to Scotland through Talentscotland
- Influencing in Europe and supporting Scotland access EU funding through Scotland Europa
- Planned annual investment of £17.5m and 215 customer facing and delivery staff

Marketing and selling of Scotland’s strengths, online services and support:
- Focused on demand stimulation, developing an efficient ‘engine room’ to support the business and delivering and managing products to address the needs of Scottish businesses to grow internationally.
• Demand stimulation is driven by sector marketing strategies, focusing investment on key subsectors within key markets. Direct activity, including internet marketing, will continue to dominate SDI’s activity. There will also be significant demand stimulation activity for key products such as strategy & preparedness support;
• Development of a world class website and extranet that will enable a smarter engagement with customers, prospects, partners and staff. We will continue to develop smarter and more focused propositions based on where Scotland has a competitive advantage.
• SDI’s product offering will be further enhanced through the development and delivery of solutions which address the needs for more strategy support, preparedness, sales and marketing and Internet marketing. There will be new web based solutions which will give all businesses access to support in these areas.
• Support functions including: performance management, ministerial briefing team, CEO’s office
• Planned annual investment of £5.9m and 36 staff.

SDI - Return on Investment
The return on investment compares favourably against other business support evaluations and very favourably against Regional Development Agency evaluations of inward investment\(^2\). The main factors considered in order to maximise ROI are:

\(^2\) Based on looking at value for money comparisons between the different evaluations conducted and making an assessment of their comparability given the differences in the methodologies used.
<table>
<thead>
<tr>
<th>Factor</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Economic Strategy</td>
<td>sectors with greatest potential (the identification of key sectors)</td>
</tr>
<tr>
<td>SE &amp; HIE Board strategic direction</td>
<td>the focus on supporting companies to exploit their global</td>
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<td></td>
<td>competitive advantage (globally competitive companies)</td>
</tr>
<tr>
<td>Sector/Industry plans</td>
<td>helping to identify the nature of specific growth opportunities</td>
</tr>
<tr>
<td>Economic analysis</td>
<td>relatively longer term opportunities that have led us to invest more in</td>
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<td></td>
<td>China and shorter term opportunities such as trying to exploit changes</td>
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<td></td>
<td>in market conditions (e.g. opportunity to increase Scottish salmon</td>
</tr>
<tr>
<td></td>
<td>exports)</td>
</tr>
<tr>
<td>Competitor analysis</td>
<td>the ability of Scotland to successfully compete against international</td>
</tr>
<tr>
<td></td>
<td>competitors and understanding of the unique strengths of the Scottish</td>
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<td></td>
<td>proposition</td>
</tr>
<tr>
<td>Economic circumstances</td>
<td>the introduction of the sell now, pay later campaign, in quick response</td>
</tr>
<tr>
<td></td>
<td>to the, then emerging recession</td>
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<tr>
<td>Current operations</td>
<td>understanding the relative relationships between investment made in</td>
</tr>
<tr>
<td></td>
<td>different geographic markets and the return achieved in relation to the</td>
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<tr>
<td></td>
<td>overall global sectoral opportunity.</td>
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<tr>
<td></td>
<td>staff capabilities e.g. we have a small team covering a global geography</td>
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<tr>
<td></td>
<td>and must maximise contribution each individual can make</td>
</tr>
<tr>
<td>Evaluation evidence</td>
<td>we learn both from the analysis of others (e.g. UKTI) and our own past</td>
</tr>
<tr>
<td></td>
<td>activity</td>
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</tbody>
</table>

An independent comprehensive evaluation of SDI’s activities has just been completed and the full report is expected to be published by end April 2010. Some of the initial findings from the evaluation are detailed below:

**Internationalisation of Scottish Businesses – key findings**

- The overall capability of businesses has been improved by working with SE/SDI over a range of international capability measures as shown below, ranked from 1 (low) to 5 (high):

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21 The evaluation is being conducted by SQW Consulting and includes (1) econometric analysis using the Annual Business Respondents Database (2) customer surveys of both Scottish businesses assisted to internationalise and inward investors supported, and (3) in depth case studies.
Businesses operating internationally had higher productivity
SE/SDI assisted business have 19% higher productivity than those not assisted
60% of companies assisted had made or planned to make changes to their businesses as a result of working with SDI
Overall companies had significantly improved their capability through working with SDI, this included: internationally marketing, understanding how to develop products for foreign markets, developing a strategic international plan etc
Just under half of companies had already achieved sales in new overseas markets and 78% expected to achieve sales
16% had invested more in R&D this rises to 30% when those that expect greater investment are included.
49% of assisted business had been exposed to new ideas and of these 90% had adopted new ideas; most considered this had made them more competitive
Within sample, impact on exports attributable to SDI assistance average £101,000 per case. Over the period under review the net effect overall is £174m
Overall the support delivered between 2005/06 and 2008/09 is estimated to have generated £75m of additional GVA (as this only includes actual sales the real return is likely to be higher and in the order of an additional £50m to £150m)
Every £1 invested in internationalisation generates an estimated return of £6.

Inward Investment – key findings
SDI assisted inward investors pay higher wages and have higher labour productivity
The majority surveyed consider SDI to have been important in ensuring their continuing presence in Scotland
The majority have also increased their product range, R&D investment and
geographic markets and SDI have played a significant role in this

- 25% are carrying out more or higher quality R&D as a result of SDI assistance
- 25% consider their presence has had a positive effect on suppliers’ use of technology and productivity
- It is estimated that GVA associated with additional employment between 2002 and 2009 averaged £301m a year. Every £1 invested generates an estimated return of £12 (this takes into account costs of grant support e.g. RSA, R&D+)

Q4. What type of support would businesses and other organisations like to see being supplied and who should supply it?

**Barriers and popular forms of assistance**
The Global Connections Survey details the main barriers to exporting which companies have identified, the top ten barriers are detailed below:

14% products/services unsuitable for export
11% transport costs
10% lack of resources/management time
9% currency/exchange rate
7% setting competitive prices
7% lack of market information
6% legislation and standards
6% payment issues
6% cultural barriers
4% lack of trained staff

Those marked * represent the main areas of focus where SDI directly support Scottish businesses to overcome these barriers and trade internationally.

With the most popular forms of assistance identified by companies to internationalise being:

12% Intro to potential overseas customers
10% Market research
9% Exhibiting at trade fair
9% Finding export agents/distributors
9% International marketing
7% Finding joint venture partners
7% Entering new markets
6% Overseas trade missions
5% Developing an international trade strategy
5% Translation assistance and export training

SDI provides, with partners, all the types of assistance listed above.
A recent survey by the HSBC\(^{22}\), summarised the challenges in supporting businesses to consider international markets well:

‘The key finding of this study is that the reality of international trade is less expensive than domestic businesses currently perceive and the returns from setting up an international venture are actually greater than they expect. This dichotomy is one of the greatest hurdles that businesses need to overcome in order to take that first step abroad.’

SDI working with Scottish partners to deliver seamless support

If Scotland’s international ambitions are going to be achieved then there needs to be close collaboration of effort across the different public and private sector players to deliver this.

As referenced earlier, SDI and its partners provide a number of international products and services to support Scottish businesses and potential investors to achieve their international aspirations. These include training, R&D support as well as more direct financial assistance through RSA and other grants. Support will most often be delivered through a package of interventions to assist companies with their growth plans over a period of time.

In many cases businesses will need more than one type of assistance in order to pursue their international ambitions and aspirations. An example is given below, where a sequence of co-ordinated support was delivered over a ten-year timeframe in support of the company’s growth ambitions.

**Mackays - A globally competitive business based in Arbroath**

Mackays, a family-run business, has been making world famous marmalades and preserves for over 70 years. The business has grown considerably over the past ten years and currently employs a team of 90 people. It has won a significant share of the international retail market and today export to 25 countries world wide. Support from SDI/SE includes:

- New Product Development Support
- Global Companies Development Programme
- International Market Development - Russia
- International Market Development – Middle East
- International Market Development - USA
- SMAS Manufacturing Review
- Emerging opportunities in China and India

Over the last ten years it has increased turnover from £1m to £8.5m with 35% of its products exported.

SDI works closely with both public and private sector partners to realise international opportunities. A sectoral example of this is our work with Scotland Food and Drink:

\[^{22}\text{HSBC Survey – Going International, August 2009}\]
Scotland Food and Drink – the international dimension

SDI has worked in collaboration with Scotland Food and Drink since the leadership body's launch in 2007. SDI is represented on the Scotland Food and Drink Executive Group and on the Reputation Working Group.

The refreshed Scotland Food and Drink Strategy which was launched in December 2009 has an objective of increasing exports from £3.7bn to £5.1bn by 2017. SDI has worked very closely in collaboration with the Scotland Food and Drink Board and key partners to lead on the development of an international strategy and programme of market development activities that will deliver international growth for the industry.

Work has been done to prioritise international markets based on the size of growth opportunity for the Scottish industry e.g. Scottish salmon sales to the USA and programme of workshops/exhibitions put in place to enable companies to internationalise. This approach provides a cohesive and focused programme of support bringing all partners together with a clear international growth objective.

All international events, missions and exhibitions organised by SDI use the 'Scotland, Land of Food and Drink' branding. SDI have also introduced preferential rates for Scotland Food and Drink member companies on participation costs at all international food and drink exhibitions where SDI is organising a Scotland Food and Drink Pavilion. This benefit has been very successful in encouraging more companies to exhibit overseas and has also helped recruit new members to Scotland Food and Drink. Over the next 12 months, SDI will organise a Scotland Food and Drink stand at eight international food and drink exhibitions and provide international support to over 100 companies.

‘Through our attendance at ESE each year, SDI provides Seaproducts of Scotland with a fantastic platform, through the Scotland Food and Drink pavilion, to promote our business and products on a truly international stage. We use ESE to mainly service and build on our relationships with existing clients but it also gives us an opportunity to look to identify potential new business opportunities.

On a more strategic level, SDI has arranged on a number of occasions for our CEO, Bjorn Myrseth, to be introduced to Scottish Ministers where he has raised with them potential issues and thoughts around our continued expansion within Scotland.’ Willie Liston, Seaproducts.

We also work with pan-UK agencies, and UKTI in particular, to good effect and this is described in more detail in the Q7 response.
Q5. Do we have the correct balance between the attraction of a diverse range of inward investment and the type of support needed for exporting and international trade?

The activities of SDI are both demand and opportunity driven. Business customers look for assistance based on their own growth aspirations and the international opportunities which they can capture, while the key sectors in Scotland articulate the key strategic gaps where they can both expand overseas trade and attract new investment to fill gaps in the sector in Scotland.

Both inward investment and international trade are critical contributors to Scotland’s economic growth. The relative importance, and therefore resources that should be devoted to each, varies over time and across sectors. Inward investment and internationalisation are not mutually exclusive, for example inward investors are major exporters from Scotland (in many cases Scotland looks to attract the European base for both American and Asian corporates).

The challenge was described in the Fraser of Allander Economic Commentary Report from June last year:
‘The expansion in Scotland’s export base necessary to secure the desired increase in growth is unlikely to be achieved without significant successes in attracting inward investment. There are obvious difficulties in the attraction and retention of high quality foreign direct investment. But Scotland won’t make the transition from recovery to a higher growth path without it, given that Scotland’s domestic business birth rate remains stubbornly low and business R&D is amongst the lowest in the western world. The issue of how we can attract the required high value, inward investment to rapidly boost our export base should be a key topic of public debate in Scotland over the next few years.’

Summary of Opportunity (Demand) in Key Sectors
Detailed below is a summary of the specific demands placed on SDI by the key sectors for both trade and inward investment. Flexibility and the ability to respond quickly to new opportunities are critical given the dynamic global economic environment. Where the opportunity balance of activity is significantly skewed to one area of activity (e.g. trade rather than FDI) then this is indicated by a ◊ (those not marked indicate that balance of activity is broadly the same).

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23 Fraser of Allander Economic Commentary June 2009
<table>
<thead>
<tr>
<th>Sector</th>
<th>Trade</th>
<th>Foreign Direct Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Renewables</td>
<td>enable supply chain to capture more UK, European and Global business including: Offshore Wind and Marine</td>
<td>target new opportunities and supply chain development including Offshore wind, Bioenergy, Hydrogen &amp; Fuel Cells, promote Saltire Prize, attraction of technical talent</td>
</tr>
<tr>
<td>- Thermal, Carbon capture &amp; storage</td>
<td>Work intensely to promote Scottish capability and expertise in CCS technologies worldwide</td>
<td>Targeted inward investment to support development of the sector in Scotland. ✪</td>
</tr>
<tr>
<td>- Oil &amp; Gas</td>
<td>increase value of international activity from Scotland supply chain by £5bn by 2012 (baseline of £5.6bn in 2007) ✪</td>
<td>targeted R&amp;D centres, Enhance Scotland as a key centre in oil &amp; gas subsea, attraction of technical talent</td>
</tr>
<tr>
<td>CI &amp; ET</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Creative Industries</td>
<td>increase levels of international collaboration, encourage start up companies to be 'born global', exploit IT</td>
<td>focus on activity which supplements present strengths e.g. R&amp;D in ICT, major games company, attraction of creative talent</td>
</tr>
<tr>
<td>- Enabling Technologies</td>
<td>assist companies in key product markets e.g. sensors, modelling &amp; simulation, informatics to access global markets</td>
<td>utilise international networks to increase the potential for job creation via specific inward investment, attract talent</td>
</tr>
<tr>
<td>Life Sciences</td>
<td>support the international growth aspirations of organisations located in Scotland including stem cells, regenerative medicine, clinical and translational medicine, drug discovery and medtech.</td>
<td>stem cells and translational medicine a priority, attract anchor tenant for Edinburgh Bioquarter, attraction of senior management talent. Explore emerging potential for telehealthcare and natural products in Highlands &amp; Islands.</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Focus on key sub-sectors e.g. helping asset managers to access markets where government support is important to make high level connections, for example China &amp; Japan</td>
<td>protect Scottish based operations, exploit expansion opportunities, maintain and grow high value FS &amp; BS operations in Scotland, homeworking opportunities in rural areas, attraction of talent ✪</td>
</tr>
<tr>
<td>Food &amp; Drink</td>
<td>Working with Scotland Food &amp; Drink exploit premium growth market opportunities building on the industry's role as a premium player, promote opportunities &amp; embed international action planning into companies ✪</td>
<td>functional food/nutritional health offers good medium to long term potential. String focus on supporting existing investors.</td>
</tr>
<tr>
<td>Tourism</td>
<td>working in collaboration with VisitScotland and limited AM companies particularly for markets not covered by VisitScotland network</td>
<td>deliver higher value new developments within Scotland e.g. 5 star city centre hotels and golf resorts ✪</td>
</tr>
<tr>
<td>Universities</td>
<td>international business development support for the universities (and colleges), key markets are India, China and the Middle East with a focus on new business</td>
<td>attract business investment which compliments the research being developed in universities</td>
</tr>
</tbody>
</table>
SDI also continues to support the international opportunities in other growth sectors including: Chemicals, Textiles, Aerospace, Defence and Marine, Forest Industries, Healthcare, Education and Construction. See below a short summary of the scale of opportunity in the chemical sector.

**Chemicals Sector: Scale and Opportunity**

Chemicals is a hugely important sector to the Scottish economy generating around £3.5 billion of manufacturing exports in 2008 (top export sector from Scotland). From a revenue stream worth £9.3 billion it has the second highest GVA per employee of any industry in Scotland (£182k). It accounts for 25% of Scottish manufacturing by turnover and 6% of Scottish manufacturing employment. It directly employs 14,000 skilled staff, many of them graduates with 70,000 jobs in Scotland directly dependent upon it.

There are approximately 150 chemical companies in Scotland, including many of the world’s leading chemical/pharma companies such as INEOS, DSM, BASF, GSK, Dupont, Organon, Syngenta and Dow Chemicals. The sector accounts for 50 per cent of all industrial R&D in Scotland (including Pharmaceuticals). Scotland’s highly-rated universities produce around 1,000 graduates per annum, with EastChem (St. Andrews & Edinburgh universities) RAE rated as No. 1 in the UK, ahead of Oxford, Cambridge and Manchester.

Speciality chemicals is a particular area of focus as it operates at the high end of the value chain, has higher margins and high growth potential. Growth areas in this sector include specialist organics and inorganics, additives, pesticides, paints and dyes.

With 25% of Europe’s wind and wave resource and 10% of the tidal potential the present international opportunities for Scotland in renewables are significant and are described in more detailed on the next page.
**Case study: Renewables sector**

**Market opportunity:** Scotland is renewable resource rich with 25% of Europe’s wind and wave resource and 10% of tidal potential.

**Government Policy:** The SG has set stretching targets across a broad range of Renewable Energies and published the Renewables Action Plan. Targets are:

- 31% of power from Renewables by 2011 & 50% by 2020 (currently 22%)
- Carbon Emission reduction target of 42% by 2020

International opportunities include: influencing regulatory environment to be pro-investment e.g. FREDS.

**Offshore Wind (market 2010 – 2020):**

- UK Round 3, 9 zones 32GW offshore developments estimated £70-80bn market.
- Offshore wind developments in Scotland will amount to capital expenditure estimated from £25bn to £30bn on offshore wind projects. Scottish projects include 2 UK Round 3 zones (Firth of Forth 3.5GW and Moray Firth 1.3GW) and 10 Scottish Territorial Waters projects 6.4GW.
- European Offshore Wind market: estimated further £75bn capital exp by 2020.

International opportunities include: attraction of turbine manufacturers, sell offshore engineering expertise (built up through Oil & Gas Industry)

**Marine Energy:**

- the Crown Estates have launched a licensing round for the Pentland Firth with the target of achieving 700MW of wave and tidal energy generation by 2020. Marine Renewables have been identified by the Government as the key area in which Scotland already has a world lead in technology development
and the potential to create an industry from scratch.

International opportunities include: promotion of Saltire Prize, develop leading edge expertise which can them exploited globally, R&D challenge to attract technology innovation, attraction of talent.

**Infrastructure Investment:**

- **Ports and Harbours:** an estimated expenditure of c £250m required
- **Transmission system:** Grid extensions in Scotland: Beauly –Denny, subsea link to Shetland, Hebrides, Orkney, Thurso to Keith and East and West coast links into England £3bln by 2020.
- **European SuperGrid:** an EU strategic priority but a longer term opportunity - potential capital expenditure of up to £150 - 200bln by 2030-35.

International opportunities include: attract cable suppliers, develop supply chain and maintenance functions.
Q6. Should we prioritise where we target the public sector resources and intervention in terms of specific sectors of the economy, a geographic focus, on a specific type of company (i.e. those more interested in exporting and trade or those already active in that regard), on opportunities of a particular scale etc?

SDI fully agrees with the need to prioritise resources and interventions in relation to opportunity and impact on economic growth. We have outlined in our response to earlier questions and in particular Q6. The approach that is undertaken to try to achieve the optimal balance between short term and longer term considerations. In addition we believe it is helpful to inform the Committee of the following:

**Key sectors and other growth sectors**
SDI will continue to work with its partners to focus efforts on key sectors and areas of opportunity (e.g. technologies) where Scotland is/can be globally competitive. A summary of opportunities for each key sector is given in Q5.

**Assessment of opportunity determines geographic coverage**
As the world economic map evolves, Scotland needs to re-assess global opportunities to take advantage of the shift in international economic activity towards developing markets. Work is underway to evaluate the criteria to be applied in the future identification and selection of key fast developing markets. These criteria are likely to include:

- Market match with the profile of Scotland’s globally competitive sectors
- Market size and potential for growth
- Strategic economic importance
- Strength of the scientific, technical and research base
- Performance of Scottish businesses relative to competitors
- The additional impact SDI can have in supporting firms

The results of this work will inform future demand generation activity and the SDI market awareness raising programme. Where SDI has no direct local presence then we work closely with UKTI staff to deliver for Scotland.

**SDI Overseas Locations**
Broader Engagement with more companies
SMEs will continue to be a key client group. SDI will focus on particular customer groups that have the greatest potential to add value to the economy, notably innovative companies and companies in specialised sub-sectors. To raise the overall ambitions and aspirations of businesses to internationalise SDI is enhancing its online products and use ‘one to many’ events to engage with more organisations. This will be done collaboratively with Business Gateway, Scottish Chambers and other partners.

Those with greater ambition will be encouraged towards SE and HIE’s business growth support. We will also influence others to raise the ambition of leaders of the future through initiatives like the Saltire Foundation. SDI will increase the effective use of on-line products/services to support customers and will maximise the use of e-marketing and other innovative channels for communication.

The impact of these activities will be felt in the medium to long term as more companies develop the skills and confidence to successfully expand into overseas markets.

Deeper Engagement with those businesses that can have the greatest impact
To realise short term economic benefits SDI will work more intensively with globally competitive businesses which, with its support, can have the greatest impact on the Scottish economy. Our evaluation work to date also suggests that working deeper with companies in getting them ready for internationalisation e.g. international strategy workshops has more impact. SDI will increase its concentration on working with:
- innovative companies;
- those with high R&D intensity (commercialising R&D);
- high value potential investors;
- ambitious growth companies;

SDI continue to seek out those companies where our support can have the most impact and tailor support to the requirements of our customers.

Q7. Do we have the right amount of co-operation and a joined up approach within the public sector in Scotland, between the public sector and the trade and promotion agencies run by other bodies, and also between the agencies in Scotland and those at a UK level that also carry out related activities on behalf of Scottish companies? This should also cover how the public sector could facilitate business-to-business mentoring, within industries and from successful industries (e.g. oil and gas, and whisky) to other industries and, specifically, a review of what
the Globalscot Network delivers and whether it could be used more effectively in order to maximise its potential?

**Joined up working across the public sector**

SDI’s Strategic direction includes increased emphasis on ensuring alignment of internationalisation work and supporting the wider promotion of Scotland. There is recognition of the much wider collaboration with both public and private sector partners e.g. VisitScotland, Skills Development Scotland, Scottish Funding Council, industry bodies, universities SEPA, Historic Scotland, etc., as well as collaboration with other players outwith Scotland, particularly UK agencies e.g. UKTI, FCO, BTU to support internationalisation of Scottish businesses and the attraction of investment to Scotland.

Through the Strategic Forum, SDI has been working with SG and partner agencies to strengthen overseas collaboration. Four general areas have been identified by the partners where future collaboration has the greatest potential to reap significant benefits. These are:

- Promotion of Scotland
- Innovation & Commercialisation
- Major Events
- Wider Business Engagement (e.g. industry/ private sector)

In all these areas significant collaboration already happens and the desire of partners was to assess how this could be further strengthened. Work is now ongoing to develop approaches in all four areas. For example, in the areas of science, technology and innovation several bodies contribute valuable expertise, notably Chief Scientific Officer, Scottish Funding Council, Universities and industry bodies. We need to promote and support further commercialisation from our strong knowledge-generating capacity and ensure Scotland reaps the global dividend from this asset base.

**UK level co-operation**

SDI works in partnership with UKTI to ensure that companies based in Scotland benefit from an integrated package of SDI and UKTI Trade and Investment services. We extend our combined resources to support success in international markets for Scottish businesses.

UKTI provide the market intelligence and, in some geographies, access to markets where SDI do not have a physical presence. UKTI staff based in UK embassies and High Commissions overseas offer SDI both economic and business insights, often with commercial implications.

Some typical examples of joint working include:

- Olympic & Commonwealth Games – joint conferences and the UKTI / BIS sponsored Compete-For web portal
- UKTI business opportunities have been incorporated into SDI’s International Business Opportunities product e.g. tailored sales leads, fiscal stimulus opportunities
• UKTI Professional Advisors Network – SDI encourages Scottish professional advisor companies to engage in the UK’s network and is establishing a Scottish Advisors Network to mirror UK approach
• Ongoing cooperation on high profile market awareness events e.g. the recent Asia Taskforce event at Murrayfield stadium
• Co-location of SDI staff in a number of Embassy/Consulate offices

SDI in partnership with UKTI also offer:
• information on local regulations
• advice on local partners, commercial services (lawyers and accountants), and on setting up joint ventures or local investments, and
• market research, ranging from simple checks on whether a market exists for a particular product through to more complex work supporting product launches or significant investments in global markets by businesses

European Co-operation
Through Scotland Europa, SDI continues to ensure Scotland’s voice is heard in Europe through networking and influencing. It increases the positive perception of Scotland as a place to do business. Scotland Europa also supports access to EU funding opportunities.

Enterprise Europe Scotland (EES), delivered by SE, also plays a key role for Scottish business, supporting Europe’s largest technology and business network, connecting knowledge know-how and people across Europe. The Enterprise Europe Network spans more than 40 countries, has over 600 partner organisations, 4,000 advisors and thousands of companies interested in doing business in Europe.24

Wider industry and private sector engagement
The role of Industry Advisory Boards is critical in articulating the demands of industry and the international elements of this to allow SDI and other partners to prioritise and respond to this demand.

SDI works closely with partners involved in each key sector to ensure the international opportunities are fully exploited. An example of this approach in the attraction of investment to Scotland is given below:

Translational Medicine Research Collaboration (TMRC), and the Scottish Academic Health Sciences Collaboration (SAHSC)
It was recognised that Scotland had a competitive global advantage in Translational Medicine as a result of expertise and systems in the NHS in Scotland and in Scotland’s major universities. SDI and SE worked with these organisations and developed a very compelling proposition which was presented to global top 10 pharmaceutical company, Wyeth. This resulted in 2006 in the establishment of a major multi-centre collaboration with Wyeth in

24 http://www.enterprise-europe-scotland.com/sct/
To take the initiative forward the Translational Medicine Research Collaboration was formed. The TMRC involves 4 of Scotland's universities, NHS Scotland and SE. SDI's specific role was in helping facilitate a coherent plan with the pan-Scotland ‘team’, facilitating the front end selling of our proposition to the company.

In terms of drug development timescales it is still comparatively early days, but to date 68 research projects have been initiated and Wyeth (subsequently acquired by Pfizer) have invested approx £33m in the initiative. Wyeth themselves made clear that if there hadn't been the genuine depth of collaboration between the various public sector organisations they wouldn't have come to Scotland, and the opportunity for significant economic and health benefits would have been lost.

To capitalise further on Scotland’s expertise in this area, the Scottish Academic Health Sciences Collaboration was established in 2009. The SAHSC created a world leading platform for patient oriented research that will contribute significantly to Scotland's reputation as a centre of excellence in Translational Medicine. This new initiative built on the close existing collaboration between SDI, SE, NHS Scotland and academic partnerships already existing in Aberdeen, Dundee, Edinburgh and Glasgow, and through these to other Scottish Health Boards and Universities. SDI and SAHSC are currently undertaking joint international marketing to major global pharmaceutical and med tech companies to attract further investment to Scotland.

The collaborative approach is just as important for supporting businesses to trade internationally. For example in Food & Drink a major effort has been undertaken by a range of public and private sector partners in the last two year to fully exploit the increased opportunity to export salmon from Scotland.

**Farmed Salmon – Exploiting Opportunities**

Currently Scotland is the world’s 3rd largest producer of farmed salmon. The second largest producer, Chile, has recently encountered serious disease issues and as such production there is set to drop significantly. This has created an increase in global demand for Atlantic salmon, especially in North America.

The Scottish salmon industry has identified a market opportunity, over the next five years, for production of an additional 60,000 tonnes of Scottish farmed salmon. This would help to meet the worldwide demand for salmon, capitalise on the market gaps and provide more than 400 new farming and processing jobs and an extra £110 million to the Scottish economy.

SE and key partners including: Scottish Government, Scottish Salmon
Producers’ Organisation (SSPO) and HIE have worked closely over the last two years to engage with the Norwegian owners of Scottish based salmon companies to encourage increased investment and production in the Scottish salmon industry. During the European Seafood Expo in April 2009 and at AquaNor in August 2009, SDI facilitated meetings between the Minister for Environment and the key partners and the CEO’s of all 6 Norwegian companies who have salmon farming interests in Scotland.

SDI facilitated in August 2009 a meeting hosted by the Cabinet Secretary for Finance and Sustainable Growth between the LA Directors of Planning and the industry to discuss perceived issues around the sustainable development of aquaculture and in the last month the Scottish Government has launched Delivering Planning Reforms for Aquaculture.

Significant work is also being conducted at a company level. For example, the Lakeland Group and Loch Duart are both regular exhibitors on the Scottish Pavilion at the European Seafood Show and have been for several years. Hjatland and Scottish Seafarms visit ESE and are active participants in the meetings and receptions which SDI organise. A workshop in Perth on 15th of April will detail opportunities for fresh and smoked salmon in the USA.

Figures out this month (March 2010) confirm that export sales of Scottish Salmon increased by 24% in 2009 to £220million.25

‘Loch Duart export 65% of their salmon into 12 different countries. SDI offer support in key sales arenas (e.g. ESE, Gulffood) and most importantly, have staff with a deep knowledge of the main players in our market.’ Andy Bing, Loch Duart

**GlobalScots**

GlobalScots are a unique and powerful resource for Scotland. The network is made up of exceptional individuals whose intellectual and network capital has been built up over decades of success in international business. Businesses in Scotland have unparalleled access to world class advice and expertise in all our key geographies and sectors.

The GlobalScot Network continues to grow in strength and the membership has been aligned to support sector (including sub-sector) priorities and overseas markets of strategic importance to Scotland.

The use of GlobalScots is an immensely powerful tool for supporting trade and investment in Scotland. The most recent evaluation of the GlobalScots Network took place in 2007. This demonstrated that net GVA figure attributable to the Network was extremely positive at £28m with anecdotal

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25 Scottish Salmon Producers’ Organisation, March 2010
evidence that this is likely to rise over time as unquantified outcomes and impacts become further embedded and generate quantifiable impacts.

Work is ongoing to look at ways of ensuring the GlobalScots are more visible, more accessible and are used in the most effective way for Scotland. An example of this is the ‘Pitch for Success’ approach where Scottish businesses ask specific questions of Globalscots.

**Aquamarine Power’s ‘Pitch for Success’ with Globalscots**

Aquamarine Power is a wave energy company, with head offices in Edinburgh, Scotland and further operations in Ireland and Northern Ireland. The company is currently developing its flagship technology, an innovative hydro-electric wave energy converter, known as Oyster®. Aquamarine Power’s goal is to develop commercial Oyster® wave farms around the world.

Martin McAdam Aquamarine’s Chief Executive recently took part in the Pitching for Success Video Campaign, which was circulated to the GlobalScot community. The video campaign has been a great success and resulted to date in 10 GlobalScots offering assistance to Aquamarine Power.

Aquamarine has had advice from GlobalScots in marketing its business, market entry advice and obtaining investment. To view the video Campaign of Aquamarine Power please visit: [http://www.youtube.com/watch?v=SGwvsbr0d58](http://www.youtube.com/watch?v=SGwvsbr0d58)

**Q8. Are sufficient resources being made available for such activities and do the various public sector support organisations have the necessary skills and expertise to best support Scottish companies to internationalise and to attract inward investment from within a very competitive market?**

**Resources**

The resources for SDI are prioritised as part of SE, HIE and SG planning process. It is an objective led approach that looks at the value trade and investment can deliver to the sustainable economic growth of Scotland and how this complements other strategic priorities e.g. innovation, business growth, and investment.

It is a dynamic process, if opportunities arise during the year e.g. a major inward investment opportunity, then SDI work with partners to try and secure the investment. Where resources are a potential constraint then this is discussed with Government as needed.

It should be noted that significant resources for supporting the attraction of investment come from partners e.g. RSA delivered through SE, vocational training delivered through Skills Development Scotland. SDI work closely with
partners to provide a package of support which meets the investors needs and delivers economic impact for Scotland.

A key factor in our success will be enhancing the business environment. Our overseas market intelligence can give us a key insight into how our sectoral strengths are viewed across the globe and where we should focus more or less.

For inward investors some of the key issues overall when considering locations include:
- Quality and availability of labour and skills (e.g. graduates)
- Tax, government incentives and political risk
- Costs (e.g. labour, energy, real estate)
- Communications infrastructure

Other issues mentioned are quality of government/regulations, direct travel links and quality of inward investment support. Government needs to continue to prioritise these assets to ensure Scotland strengthens its globally competitive position. SDI can then support the marketing of these to attract new investment to Scotland.

**Efficiency**
SDI will continue to challenge how costs can be further reduced, while the effectiveness of our work can be increased and have a greater impact on the Scottish economy.

The support service model of SE is essential to enable SDI to drive down internal costs (e.g. HR, IT, finance, procurement, facilities, and research). This also ensures we have the competencies to draw on when we need them e.g. the present evaluation has used both the SG, SE and HIE economics and research expertise.

SDI’s approach to FDI is a blend of public and private sector resources. For example, RSA grants are fully dependent on agreed levels of investment by the companies concerned.

**Skills and Expertise**
SDI already has a strong skills and knowledge base both at a geographical and a sector level. Over 75% of SDI staff have relevant direct private sector business to business sales and marketing experience while around 80% of staff employed in overseas locations are local nationals with relevant experience and qualifications in business development.

Through SE’s Learning & Development team we have focussed on competency based training for many years and provided professional development based on the present and future needs of the business. Recognising the increasingly competitive global environment for FDI and supporting Scottish companies to internationalise we have recently taken steps with the support of SE Learning & Development Team to put in place the SDI Academy which focuses on enhancing consultative selling
competencies of SDI staff and ensure SDI staff maintain the specialist skills necessary to support the business development efforts of Scottish companies (e.g. Institute of Export level qualifications).

Many of the skills required to internationalise can be provided by the private sector. SDI work to strengthen existing relationships with private sector bodies (e.g. trade associations, international legal firms, accountants, specialist employment agencies and others) to help ensure these skills are matched with the businesses which could benefit from them.

Q9. Are there any lessons we can learn from the approaches taken by other countries for their trade promotion and international trade schemes?

SDI is always looking to benchmark itself against other competitor investment bodies around the globe and there are certainly lessons to be learned. We monitor Scotland’s competitor agencies and as appropriate use this knowledge to develop or enhance products and services. A recent review by The World Bank ranked SDI sixth in the world among investment bodies for its ability to bring new investment to a region and boost a local economy. The review compared over 210 international development bodies to assess their performance in attracting inward investors - and rated SDI above all other UK agencies.

‘SDI has proven to be very effective in facilitating foreign investment projects, further building on Scotland's reputation as a successful global investment location’ World Bank quote

SDI, in particular, was recognised for its work in the areas of customer care and follow-up, as well as attracting inward investment and knowledge to Scotland. This benchmarking exercise helps us identify where we can improve the way we operate. For example in the 2007 report our website scored 76% (just in the top quartile), from this we focused on developing the site based on both customer feedback and learning from ‘best in class’ organisations. Subsequently the website scored 86% in 2008. After the latest report we have focussed particularly on improving our enquiry handling processes.

A sectoral example of how benchmarking is used to improve the way SDI and partners work strategically, operationally, and for the benefits of business customers is given below:

**Food and Drink – Benchmarking Examples**

**Scotland Food and Drink Model**

Prior to its inception, studies were carried out on models used by other countries to promote economic growth within the food and drink industry including Australia, Denmark and New Zealand. Models and structures were studied in these markets before deciding on a model which was in the view of the Scottish food and drink industry, most appropriate for providing
leadership, setting strategic priorities and providing a strong industry voice.

**Food & Drink Strategy**

To support the development of the Scotland Food and Drink Strategy, studies were also carried on approaches taken by other countries to stimulate economic growth in food and drink. This work included analysing how New Zealand promote lamb, the success of Halal hubs in Malaysia and the success achieved by Italia Del Gusto, a producer consortium in Italy.

**Learning Journeys**

SDI has also in recent years organised learning journeys for Scottish food and drink companies to the 'Food Valley' in the Netherlands which has a world class reputation for excellence in food research, food innovation and is the location of choice for some of the world's top food manufacturing businesses. We have collaborated with the East of Netherlands Development Agency to support this activity.

**Best Practice**

SDI monitors closely best practice in the promotion of food and drink at international exhibitions. During the last two years have organised a Scotland Food and Drink Stand at an increasing number of international exhibitions, supporting 30% more companies to promote their products on an international stage. A programme of support is available before, during and after each exhibition to ensure Scottish companies are well prepared to exploit new international opportunities.

**Q10. Do we have in place the necessary data collection and statistical system that is needed to provide our policy makers with a detailed understanding at a Scottish level of our export, international trade and inward investment performances?** This could include views on the Global Connections Survey and what it is used for and whether there are more opportunities to distribute evidence from this survey more widely and more meaningfully.

**Global Market research**

We have good data on how the Scottish proposition in key sectors is perceived in comparison to competitors, but we need to keep this constantly up to date by refreshing our market data through access to secondary research e.g. Financial Times FDI competitiveness database, and through listening and acting on customer feedback. We will conduct fresh market research, for example, in under-research sectors.

We know the characteristics of the overseas businesses we want to attract as investors and the characteristics of those Scottish businesses where targeted trade support can most benefit the economy. We have good market intelligence on what these potential investment and trade partners are looking
for, though more work remains to be done on the priorities for particular sectors (and sub-sectors) in particular geographical markets.

**UK and Scottish level research**
The Global Connections Survey provides a useful snapshot of Scotland’s export activity and is particularly useful in understanding the barriers to trade experienced by Scottish businesses, this is used to help design future interventions. It collects detailed information about export values and destinations of goods and services across the economy as a whole (not just manufactured goods). It also includes exports to the rest of the UK - used as a Scotland Performs indicator. It is, however, a sample survey and completing it is not a mandatory requirement for companies.

The index of manufacturing exports provides a useful more up-to-date picture, although this is limited to manufacturing and to overseas sales volumes and provides less detailed information than the Global Connections Survey.

**SDI (SE and HIE) research**
SDI continues to build its evidence base to help better understand the impact of its activities. This includes working with both SE and SG colleagues to ensure a good fit with the Government’s performance framework and the SE performance measurement systems.

SDI with the joint venture partners is just completing one of the most comprehensive evaluations trade and investment activities and the impact these activities have had on the Scottish economy. The research included secondary research to learn from the present academic literature, this was then used to support the design of the primary research. Key findings from this are given in Q1 and Q3. More detailed work is being conducted to ensure we fully gain the learning from this and apply this going forward. This work has been used to inform our strategic direction and will help us in both the prioritisation and design of future interventions to ensure they deliver more economic benefit for Scotland.

SE conducts regular surveys of the companies they work with and the results are analysed monthly. This information gives up to date information on their present and forecast growth and whether they expect exports to increase/decrease. This helps us indentify where we should focus efforts.

SDI Overseas Offices collect market intelligence on a continual basis and feed this back to help inform decision making Scotland.

Scottish Development International on behalf of joint venture partners; Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise
March 2010
SUPPLEMENTARY SUBMISSION FROM SCOTTISH DEVELOPMENT INTERNATIONAL ON BEHALF OF JOINT VENTURE PARTNERS; SCOTTISH GOVERNMENT, SCOTTISH ENTERPRISE AND HIGHLANDS AND ISLANDS

Introduction
This second short supplementary submission is to update the Committee on recent developments of relevance to current Inquiry into the public sector’s support for exporters, international trade and the attraction of inward investment.

This includes information relating to:
1. SDI Evaluation Results - published 27 May 2010
3. 2009/10 SDI Performance (provisional)
4. Follow up meetings with interested parties
5. Support available to businesses

Independent Evaluation of SDI
The report was carried out by SQW Consulting to assess the effectiveness of the support offered by SDI and make suggestions for future SDI strategy. The committee has been sent a copy of both the Executive Summary and the full report. Key findings include:

• Scottish Development International (SDI) contributes £325 million annually to the Scottish economy through its inward investment and internationalisation activities
• SDI has created around 19,000 jobs to date, demonstrating its importance in supporting employment. SDI assistance has led to an additional £58 million average exports per annum
• SDI assistance has had a strong and significant impact on company performance, with businesses assisted to internationalise nearly 19% more productive than ‘matched’ cases with no assistance
• Almost 50% of all businesses interviewed reported that because of the support received from SDI, they had met customers/partners that they would have otherwise not have been able to meet
• 41% have achieved sales in new overseas markets and 80% expect to achieve overseas sales as a result of the supported internationalisation activities
• Analysis shows that there are higher wages, higher employment and higher labour productivity in SDI-assisted inward investor companies
• 73% of inward investors working with SDI consider SDI to have been very or fairly important in ensuring the continuing presence of the business in Scotland
• Most SDI-assisted inward investment companies are employing more people than planned, doing more R&D and have broadened their product range
Applying the Learning

The findings have provided us with new evidence to help us further develop and refine our services to ensure we offer the right kind of support to help Scottish companies become more globally competitive and really transform Scotland’s economy. We have already started to take the learning from this, for example:

Supporting more businesses to internationalise
The evaluation confirms the market failure which exists in relation to the provision of information and support to help companies tackle international markets. This demonstrates the importance of raising understanding of the benefits of going international, despite the challenges, and shows the greater impact of improving the international skills of companies.

- SDI aims to address these issues by undertaking in partnership with others a more comprehensive internationalisation and market awareness raising programme in addition to the SMART Exporter initiative which is focussed on raising the international skills for a wider population of Scottish businesses.

Providing more intensive support
- We intend to undertake even deeper engagement with high growth companies in conjunction with the SE and HIE account management functions in light of the findings that the companies that reported strongest impact on internationalisation were those that received more strategic support and are account managed.

Inward Investment
- We recognise that inward investment activities targeted at safeguarding employment remain vitally important to support economic recovery and this will remain a focus in the foreseeable future. In addition, we will take further steps to deepen our understanding in relation to investments which will enhance the long term competitiveness of the economy. Based on the insights we currently have our inward investment targeting will focus on projects which have the highest potential multiplier benefits in sectors with the greatest long term sustainable advantage potential.

The National Economic Forum
The focus of the last National Economic Forum on the 19 May was ‘Scotland’s International Trade and Future’. SE and SDI highlighted key opportunities for Scotland as noted below:

- **International mindset:** developing an overall culture within Scotland which supports an international mindset. SDI in partnership with SCDI and Chambers International are working on an initiative (Smart Exporter) to develop the skills and capabilities of more Scottish businesses to actively consider international markets. At this time, more than ever, we need
Scottish businesses to exploit international opportunities and capitalise on the low value of Sterling.

- **Wider public sector policies to support key sectors**: through a sectoral approach we can ensure the broader range of public sector support is directed at global opportunities, e.g. the present opportunity to increase salmon production including a supportive planning environment. It could be argued that most public sector interventions should be seen through the lens of trade and developing a globally competitive business environment.

- **Low Carbon economy**: we need to focus on this emerging opportunity. Discussions to date with the private sector have been helpful in confirming that working in partnership there is an opportunity to secure substantial inward investment particularly in relation to the development of the supply chain which would help optimise the economic benefits related to renewables.

- **Leadership (and sales and marketing skills)**: will allow Scotland to increase competitiveness and exploit this through international markets, in particular one of the key barriers to international trade is the lack of sales and marketing resource and capability in addressing overseas markets. The more complex the business, the more sophisticated the sales approach has to be. From new venture formation or growth of companies of scale - sales is the key to revenue. Supporting greater provision through Scotland’s business schools, the private sector and GlobalScots is necessary.

- **Innovation and Commercialisation**: The quality and volume of Scotland’s academic research base makes a crucial contribution to our global position, particularly those with a technology focus, examples include:
  
  o Academic medical research strengths have underpinned the development of the Life Sciences sector with, for example, universities, health boards and SE combining to attract the leading pharmaceutical company Wyeth to pioneer its advances in Translational Medicine.
  
  o Scotland’s progress in Renewable Energy is dependent on the strength of research base, where the Energy Technologies Partnership brings together the universities to provide one-door access to their significant capabilities.

**SDI’s 2009/10 performance (provisional)**

SDI results for 2009/10 are presently still being validated however we are confident that on both the ‘Supporting Businesses to Internationalise’ and the ‘Attraction of Investment’ our performance shows an improvement compared to 2008/09.
2008/9 Actual | Measure Description | 2009/10 Provisional
---|---|---
1,807 | Planned jobs through inward investment (of which at least 1,600 will be high value)  
**Description:** Planned jobs of a high value nature secured for Scotland from inward investment. - of which 144 were recorded in Highlands and Islands | 2,111

835* | Number of businesses assisted to internationalise  
**Description:** The number of businesses assisted to participate internationally. - of which 100 were assisted in Highlands and Islands | 909

*In 2008/09 this was not a published measure

**Follow up Meetings with Interested Parties**
SDI has carried out a series of follow up meetings to better understand some of the issues raised during evidence sessions to the Committee which related to SDI’s work. This has included meetings with:

- Boyd Tunnock (Thomas Tunnock Ltd)
- Consulate of Mongolia
- Consulate of Iceland

All meetings were positive with firm actions now being taken forward.

**Support available to businesses**
Attached in Appendix A is a summary diagram showing the internationalisation journey businesses undertake (from awareness to market presence) and the support available from SDI and our partners.

4 June 2010
Appendix A

SDI International Business Growth Model

- Delivered with partners or specialist suppliers
SCOTTISH GOVERNMENT NEWS RELEASE, 11TH JUNE 2010

Exports on the rise

New statistics show the value of Scottish exports of goods rose by 3.5 per cent to £14.8 billion during the year to March 2010.

Today's National Statistics Quarterly UK Regional Trade Estimates from HMRC show the value of exports for the UK as a whole fell by 5.3 per cent over the same period, with exports falling in England (4.8 per cent), Wales (16.8 per cent) and Northern Ireland (17.4 per cent) over the year.

Finance Secretary John Swinney said:

"These figures highlight the success of Scottish companies competing in tough global markets.

"They also show that the Scottish Government's firm focus on securing economic recovery is having a real impact, and vindicates the decisive action we are taking to support businesses to achieve sustained economic growth through this fragile recovery period.

"Increasing support for exporters and Scottish businesses looking to expand across the globe is key to protecting our recent emergence from recession, and a key part of our Economic Recovery Plan.

"Scottish Development International is investing more resources to help around 8,000 small and medium sized businesses across Scotland to internationalise. For example, the £7.6 million Smart Exporter project - delivered jointly by Scottish Council for Development and Industry, Scottish Chambers International and Scottish Development International, is providing vital new support for Scottish companies seeking to trade globally.

"Today's export figures reflect the success and resilience of Scottish companies in extremely difficult trading conditions. For our part, the Scottish Government and our agencies will continue to do all we can to sustain their success."

Background

UK Regional Statistics is a quarterly National Statistics publication produced by HMRC. It provides statistics of international trade in goods for the nine Government Office Regions in England, Scotland, Wales and Northern Ireland. Regional UK Trade in Goods Statistics provide this valuable information, and also act as a source of market intelligence for the commercial and academic sectors.

See https://www.uktradeinfo.com/index.cfm?task=td_regstats
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Following a successful European Structural Fund application, SDI, SCDI and SCI have been granted funding to allow the delivery of additional export training to SME's across Scotland. This initiative, called Smart Exporter, is also supported by Business Gateway.

This initiative is an innovative collaboration between the private and public sector, which has a shared objective of working together to help grow the Scottish economy through business growth. As such, the programme will be
managed, developed, marketed and delivered jointly by SDI, SCDI and SCI, taking best advantage of the skills and resources of these organisations.

The total programme value is £7.6 million over three years. This incorporates funding of £2.2 million from SDI and two million pounds from SCI, leveraging new ESF grant support of £3.4 million, to allow us to provide additional services for Scottish businesses.

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Economy, Energy and Tourism Committee

20th Meeting, 2010 (Session 3), Wednesday, 16 June 2010

Protection of Workers (Scotland) Bill

Background

1. On Wednesday 9 June, the Parliament referred the Protection of Workers (Scotland) Bill (“the Bill”) to the Committee. This followed discussions in the Parliamentary Bureau the preceding day.

2. The Committee Convener has suggested that the Committee consider the issue of the referral of the Bill at this meeting. He notes the remit of the Committee is as follows:

   The remit of the committee is to consider and report on the Scottish economy, enterprise, energy, tourism and all other matters falling within the responsibility of the Cabinet Secretary for Finance and Sustainable Growth apart from those covered by the remits of the Transport, Infrastructure and Climate Change and the Local Government and Communities Committees.

3. Decisions on referral of bills are a matter for the Parliamentary Bureau as set out in Standing Orders, specifically Rule 9.6.1 which states that:

   Once a Bill has been printed, the Parliamentary Bureau shall refer it to the committee within whose remit the subject matter of the Bill falls. That committee (referred to as “the lead committee”) shall consider and report on the general principles of the Bill. Where the subject matter of the Bill falls within the remit of more than one committee the Parliament may, on a motion of the Parliamentary Bureau, designate one of those committees as the lead committee. The other committee or committees (the “secondary committee or committees”) may also consider the general principles of the Bill and report its or their views to the lead committee.

Action/recommendation

4. Members of the Committee are invited to discuss the matter of the referral of the Bill to the Committee.

   Stephen Imrie
   Clerk to the Committee
   June 2010
Background

1. These Regulations provide for the detailed arrangements necessary for the conduct of the census directed to be taken by the Census (Scotland) Order 2010. That Order identifies the persons about whom returns must be made and the persons who must submit returns. It also sets out the information which must be provided in returns. In particular:

- Regulation 3 provides for the division of Scotland into census districts, enumeration districts and census regions.
- Regulation 4 provides for the appointment of officers for census purposes.
- Regulation 5 provides that the forms of return to be completed (manually or electronically) are those identified in Schedule 1 and set out in Schedule 2.
- Regulation 6 deals with the supply of forms of return and other documentation for census purposes.
- Regulations 7 and 8 provide for the delivery of forms of return to households.
- Regulation 9 provides for the delivery of forms of return to communal establishments and regulation 10 provides that persons in charge of communal establishments must issue individual forms to persons in the premises who are required to make a return.
- Regulation 11 provides for the insertion of addresses and other information by officers where this is not pre-printed on forms.
• Regulation 12 deals with the return of completed forms of return from households, and regulation 13 with the collection of completed forms of return from communal establishments.

• Regulation 14 imposes obligations to provide information on request.

• Regulation 15 deals with the action to be taken after census day, including the checking of returns and the making of inquiries where proper returns have not been made.

• Regulation 16 provides for the delivery of completed returns and other documents by census officers to the Registrar General.

• Regulation 17 provides that records must be kept.

• Regulation 18 deals with prevention of unauthorised access to personal census information.

• Regulation 19 provides that information given for census purposes must not be used, published or communicated other than for the purpose of the Act.

• Regulation 20 revokes the Census (Scotland) Regulations 2000 and the Census (Scotland) Amendment Regulations 2000.

Financial Impact

2. The financial impact of the census is set out in the Executive Note to the draft Census (Scotland) Order 2010.

Regulatory Impact Assessment

3. A Regulatory Impact Assessment is set out in the Executive Note to the draft Census (Scotland) Order 2010.

Subordinate Legislation Committee Report

4. The Subordinate Legislation Committee (SLC) considered this instrument on 15th June. The clerk will provide an oral update on the SLC’s consideration.

Action

5. The Committee is invited to consider whether it wishes to make any recommendation in relation to the instrument.

Stephen Imrie
Clerk to the Committee
June 2010
Economy, Energy and Tourism Committee
20th Meeting, 2010 (Session 3), 16 June 2010

SUBORDINATE LEGISLATION

<table>
<thead>
<tr>
<th>SSI title and number:</th>
<th>The Census (Scotland) Amendment Regulations 2010 (SSI 2010/215)</th>
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<tbody>
<tr>
<td>Type of Instrument:</td>
<td>Negative – Standing Orders 10.4</td>
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<tr>
<td>Date Laid:</td>
<td>3 June 2010</td>
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<td>Date circulated to Members:</td>
<td>11 June 2010</td>
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<tr>
<td>Economy, Energy and Tourism Committee deadline to report on SSI:</td>
<td>6 September 2010</td>
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Background

1. The above instrument is made under section 3(1) of the Census Act 1920 ("the 1920 Act") and is subject to negative resolution procedure. The Regulations amend the forms and arrangements prescribed in the Census (Scotland) Regulations 2010 (S.S.I. 2010/211) for the 2011 census in Scotland. The background to the census in Scotland is set out in the Executive Note to those Regulations.

2. These amending Regulations correct an omission in one of the forms to be used (the individual household form) and take the opportunity to make drafting changes to clarify the prescription of forms for the purposes of the Census Regulations taking account of comments made by the Subordinate Legislation Committee. They also make a minor change to regulation 10 to reflect a change in administrative arrangements in issuing reply envelopes.

Financial Impact

3. The financial impact of the census is set out in the Executive Note to the Census (Scotland) Regulations 2010.

Regulatory Impact Assessment

4. A separate Regulatory Impact Assessment was not carried out on this instrument.

Subordinate Legislation Committee Report

5. The Subordinate Legislation Committee (SLC) considered this instrument on 15th June. The clerk will provide an oral update on the SLC’s consideration.
Action

6. The Committee is invited to consider whether it wishes to make any recommendation in relation to the instrument.

Stephen Imrie
Clerk to the Committee
June 2010