



# Wilson Review of Support for Scottish Exporting



# Contents

Introduction from Brian Wilson	ii
Introduction from Secretary of State for Scotland	iii
Executive summary	iv
Setting the scene	1
Trade policy, commercial diplomacy and why they matter to Scotland – two case studies:	2
Global Trends and the value of exporting	4
Scotland – the current position	6
What governments do	11
What businesses, trade bodies and embassies told us	19
Challenges and responses	27
Appendix 1 – Acknowledgements	34
Appendix 2 – Data	36
Appendix 3	38

## Introduction from Brian Wilson



I am grateful to the former Secretary of State for Scotland, Michael Moore, for having asked me to carry out this Review and to his successor, Alistair Carmichael, for having continued to encourage and support it.

The Scotland Office team has given essential support and I wish to place on record my appreciation of the unfailing diligence and efficiency of Helen Smart, Kirsten Pringle and Sven Baaz, under the direction of Margaret Porteous. Jim Innes, who has acted as an external researcher, has also contributed richly to that mix.

Many business people, industry leaders and public servants have given freely of their time and knowledge. In particular, members of the Scottish Business Board have acted as a vital sounding board for ideas and conclusions. Personnel from UKTI and Scottish Development International have been most helpful with their inputs.

I hope that the Review will provide a starting point for discussion and, where appropriate, implementation in the interests of the whole Scottish community and particularly of the jobs which depend on, or could be created through, a successful exporting strategy.

Rt Hon. Brian Wilson

May 2014

## Introduction from Secretary of State for Scotland



In today's global economy, we face huge opportunities and challenges. Scotland has inventive and talented businesses and individuals, capable of providing the rest of the world with everything from Scotch whisky, to intellectual expertise in financial services, to innovative engineering and manufacturing.

Scotland has a great trading tradition, and as part of an island race we have always been outward looking and willing to use our entrepreneurial talents to create wealth and success.

Growing that entrepreneurial spirit, making sure that Scottish businesses compete effectively, both by attracting investment to Scotland and exporting goods and services, is critical to our economic success.

Scottish businesses and individuals have access to a wide range of support – indeed, possibly too wide and confusing a range of support – from both the public and private sectors. Clearly there is much expertise out there and a great desire to help our businesses create world-beating success stories.

Above all, the UK's global reach and the extensive network of representation in our embassies, high commissions and consulates overseas, combined with the ability the UK provides in influencing global trade policy, is what opens doors to Scottish and British business alike.

In 2012 my predecessor invited Brian Wilson to undertake a review of Scottish international trade, particularly exporting, that would:

- Gather evidence about the challenges facing businesses in Scotland and the support available to them
- Analyse those issues including how support could be improved
- Offer ideas and proposals as to actions Government and/or business should take to improve Scotland's exporting performance.

This independent review looked at how best to support Scottish aspirations for global growth. I am grateful to Brian Wilson for the time and effort he has put in, thoroughly to explore and discuss with Scottish businesses, already exporting or aspiring to export, their experiences and the challenges they face and the range of support agencies both in Scotland and in the UK's overseas network.

Business support is an area of devolved responsibility, while international trade policy and foreign affairs are reserved to the UK Government. So it is important to highlight that this is an independent report: able to make suggestions to the UK Government, the Scottish Government, and the private sector. A UK Government response will be published once all the relevant Departments have had the opportunity to study Brian's proposals in detail.

Of course, it is not just about government support or one particular model – there is no silver bullet to guarantee global success. What this review does show, however, is how well positioned we are within the United Kingdom to take part in the global race and to win. By working together and collaborating effectively to promote the best that Scotland can offer, we will build firm foundations for global growth and future prosperity.

Alistair Carmichael  
Secretary of State for Scotland

May 2014

## Executive summary

Scotland has a long and distinguished history as an exporter of goods, services and skills to every corner of the world. Trade and enterprise were the foundations on which the growth in our prosperity was based. These characteristics are still much in evidence today. Scotland contains many companies, large and small, which know no fear in tackling the world's markets.

The problem is not that we do not have such businesses but that we do not have enough of them.

This is widely recognised, not least by the UK and Scottish Governments both of whom have set ambitious targets for an expansion of our exporting capacity. The Scottish Government wants to increase the value of Scottish exports by 50 per cent by 2017, compared with a base of £22.81 billion in 2010.

The purpose of this report is to offer advice on what more might be done both within that relatively short timescale and beyond. No Government can legislate for an entrepreneurial spirit and every Government operates within financial limits so that priorities must be determined. There is no point in an infinite wish-list. **The main question which we seek to address is how the public sector's support for our exporters, actual and potential, can be most effectively delivered to make a difference.**

This is a challenge which the Scotland Office is well placed to address, as a bridge between the United Kingdom Government and the devolved Government in Edinburgh. Both Governments have shared ambitions and each funds agencies which are highly relevant to the Scottish exporting effort and have many strengths. It is of fundamental importance that these should complement each other, avoiding both duplication and gaps for businesses to fall through. **If**

**there is one particular theme of this report, it is the importance of ensuring that – from the perspective of businesses – there is a seamless, complementary approach which assists rather than frustrates them. It has been made clear to us that this is not always the case.**

The landscape is further confused by the existence of a plethora of other bodies, all of them with a stake in the promotion of exports. There are local authorities, development agencies, chambers of commerce, trade associations, as well as a venerable organisation like the Scottish Council for Development and Industry. All have legitimate roles to play but it is essential that they should do so within a framework that is clear and comprehensible to the businesses that they are seeking to serve. It became clear to us that this is often at odds with the reality.

Our exporters come in all shapes and sizes so that attempts to generalise about either strategies or solutions are largely pointless. The multi-billion pound oil services company operating around the world has little in common with the shortbread maker trying to find a couple of niche markets in Europe. Yet they are both Scottish exporters and, according to their own needs, deserve the support of Government within practical limitations. The certainty is that the success of all exporters, large and small, will lead to the creation of additional jobs at home and that is the outcome on which we should be focused.

This was not established as a review specifically geared to the current constitutional debate in Scotland and much of what we recommend is quite independent of it. However, it is impossible to ignore the fact that for several of our key exporting sectors this is “the elephant in the room” and they have expressed to us a range of concerns that call out to be addressed.

Independence would transform Scotland’s exporting (and importing) statistics as the rest of the UK would become an international export market instead of an integral part of our domestic market. This raises issues which go far beyond terminology. In particular, **great uncertainty would arise if we were to lose the single currency which is at present axiomatic to our shared position within the United Kingdom.** We endorse the view of CBI that without true integration, jobs and investment are put at risk.

Much has been heard about the cost to businesses in the continuing UK if Scotland was to become, for them, an international export market with its own currency arrangements. While that may be relevant to the political debate, it is the mirror image which concerns us here – the impact upon Scottish businesses in an independent Scotland outside of a currency union with the UK. **HM Treasury analysis, using the same methodology as the Scottish Government, suggests that the annual costs on Scottish business would amount to around £600 million, which is a much larger share of gross domestic product (GDP) than the estimated £500 million cost to businesses in the continuing UK – for Scotland 0.4 per cent versus 0.03 per cent for the UK, reflecting the fact that Scotland currently “exports” twice as much to the rest of the UK as we do to the rest of the world.**

Although transaction costs are important they are clearly not as critical as the costs of an unstable currency union. It is for this reason that the UK did not join the euro, despite 40 per cent of UK trade going to the euro area. And the largest barrier to cross border trade in an independent Scotland would be the introduction of the international border itself. The UK Government’s Macroeconomic and Fiscal Performance paper<sup>1</sup> concluded that, even if an independent Scottish state and the continuing UK were to enter a sterling currency union, a ‘border effect’ would still be likely to emerge (as seen for example in US-Canada trade) which would reduce the level of real incomes in Scotland by 4 per cent after 30 years. **Whatever the other arguments about costs and benefits, it is beyond dispute that the creation of an international border would create costs for exporters and consumers.**

The current Scottish Government aspires to a currency union in the event of independence. Their *White Paper on Scottish Independence*<sup>2</sup> usefully summarises their grounds for that objective:

1. The UK is Scotland’s principal trading partner accounting for 2/3 of exports in 2011, whilst figures cited by HM Treasury suggest that Scotland is the rest of the UK’s second largest trading partner with exports to Scotland greater than to Brazil, South Africa, Russia, India, China and Japan put together
2. There is clear evidence of companies operating in Scotland and the UK with complex cross-border supply chains
3. A high degree of labour mobility – helped by transport links, culture and language.

1 Scotland Analysis: Macroeconomic and fiscal performance link to -<https://www.gov.uk/government/publications/scotland-analysis-macroeconomic-and-fiscal-performance>

2 <http://www.scotland.gov.uk/Publications/2013/11/9348>

The White Paper also states in chapter 3, page 120: “We plan to set out a timescale for reducing corporation tax by up to three percentage points below the prevailing UK rate.” This confirms the important point that the fiscal systems of independent countries tend to diverge, and indeed may be planned to do so.

However the UK Government has made it clear that currency union is not an option in the event of independence, because of the need for a level of fiscal and regulatory alignment that could not be maintained between two independent states. The UK Government has laid out its arguments in the Scotland Analysis Programme papers, specifically the papers on currency<sup>3</sup> and the business and microeconomic framework<sup>4</sup>.

These sections thus show that the Scottish Government analysis agrees with the UK Government on two critical points – that having the same currency across the whole of the UK (which currently exists) is critical to Scottish business and that it would be highly challenging to implement and maintain currency stability between two independent countries, particularly once fiscal policy started to diverge. Self-evidently, the logic which flows from these premises is now a matter of intensive political debate which goes beyond the remit of this Review. **Suffice to say, it is critical to Scotland’s exporters – including those who currently sell to the rest of the United Kingdom – that their interests, such as having a fully integrated regulatory system and being border-free, are at the forefront of that debate.**

While this issue has now arisen in stark form and demands clarification and responses, we very much hope that this will not be to the

exclusion of other pressing issues raised by this Review. We have identified some key areas of concern and reached a range of conclusions, all of which we believe to be deliverable without significant additional resources though we do believe that **the question of how important exporting is to the overall economy should always be taken seriously within the context of public expenditure decisions.** It is therefore encouraging to see UK Trade and Investment’s (UKTI) budget increased significantly in 2013-14. Over the three years 2010-11 to 2012-13 UKTI programme expenditure received only an 8 per cent budget uplift. However in 2013-14 UKTI programme expenditure is expected to have increased by a further 69 per cent to a total net programme budget of £156.4 million. Scottish Development International (SDI) has also seen a significant increase in its budget receiving a 20 per cent increase from £27.8 million in 2010-11 to £33.3 million in 2013-14.

## Challenges and responses – summary

The question of how to bring greater cohesion to the structure supporting Scottish exporting and to ensure that new entrants to it are given the necessary advice, support and encouragement is crucial to the objective of substantially increasing the number and range of Scottish companies which are involved in exporting. We have considered a number of ways in which these two challenges can be addressed:

1. *Many small and medium-sized businesses (SMEs) that wish to take the first steps towards becoming exporters still experience difficulties identifying where to get the help and advice they need.*
2. *Access to finance is the most significant barrier faced by SMEs seeking to turn themselves into exporters.*

3 Currency **Scotland analysis: Assessment of a sterling currency union** published 13th February 2014

4 **Scotland analysis: business and microeconomic framework** published on 2nd July 2013

## Response:

The last thing we want to do is add new bureaucracies to the organisations already involved in export support. Rather the objective is to achieve greater outward-facing clarity, cohesion and follow-through on the part of agencies and business support organisations that already exist. We believe that a portal approach could be developed through inter-organisational co-operation.

**We therefore recommend a new focus on the Single Portal approach. This should be driven by Ministers, to achieve collaboration among all the organisations, public and private, Scottish and UK-wide, that provide guidance, advice, trade missions, and other support for Scottish exporters or businesses looking to export.**

**UKTI, SDI and the private sector must all be part of this formal collaboration, which could be branded as Scottish Exports and would provide a uniform “front door” to potential**

**exporters throughout Scotland that will guide companies to the most appropriate source of advice and, where appropriate, support.**

**We recommend that Scottish Exports should incorporate a designated section, Scottish Export Finance, which will connect companies which have been confirmed as having exporting potential to the most appropriate sources of financial advice and support.** It would be axiomatic to this approach that every company entering the Scottish Exports portal would have a named adviser who would remain as its point of reference until an outcome was identified, thereby minimising the frequently-heard complaint of companies “passed from pillar to post” or experiencing a lack of follow-through after initial contact.

Our other recommendations, which will be developed in the course of this report and have arisen out of the evidence presented to us, include the following “headlines”:

CHALLENGE	RESPONSE
<p><i>UKTI and SDI generally have good working relationships, but gaps within it can leave UKTI programmes less visible in Scotland and Scotland less visible in some overseas markets.</i></p>	<p>The working links between UKTI and SDI need to be clarified and should be regularly reviewed by the two Governments to ensure that both are working flexibly to focus on the needs of exporters and potential exporters.</p> <p>From our contacts with overseas posts in markets we are concerned that better co-ordination, where SDI is not present, would help to ensure that the Scottish export effort is as fully represented as possible.</p> <p>We strongly recommend a united SDI/UKTI approach to the maximisation of participation by Scottish companies in the High Value Opportunity Programme.</p>

CHALLENGE	RESPONSE
<p><i>There are major shortages of the skills which are required to support a successful exporting economy. These range from sales and marketing expertise to language competence and international trade experience.</i></p>	<p>We recommend that an audit of skill shortages should be carried out in consultation with a cross-section of exporting companies as the prerequisite for a strategic approach to addressing them.</p> <p>Scotland's FE Colleges and universities should be encouraged to develop courses or course modules which have a specific international trade focus.</p> <p>There is clear potential for campuses in key overseas markets to be aligned with building exporting expertise related to these countries. We recommend that this kind of aligned thinking should be more actively promoted by export agencies.</p>
<p><i>There is strong support for a sector-led approach to exporting with public agencies supporting sector bodies and leading companies within each sector in order to identify opportunities which, if secured, can then involve a large number of companies in supplying goods and services.</i></p>	<p>We strongly support the sector-led approach favoured by Scottish Enterprise as the most effective, short-term means of expanding Scotland's exporting potential.</p> <p>The sector and sub-sector groups should identify their priority targets and the role of the public sector should be to help secure access to them.</p> <p>This approach should be closely aligned to UKTI's High Value Opportunity Programme.</p>
<p><i>The potential of services – for example, financial, accounting and legal – as growth Scottish exports was highlighted along with concerns about the London-centric approach to their overseas marketing by UKTI and other bodies.</i></p>	<p>Scotland benefits in the promotion of these services from being part of the UK regulatory jurisdiction. It is essential that UKTI and other bodies ensure full representation of Scotland's distinctive offerings in these sectors. This will require a conscious adjustment of mind-set on the part of UK trade promoters.</p>
<p><i>A high value is placed by our exporters on the UK's network of embassies and consulates around the world and many are concerned about the possibility of losing access to both the human and built resources.</i></p>	<p>We strongly endorse this view and believe it is an aspect of the constitutional debate which should not be under-estimated.</p> <p>In the competitive environment of our major exporting markets, these are exceptional assets which our exporters have a strong desire to retain access to.</p> <p>To maximise the value of these assets there should be regular training for in-market staff to build a consistently high level of service. Part of this should be focused on ensuring that all parts of the United Kingdom are equally well served and – from the perspective of this report – there should be expert knowledge of the particular characteristics of Scottish exporting.</p>

CHALLENGE	RESPONSE
<i>There is widespread frustration that Scotland does not have better air links with Europe and the world. This is seen as a barrier in terms of costs and logistics and perceptions of our peripherality.</i>	<p>We can only reinforce the importance of this issue in the eyes of many exporters and urge that efforts to address it should continue.</p> <p>We urge the UK and Scottish Governments to seek reinstatement of the Route Development Scheme, consistent with EU rules on State Aid. The Scheme was notably successful before being wound up in 2008 and retains the strong support of Scottish exporters.</p>
<i>More effective channels of information exchange on all aspects of exporting would be beneficial.</i>	We recommend that a consistent structure of exporter networks should be created and sustained across Scotland.
<i>The Global Scots network can be helpful but is extremely inconsistent.</i>	We recommend that the Global Scots network should be maintained but that a rigorous approach to its membership should be adopted, based on a consistent reporting policy from companies that have experienced it.
The whole area of trade policy, trade diplomacy and our ability to exert influence over the conditions within which trade occurs is of fundamental importance and Scottish interests are currently well served through the United Kingdom.	We believe that there is an inadequate understanding of the importance of this work to Scottish businesses and jobs. The ability to influence trade policy decisions in a positive way for Scottish business is critical to our export effort and the need to retain that influence has been stressed by all our major exporting sectors.

While the responses recommended in this Executive Summary are by no means comprehensive, we believe that concerted action in order to address each of them would make a significant contribution to the Scottish exporting effort with minimal additional cost to the public purse. There is considerable potential for doing things better and in a more integrated way if this becomes a priority for all relevant organisations.

**The “headlines” set out above in response to the representations made to us will be developed in the course of this report. The first chapter sets out the context in which we carried out this review. In order to elaborate on the importance of commercial diplomacy as opposed to export promotion alone, we start with two relevant case studies.**



# Chapter 1

## Setting the scene



# Setting the scene

## Trade policy, commercial diplomacy and why they matter to Scotland – two case studies

### Commercial Diplomacy – HM Government/ Scotch Whisky Association: Colombia

#### The Market

Scotch whisky exports to Colombia are currently small but growing: 10% local market share and 80% of imported spirit drinks.

Under the Colombian constitution, individual Departments can establish a monopoly on local spirits production as a means of raising revenue. Most major Departments have established spirit monopolies (*licoreras*), which produce spirits and control the local sale of spirits produced outside the department.

Companies must enter into annual individual brand 'Introduction Agreements' with the *licoreras* and these can be on non-competitive terms compared to local brands.

#### The Issue

On 19 January 2011 Colombia's Departmental Governors made a co-ordinated announcement that they would not sign or renew any Introduction Agreements for imported spirits. The stated aim was to tackle contraband, but the effect was to target imported spirits; move was anti-competitive and targeted imported spirits. If implemented, Scotch whisky exports to Colombia would have been, in effect, banned from 1 March 2011.

There would also have been significant implications for Colombia's tax revenue, which would contravene Colombia's obligations as a WTO member and was contrary to the Free Trade Agreement (FTA) then being negotiated with the EU.

#### UK Response

It was quickly recognised quickly that the proposed ban was a serious threat to UK commercial interests. The response of the UK Government and the industry was swift, co-ordinated and effective:

- Close liaison and intelligence sharing between the British Embassy (BE) Bogota and Scotch whisky importers in Colombia.
- BE Bogota raised the issue with the Ministries of Trade and Finance and the Colombian tax authorities, followed up by Ambassador-level contacts with Colombian Ministers.
- BE Bogota, with local companies, placed an article by the Ambassador in a leading Colombian newspaper arguing that contraband was better tackled through tax reform.
- BE Bogota helped to co-ordinate the position of European Union (EU) embassies, and others with interests in the industry.
- It was made clear throughout that Colombia risked breaching its WTO commitments, and undermining its FTA talks with the EU.
- The Scotch Whisky Association moved simultaneously, alerting the EU spirits industry and EU member states.

#### Result

Strong support from the UK Government, co-ordinating closely with industry, led to the proposed ban being withdrawn by the departmental governors in late February. In the first six months of 2011, Scotch Whisky shipments to Colombia increased by 65% in value compared to the same period in 2010.

## Trade Policy – EU South Korea Free Trade Agreement (FTA)

South Korea is the 12th largest economy worldwide and the 4th largest in Asia. With a population of 50 million, it is a dynamic and vibrant place to do business. With a passion for UK goods, the country ranks among the most lucrative and exciting overseas markets for British companies.

The EU and South Korea are important trading partners. South Korea is the EU's tenth largest trade partner, and the EU is South Korea's fourth export destination

The UK Government was instrumental in negotiating the EU-South Korea Free Trade Agreement (FTA), which came into force in July 2011.

The historic agreement presents opportunities for greater UK-Korean collaboration – based on trading patterns at the time it will be worth at least £500 million per annum to the UK economy. This shows the UK Government working to for the whole of the UK and within this Scottish businesses have the opportunity to benefit significantly. It is the most comprehensive FTA ever agreed between two parties; 97% of tariff barriers between South Korea and the EU are due to be eliminated within three years and €1.6 billion of duties for EU exporters will be abolished annually.

## The Agreement

- Eliminates tariffs for industrial and agricultural goods in a progressive, step-by-step approach. Only a limited number of agricultural products are excluded from tariff elimination.
- addresses non-tariff barriers to trade.
- includes provisions on issues ranging from services and investments, competition, government procurement, intellectual property rights, transparency in regulation to sustainable development.

## Impact of the Free Trade Agreement

The new FTA came into force in July 2011 with a rolling programme of liberalisation. A proportion of EU exports to South Korea were fully liberalised at the outset, and the effect was immediate. Those products, which represented fully 35 per cent of total EU exports to South Korea, increased between July 2011 and June 2012 by 32%, compared to the previous non-FTA year. The increase in export value was €3 billion. Exports of those same products to the rest of the world have, by comparison, increased by just 10 per cent.

For products partially liberalised, (representing 43% of EU's exports to South Korea), the increase in exports was 10% or €1.4 billion.

Comparing the growth rate of fully liberalised products to South Korea with the "normal" growth rate of the same products to the rest of the world, the growth differential translates into almost €1 billion extra exports.

## Global Trends and the value of exporting

Trade grows either through more firms entering export markets (the extensive margin of trade growth) or through existing exporters increasing the volumes they export to their overseas markets (the intensive margin of trade growth).

World trade has grown dramatically since the Second World War as markets have become more accessible due to the breaking down of both physical and structural barriers. The Chinese modernisation programme, the collapse of the Soviet bloc and the emergence of new, powerful economies epitomised by the BRIC group of countries have transformed the world trade map. World trade has grown by over 700 per cent since the mid-1970s, far higher than GDP growth in the same period notwithstanding the post-2008 downturn. Transport and communication costs have steadily decreased in real terms – a key driving force behind the current World Trade map – while international trade agreements have eroded protectionism and expanded the principle of free trade.

But nothing stands still and world trade is undergoing a large structural repositioning within the global economy which the UK in general and Scotland in particular are urgently trying to respond to. There is now a growing importance placed on high growth markets where there is a rapid acceleration in purchasing power from an emerging middle class. The UK Government has declared its intention to

focus on China, India and other high growth markets including part of Africa and Central America.

The recently published UKTI strategy document, Britain Open for Business – The Next Phase, states: “With seven out of the world’s ten fastest growing economies, Africa offers huge potential for a range of UK businesses.... The pilot will focus on strengthening economic and trade links, and boost commercial engagement with the target countries of Angola, Côte d’Ivoire, Ghana, Mozambique and Tanzania”. This is indicative of the challenge which faces Scotland in adjusting our own objectives to take account of this wider strategy and the nurturing of markets which were, hitherto, scarcely heard of in the context of trade.

For Scotland, which has traded with Northern Europe since the high days of the Hanseatic League, half a millennium ago, and world-wide for well over a century, globalisation offers exciting new opportunities. However, this means competing effectively in new markets as well as old. Scotland’s existing markets are mainly located in North America and Europe and the majority of international exporting in the near future will continue to rely on these established trading economies. However, we also need to respond to the fact that import demand is accelerating rapidly in the developing economies where our exports are still heavily under-represented.

The IMF forecast that most growth in 2014 was likely to come from emerging economies including China (8%), India (6%) and the Middle East (4%) with developed nations showing slower growth e.g. US (2%), Japan and UK (1%), and Eurozone (0.2%). In their latest update they have slightly revised downward their emerging economies forecast, to reflect tighter financial conditions and political uncertainty caused by the concerns from the advanced economies. It is, by any long-term perspective, essential for Scotland to develop new markets which will create much stronger trade links with China, India, Middle East, Africa and Latin America. **To achieve this, it will be necessary both to broaden the scope of SDI and also play a full part in the UKTI strategy. Reciprocally, UKTI must ensure that Scottish companies are fully aware of, and offered the opportunities to participate in, that strategy.**

Between 1980 and 2011, developing economies raised their share in world exports from 34 to 47 per cent and their share of world imports from 29 to 42 per cent. Simulations have shown that in a healthy trading environment, developing countries are likely to outpace developed countries in terms of both export and GDP growth by a factor of two to three in future decades (World Trade Report 2013, WTO). **Recognising the markets that could provide opportunities for Scotland in the future is key to our trading potential while at the same time it is essential to safeguard the markets in which we are currently well represented.**

## The importance of exporting

The growth of international trade is so important because of the contribution it makes to economic prosperity and jobs. To take one example of the impact exporting can have on employment, Centre for Economics and Business Research (CEBR) analysis published on 31<sup>st</sup> March 2014<sup>5</sup> shows that over 4 million British jobs depend on international exports to the European Union.

In 2012, the EU was the most important international trading partner for Scotland with a value of around £11.7 billion out of a total of nearly £26 billion international exports. **In other words, around 45% of Scotland's international exports are going to the European continent.** This mirrors the importance of the EU export market for the UK as a whole, where around 50% of international exports are going to Europe.

Nowadays the EU is the world's most important trading area with a GDP of around €12,900 billion and a population of more than 500 million people.

It is estimated that bilateral trade with Europe accounts for roughly 4.1 million jobs in the UK, around 13.3% of the workforce. While there are some regional differences within the UK the latest research seems to indicate that Scotland's job market benefits to a similar extent from this trade. **Therefore it is reasonable to estimate that over 336,000 jobs in Scotland are directly or indirectly dependent on trade with EU countries.**

5 CEBR: British Jobs and the Single Market - [www.cebr.com/reports/british-jobs-and-the-single-market/](http://www.cebr.com/reports/british-jobs-and-the-single-market/)

## Scotland – the current position

The United Kingdom as a whole does not rate highly as an exporter by global standards and Scotland performs slightly less well than the UK as a whole. Scottish total exports, as calculated in the Global Connections survey, excluding oil and gas, in 2012 were £73.6 billion. **However, this figure includes ‘exports’ to the rest of the UK worth £47.6 billion.**

The ratio of Scotland’s ‘exports’ to the rest of the UK and international exports has remained remarkably consistent since the data were first collected more than a decade ago. The table below, showing the nine years from 2004 to 2012 illustrates this point.

According to HMRC, in 2012 there were 72,555 “active exporters” in the UK, with only 3,676 registered in Scotland – five per cent of the UK total. These figures are for “tradable goods” and exclude services but the message is clear and generally accepted – Scotland has proportionately fewer exporting companies than the UK as a whole and therefore, if one looks on the bright side, greater potential for growth. This is recognised by the Scottish Government which, in 2010 set a target of increasing exports by 50 per cent by 2017.

By then, of course, the definition of ‘exporter’ could have been transformed, if the referendum of 2014 results in Scotland becoming an independent state. Scottish ‘exports’ to the rest of the United Kingdom currently run at a ratio of 2:1 compared to the rest of the world put together. This gives some idea of the overwhelming importance of the rest of the UK as our primary trading partner and it is worth cautioning that **anything which obstructed Scottish companies’ ability to sell goods and services to the rest of the UK could, easily, more than cancel out everything that is being done to increase Scotland’s exports to the rest of the world**

### **Our analysis raises concerns about the narrowness of Scotland’s exporting base.**

HMRC statistics illustrate the extent of the problem. Although the total UK exporting base is not broad, the issue is magnified for Scotland because of our small number of exporting companies. As a result the performance of those individual firms and industrial centres (e.g. Grangemouth), has a disproportionate effect on the health of Scottish exporting.

As outlined in Global Trends, opposite, it is generally acknowledged that to support export growth we need to respond to increasing demand from the BRIC countries and developing nations. However, the table opposite shows there has been little movement in the list of top twenty destinations for Scottish international exports.

### Scotland’s International Exports and ‘Exports’ to the Rest of the UK

	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Total international export</b>	18,450	17,985	18,780	19,645	21,635	21,985	22,810	24,550	25,995
<b>Total rest of the UK ‘exports’</b>	35,540	33,740	36,445	42,000	41,100	41,240	43,595	45,625	47,570
<b>TOTAL</b>	53,990	51,725	55,225	61,645	62,735	63,225	66,405	70,175	73,565
<b>Share total international export</b>	34.2%	34.8%	34.0%	31.9%	34.5%	34.8%	34.3%	35.0%	35.3%
<b>Share total rest of the UK ‘exports’</b>	65.8%	65.2%	66.0%	68.1%	65.5%	65.2%	65.7%	65.0%	64.7%

## Top 20 Scottish International Export Destinations

Rank	2008		2012	
	Destination	Total Exports £m	Destination	Total Exports £m
1	USA	2,890	USA	3,555
2	Netherlands	2,395	Netherlands	2,665
3	France	1,515	France	2,165
4	Germany	1,330	Germany	1,525
5	Spain	760	Norway	920
6	Republic of Ireland	750	Switzerland	870
7	Belgium	645	Spain	830
8	Norway	590	Republic of Ireland	815
9	Italy	575	Belgium	735
10	Switzerland	560	Denmark	645
11	Singapore	455	Italy	635
12	<b>China</b>	<b>455</b>	<b>China</b>	<b>560</b>
13	Denmark	445	Singapore	515
14	UAE (5)	445	UAE (5)	485
15	Japan	350	<b>Brazil</b>	<b>450</b>
16	Sweden	305	Japan	440
17	Canada	300	Australia	400
18	Australia	290	Canada	385
19	<b>Brazil</b>	<b>240</b>	Sweden	385
20	<b>India</b>	<b>240</b>	South Africa	315

■ EU nations

■ BRIC nations

The nations in the top four places have not changed at all since 2008 and, indeed 19 countries out of those top 20 feature in every single year since 2008. Disappointingly India has dropped out of the latest top 20 league altogether.

While international exports to Brazil and China have increased significantly (87.5% and 23.1% respectively), this was from a very low base. When we compare this to exports to USA (23%) and France (42.9%), both countries which have suffered in the recession and with which we have mature exporting relationships, it is clear that progress beyond our usual markets has been at best limited.

It is also useful to look at how these international exports break down. From the chart overleaf it is clear that over a third of Scottish non-oil and gas exports are from the services sector to the rest of the UK. While this is a strong sector for Scotland, the stated aims of both the Scottish and UK governments is to rebalance the economy through growth in industry and international exporting.

The second chart also clearly shows the challenge facing Scotland if it is to increase the number of new exporters. Only 6 per cent of all exports were by small companies exporting internationally. Another 11 per cent is made up of small business 'exports' to the rest of the UK, within the present internal market.

Sectors – total international rest of UK Exports 2012



Intl Primary (agri and raw materials)	2%
Intl Production & Construction	22%
Intl Services	12%
rUK Primary (agri and raw materials)	4%
rUK Production & Construction	26%
rUK Services	34%

Size – total international rest of UK Exports 2012



Total Large Businesses – intl exports	20%
Total Medium businesses – intl exports	9%
Total Small businesses – intl exports	6%
Total large businesses - rUK exports	41%
Total medium businesses - rUK exports	13%
Total small businesses - rUK exports	11%

If anything like the Scottish Government’s target for an increase in exports is to be achieved, then the starting point must be to introduce more of our companies to international exporting. **We believe that this requires a significantly more proactive approach than is currently in evidence and that the route into exporting must be made more user-friendly.**

SDI is very much driven by the sectors and markets which it has prioritised. This is a sensible and necessary approach to the optimum use of scarce resources. We heard much praise both at home and abroad for SDI’s helpfulness, contacts and efficiency where they were working with companies who ticked the sectors and markets boxes.

SDI’s priority markets can be deduced from the in-market location of its offices:

- Australia and New Zealand
- Brazil
- Canada
- China
- Denmark
- France
- Germany
- India
- Japan
- Norway
- Russia
- South Korea
- Taiwan
- UAE
- USA

and their highlighted sectors are:

- Creative Industries
- Energy
- Financial & Business Services
- Food & Drink
- Life sciences
- Tourism
- Technologies/ICT
- Education

However, we also heard of SDI's reluctance to engage with some companies, particular smaller ones, which did not fit within these priorities. This points to the need for a more integrated approach to the recruitment of potential exporters. Some of these companies go instead to those local authorities who are active in encouraging their local companies to export. Many go to SCDI which is well-known for its trade missions and eclectic support for Scottish exporting. Some simply give up and return to the environment they are comfortable in. Very few, as far as we could establish, go to UKTI in spite of the fact that it too offers a wide range of UK-wide schemes to Scottish companies, many of which are significantly under-patronised in Scotland.

**What is missing is a single portal and a coherent structure behind it, which would reflect an obligation to ensure that all companies which express an interest in exporting are guided towards the most appropriate source of advice, and that their interest is followed through until a conclusion is reached, even if that conclusion is that they are not suited to exporting. The most appropriate source of advice might be a Scottish or a UK-wide organisation, a public or a private sector body.**

The various players in the export support market are unlikely to harmonise such an approach of their own volition. A Ministerial lead to co-ordinate support is required and progress should be closely monitored. Branded as **Scottish Exports**, this initiative should seek to bring together all of the organisations which currently offer these services and there should be accountability to its board and ultimately the Minister for the management of every inquiry which is received. There should be a well-signposted Scottish Exports portal in every local authority area of Scotland. This would result in greater clarity and prominence being offered about services which currently prove difficult to access. **We recommend that the Scottish Government should either ask SDI to develop this "portal" approach or possibly contract SCDI as its co-ordinator.**

Within this, the same approach should be taken to advise on financial support to potential exporters. We were repeatedly told by SMEs that the biggest obstacle to becoming an exporter lies in the money that has to be accessed in the early stages. SMEs need help to identify the most appropriate source of financial support in their transition to becoming exporters. This can come through existing public sector support schemes or banks. Bank of Scotland, for example, were very frank in recognising that they had underperformed in the past in supporting exporters among their client companies and that this had recently been highlighted through unfavourable comparison with statistics for other parts of the Lloyds Group, of which they are now part. They have now committed to being much more supportive of potential exporters.

The role of **UK Export Finance** also has to be better understood and integrated into the wider support network. We found an almost total lack of awareness among SMEs that it might be of relevance to them. Insofar it was known at all, it was regarded as "the old ECGD" and associated with the underwriting of very large contracts mainly in the defence and infrastructure sectors. There appears have been virtually no awareness of the fact that UKEF now has two of its specialists embedded within SDI. This general lack of visibility was implicitly acknowledged in the 2014 budget which set out that "the government will:

- become much more proactive in support of UK business ... by expanding the remit of UKEF and changing its underpinning legislation
- step up marketing so that more businesses are aware of UKEF's products and services."<sup>6</sup>

We believe that such a positive approach from both the private and public sectors is necessary and welcome. **This requires a significant attitudinal**

6 <https://www.gov.uk/government/publications/budget-2014-documents>

**change which should be encouraged by Ministers and co-ordinated through Scottish Export Finance, to be established as part of, or in close association with, Scottish Exports.**

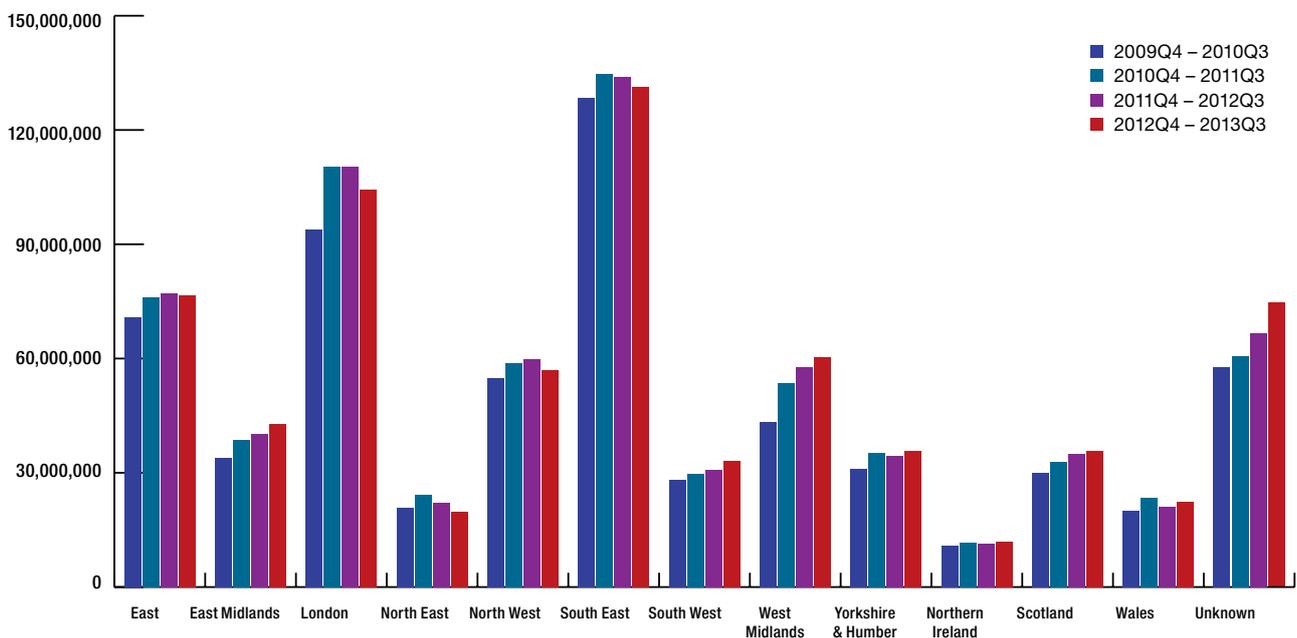
One of the difficulties faced by a review of this nature is the inadequacy of statistics available. This is no reflection on Scotland's Global Connections Survey which has developed a highly-respected capacity for data collection and has now been made a National Statistics publication, reflecting the quality assurance applied to its methodology. However, the fact remains that it is based on a voluntary survey attracting a response rate of around 42 per cent rather than anything more definitive and it suffers from a time-lag which diminishes its usefulness and current reliability. For example, the survey data published in January of this year relates to 2012 and, inevitably, a great deal that is of relevance has transpired in the intervening period. It also excludes oil and gas. **Efforts are going on to improve the GCS and we support the view that all relevant agencies of both UK and Scottish governments should be involved in this process.**

This is a problem that affects all the nations and regions of the UK as shown in the HMRC table below. HMRC data shows that the 'unknown' region on the far right of the table is the third largest after the South East and London and at nearly £40 billion around twice as much as Scotland's exports of around £20 billion.

There are a number of other data issues with regards to Scottish exports. For example there is evidence that the port of Rotterdam is fulfilling a 'hub' function which leads to an over-estimate of exports to the Netherlands. Also, in the Global Connections Survey there are around five per cent of exports not allocated to any destination. At over £1 billion, this is more than twice as much as Scotland exported to China in 2012.

**We recommend that a more accurate model for calculating exports from all the nations and regions of the UK should be a priority for the UK Government and that the Scottish Government should be fully involved in that initiative.**

#### UK Exports by Region, 2009/10 – 2012/13



Note: 2013 data provisional

Source: Regional Trade Statistics, HM Revenue & Customs

# Chapter 2

## What governments do



## What governments do

There is no shortage of Government-backed schemes, either in Scotland or the UK as a whole, which are intended to support our exporters. Arguably, indeed, there are too many. The busy people who run our SMEs are unlikely to be fully aware, or aware at all, of many of the schemes which come and go, or change their rules on eligibility. There is a huge lack of awareness among Scottish companies of schemes, particularly those operated by UKTI, from which they might benefit.

### Government goals

The current UK Government has placed a heavy emphasis on exporting as a key to a strong economic recovery and is seeking a major improvement in the UK's export performance, yet this remains elusive and continues to lag behind other economic indicators. The problem is well recognised and addressed most recently in *Britain Open for Business: The Next Phase*<sup>7</sup>, UKTI's stocktake, at the mid-point in their five-year strategy.

Four out of the last five years have seen increases in financial support for the UK's international exports drive through UKTI. The biggest increase has come in the last year, with the trade-support budget increased from £97 million to £147 million.

The Scottish Government believes that exporting is of vital importance for Scotland's economic development, and has set an ambitious target of a 50% increase in international exports by 2017. The SG has said that, in the future, this should be based on "a uniquely Scottish approach to trade promotion"<sup>8</sup>. In line with its export target, SDI has seen a significant increase in its budget receiving a 20 per cent increase, from £27.8 million in 2009/10 to £33.3 million in 2013/14.

Whatever the future might hold, the current position is that Scottish businesses need help

from wherever they can get it and it is essential that they have knowledge of, and access to, the many support mechanisms which UKTI offers, as well as those available from SDI. So what do these organisations do and what do they offer?

### UKTI

UKTI has lead responsibility for the UK as a whole for:

- (1) the provision of support and assistance to new and existing exporters of goods and services and outward investors both at home and overseas, and
- (2) promoting the UK and all its constituent parts to foreign direct investors.

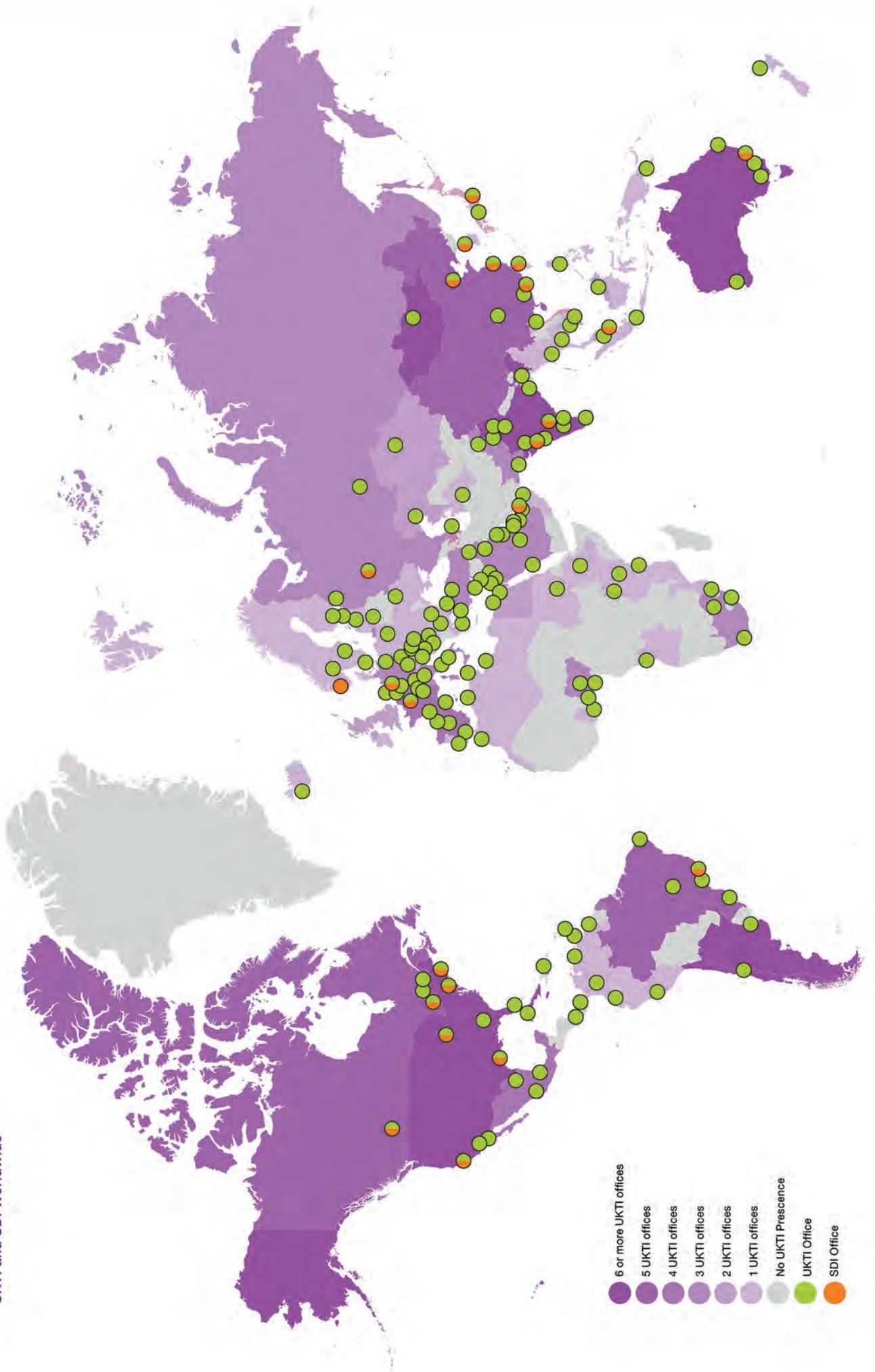
The organization is charged with leading a four-stranded, cross-government approach to growth:

- A focus on high-growth and innovative small and mid-sized businesses to encourage significantly more companies to export.
- Intensive support for larger companies seeking to win high-value opportunities overseas, with supply chain opportunities for smaller companies – the cascade effect.
- Creating a pipeline of high-quality inward investment projects and targeting overseas institutions such as sovereign wealth funds to win investment for the UK's large-scale infrastructure and regeneration projects.
- Introducing key account management of the most significant inward investors and the UK's top exporters to offer a seamless, "one-stop" service.

<sup>7</sup> <https://www.gov.uk/government/publications/britain-open-for-business-the-next-phase/britain-open-for-business-the-next-phase>

<sup>8</sup> *Building Security and Creating Opportunity: Economic Policy Choices in an Independent Scotland*, published by the Scottish Government 19th November 2013

UKTI and SDI Worldwide



Companies based in Scotland have access to UKTI's network of more than 1,200 staff in over 100 overseas markets working to support UK businesses. This is part of the UK's wider diplomatic and consular network of over 220 locations, which also is able to help UK businesses, including those from Scotland, in markets where UKTI does not have a direct presence.

UKTI has a significant physical presence in Scotland at its office in Glasgow. The 24-strong team is a key part of UKTI's Trade Group within UKTI's HQ and:

- provides support to companies in the Advanced Engineering and Energy sectors;
- administers the TradeShow Access Programme (TAP) – a grant support scheme for SMEs looking to exhibit overseas, and with staff working on events and exhibition management.

The UKTI presence in Scotland has been in place since the creation of the Offshore Supplies Office (OSO) in 1973.

As the lead body for the whole of the UK, UKTI is expected to work closely with SDI, funded by the Scottish Government, to deliver UKTI services to Scotland-based companies.

In the most recent recorded period, 2013/14, UKTI teams both at home and overseas provided trade support (including online services) – a total of 6,000 plus interactions – to just over 2,200 companies and organisations across Scotland. In addition, in the same period, 240 of the highly-respected Overseas Marketing Introduction Service (OMIS) reports were delivered by overseas UKTI teams to and for Scottish firms and organisations.

UKTI's Defence & Security Organisation (DSO) provides the essential government-to-government relationships which underpin commercial campaigns in these sectors. DSO helps maintain

the UK's position as the second largest global defence exporter, with at least 20 per cent of global defence sales. It also has the objective to achieve 5 per cent of the global security market. This is a sector of very significant importance to the Scottish economy, with around 170 companies and 16,000 jobs involved, and offers a good example of where a UK-wide approach is beneficial.

**The trade body, ADS Scotland (working for the Aerospace, Defence and Security sector), told us that they have a strong working relationship with UKTI, not least because most of the member firms also have operations in other parts of the UK and the supply chain is UK-wide. Their contacts with SDI in relation to exporting are more limited and its preference for “brandable” Scottish products does not fit easily with the reality of an industry which relies heavily on the British identity. This appears as a straightforward “horses for courses” approach which should be respected and maintained.**

What matters is how Scottish business, jobs and exporting are best served by public sector support, rather than the organizational source of that support.

## The GREAT Campaign

The high profile international communications programme The GREAT Campaign<sup>9</sup> is supported by influential British brands and personalities. Its aim is to showcase the very best of what Britain has to offer. The GREAT Campaign aims to welcome the world to visit, study and do business with the UK.

The Campaign promotes Britain abroad as a place to invest in and as a place to visit, highlighting all that is best about the UK. GREAT profiles all parts of Britain including Scotland to extend the spread of economic benefit across the nation. It has a number of elements, both in the UK – promoting exporting – and across the world – promoting foreign investment in the UK.

9 [www.gov.uk/britainisgreat](http://www.gov.uk/britainisgreat)

## UKTI's Trade Support

The following list is a summary of the main UKTI trade support programmes available to companies located in Scotland:

- Full free access to the UKTI website, containing a wealth of information on both countries and sectors, and events.
- Business Opportunity Alerts- Personalised email alerts informing businesses about relevant opportunities and developments.
- Webinars – a digital service that brings together UKTI's extensive network or specialists in the UK, British Embassies and other diplomatic offices around the world who are able to provide expert trade advice.
- Open to Export – online export service for small- and medium-sized businesses
- Overseas Business Risk – free online service providing information on political, economic and business-related issues, in key overseas markets.

Bespoke market and sector research through:

- UKTI's Overseas Market Introduction Service (OMIS) – A tailored service to access market and industry information, including arranging meetings with key contacts and identifying potential business partners.
- UKTI's Export Marketing Research Scheme (EMRS) – Offers support, advice and some grant funding to eligible companies wishing to research a potential export market.
- UKTI's Export Communications Review – Assesses the way companies communicate with overseas customers and makes practical recommendations for improvement.

Market entry support, including:

- UKTI Market Visit Support (MVS) – Provides assistance, including financial support, to

new to export or new to market SMEs visiting overseas markets.

- UKTI TradeShow Access Programme (TAP) – Provides financial support (grant funding) to eligible SMEs who wish to use overseas exhibitions as part of a strategic approach to exporting.
- High Value Opportunities (HVOs) – identifies large scale global procurement projects and subsequent supply chain opportunities.

## UK Export Finance

UKEF is the Government's export credit agency. If a business is planning to export goods or services from the UK then it is likely they will need some form of trade finance or export credit insurance to protect them against non-payment or other financial issues.

UKEF is there to help if businesses find this is not available to them from the private market. UKEF provides bank guarantees, on exporting working capital, performance bonds, export credit insurance and advice in support of UK exports large and small. Working across a wide range of sectors, UKEF manages support for exports to over 200 countries.

UKEF has its own risk assessment framework designed to help UK exporters maximise the opportunity to do more business overseas.

A new £3 billion scheme has been developed by UK Export Finance. This demand-led lending scheme will mean more foreign buyers can access support to buy products from UK exporters. It will support exports where overseas buyers need loans from £5 to £50 million to finance the purchase of capital and semi-capital goods and services from UK exporters, but have been unsuccessful in obtaining an export credit loan from the banks.

## Scottish Development International – SDI

SDI is the trade and investment arm of the Scottish Government, Scottish Enterprise (SE), and Highlands and Islands Enterprise (HIE).

SDI provides professional expert international support to Scottish businesses wishing to trade internationally and inward investors wishing to invest in Scotland.

SDI supports Scottish businesses to compete globally by helping them develop a planned approach, understand the market opportunities & then support them access these international markets. They have an overseas network of offices in key geographies to support this. Over the longer term their aim is to work to improve their competitiveness so they can further expand into new markets and grow overseas sales.

For attracting foreign investment SDI has a world class sales and marketing approach focused on promoting the competitive advantage that Scotland has to offer in our globally competitive sectors. Scotland has maintained its position as the 2nd in the UK for attracting investment projects.

SDI is fully integrated with SE and HIE, and work closely with Business Gateway. SDI staff in Scotland are co-located in local offices with SE and HIE colleagues.

SDI has a network of overseas trade & investment offices, with over 110 sales professionals promoting Scotland through 27 regional offices across the world. They are on hand to facilitate opportunities for Scottish businesses in new markets as well as work with potential inward investors.

SDI also have full access to the 150 UKTI offices around the globe, which cover 98% of world GDP.

SDI provides support services (including UKTI services) to companies based in Scotland to help them export and explore business opportunities overseas. Many of the services and products provided are free to companies based in Scotland. Others are subsidised, to help keep business costs to a minimum.

As part of this SDI provides support with partners to:

- preparing to export
- Market research
- Visiting potential markets
- setting up overseas
- In-market support
- finding international business opportunities
- Networking support
- boosting exports skills and knowledge

SDI has an international trade skills development programme for all Scottish businesses (Smart Exporter), offering free or subsidised support to expand Scottish firms exporting knowledge. The programme aims to ensure that ambitious businesses have the right skills and expertise needed to access international markets and is backed by funding from the European Social Fund.

## GlobalScot

GlobalScot was founded to harness the drive, ambition and talent of high profile and successful Scots and people with an affinity for Scotland around the world and develop an international business network, committed to advancing Scotland's economic success.

The GlobalScot initiative seeks to utilise the talents of successful Scots, and of people with an affinity for Scotland, in order to establish a worldwide network of individuals who can advise and support companies which are referred to them. The initiative is designed to allow Scottish

companies to draw freely on this network for advice, contacts, assistance and support. In theory, it is a great idea; in practice, many businesses told us it is something of a curate's egg.

Since its launch in 2001, GlobalScot members have put their talents to use across a range of activities geared towards driving forward Scotland's economy in an increasingly competitive global marketplace. In 2012/13, over 2,000 email requests were sent to almost 600 GlobalScots seeking support on behalf of Scottish companies – engaging 94% of the membership in request or event activity. Over 54 GlobalScot events were delivered in Scotland and overseas with 581 attendees and 184 GlobalScot 1-2-1 meetings held with Scottish companies.

## SDI Delivery

SDI also utilises the skills from public and private sector partners, harnessing the collective competencies to support greater international trade and investment, working hard to maximise the impact that all partners can bring to Scottish exporting.

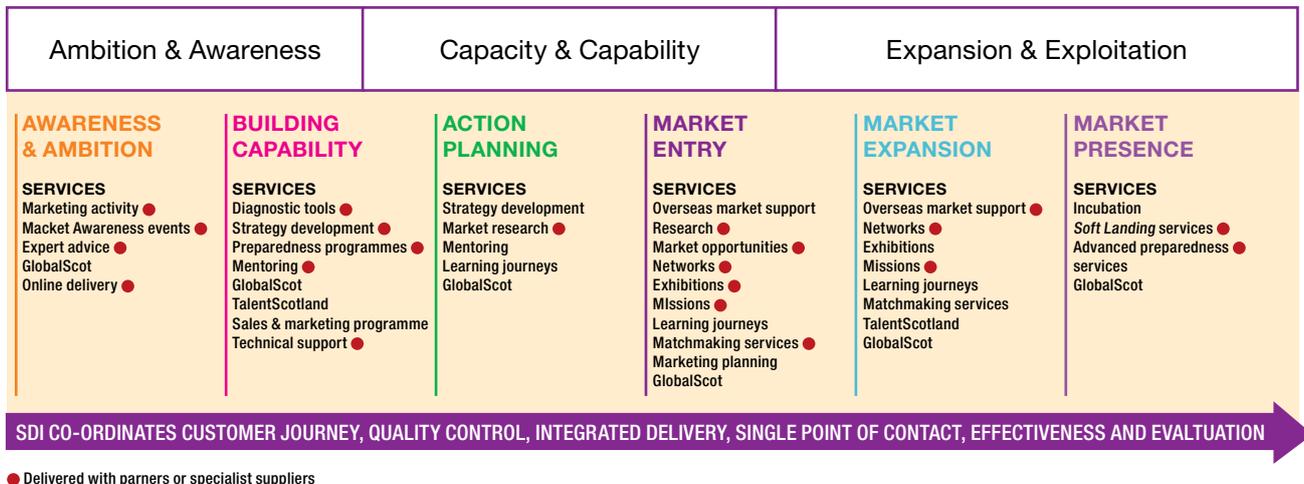
SDI are part of SE, HIE and Scotland Europa who provide a wide array of support, which is publicised and well utilised. SDI have developed a strong relationship with other public sector partners e.g. VisitScotland, Skills Development Scotland, Transport Scotland, in supporting exporters from the ground up.

Private sector partnership is an area that SDI is developing. This resource is less well publicised but can be a 'goldmine' of experienced contacts

Public Sector Partners	Examples of contribution
Local authorities	<ul style="list-style-type: none"> <li>Ease in planning process</li> <li>Business Gateway support</li> <li>Infrastructure development (e.g. N-RIF)</li> </ul>
Scottish Enterprise & HIE	<ul style="list-style-type: none"> <li>Business growth and productivity</li> <li>Access to Finance and innovation</li> </ul>
Scottish Gov. and other agencies	<ul style="list-style-type: none"> <li>Policy e.g. direct air links, digital connections</li> <li>Wider international advocacy e.g. Scotland Week</li> </ul>
Universities and Colleges	<ul style="list-style-type: none"> <li>R&amp;D excellence and talent development</li> <li>Commercial exploitation of key strengths</li> </ul>
Scotland Europa	<ul style="list-style-type: none"> <li>International networks and guidance on EU policy and funding</li> </ul>
UKTI	<ul style="list-style-type: none"> <li>Products, overseas coverage</li> </ul>

Private Sector Partners	Examples of contribution
Business and Industry Organisations	<ul style="list-style-type: none"> <li>Stimulating demand with members</li> <li>Joint delivery</li> </ul>
Global diaspora	<ul style="list-style-type: none"> <li>GlobalScot network</li> <li>Leveraging knowledge of overseas markets</li> </ul>
Businesses	<ul style="list-style-type: none"> <li>Peer to peer mentoring</li> <li>Advice and guidance from those that have 'got the badge'</li> </ul>
Professional firms	<ul style="list-style-type: none"> <li>Harnessing the knowledge of professional firms supporting businesses</li> </ul>

## SDI International Business Growth Model



who can give personal advice and support to companies starting out.

*The Source* is a new extranet site which has been developed as a platform for sharing a wealth of information on Scotland’s assets and opportunities. Public sector partners have open and transparent access to all of the proposition material and international marketing collateral which has been created on Scotland and its sectors and are encouraged to contribute their own knowledge to *The Source* content.

### SDI Business Growth Model

SDI states that it is committed to supporting and working with any Scottish business that wants to trade internationally. SDI, along with its partners, offers a range of services to support them from initial ambition, through market capacity/entry, and on to expansion.

The diagram above, from SDI, shows the co-ordinated customer journey that SDI supports:

### Relationship between UKTI and SDI

Both UKTI and SDI say that they are looking to see if there is a way for the public and private sector to support trade, working together to utilise their combined expertise and resources. See the map on page 13.

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. The combined resources support success in international markets for Scottish businesses. It is crucial that this should be a consistent, closely integrated relationship. At present, it often works well but this is not always the case, as the two Embassy examples in the next section demonstrate.

In the current political climate, it is unlikely that there will be much further progress towards that “consistent, closely integrated relationship”. In the longer term, however, if the constitutional status quo prevails, it is absolutely essential that the two organisations should work more closely and consistently together, delivering optimum outcomes for Scottish business and ensuring that neither political nor personal agendas are allowed to stand in the way of that shared objective.

# Chapter 3

What businesses,  
trade bodies and  
embassies told us



## What businesses, trade bodies and embassies told us

The Review team held many meetings with businesses, banks, business support organisations and trade bodies as well as, of course, UKTI, SDI, UKEF and Embassy staff. In addition we looked at evidence firms had given to recent government committees such as the Lords Select Committee, the Business Innovation and Skills Committee and the Scottish Affairs Committee.

Both our own research and the formal evidence to Government bodies produced differing accounts, based on differing experiences, of the efficacy of existing export support systems. However, there were some clear themes that emerged from our discussions with businesses and which are reflected in the recommendations and responses throughout this report.

### What support?

A frequent criticism highlighted the ‘passive’ nature of information on support available.

**Access to advice**, sources of expertise and experience, guidance and even training is often promoted exclusively through websites, leaving small businesses with the challenge of knowing where to look, and what/who to search for, in the first place. Linked to this, a key issue raised was **knowing whether a firm should export**. For many small businesses this is an important first step.

Firms reported very varied experiences of working with SDI (and UKTI where relevant). Some companies sang their praises; others felt that they did not get the response they required. **It is this inconsistency that we seek to address through the “portal” approach and, critically, the need for a single point of contact through these early stages of acquiring advice, information and confidences.**

In principle, the Global Scot concept is excellent, linking new exporters to Scots or people with close connections to Scotland who have a wealth of knowledge in relevant markets. However, experience of the GlobalScot network also varied considerably, with some praising the support they received very highly and a number of others saying that despite repeated efforts they got no contact at all.

The point was made on more than one occasion that, to export successfully, businesses needed to invest in getting to know their markets. The more of this that could be done ‘at home’ the further that investment would stretch.

A frequently repeated comment was ‘SDI only does certain sectors, so if you’re not in one of them they are not so helpful’. Whilst this may not actually be an accurate depiction of the situation, it is the impression that some firms have come away with from their interactions with SDI. This in itself is important.

On the evidence of the discussions held as part of this Review, UKTI is largely invisible to most small Scottish firms in spite of offering programmes which could be relevant to them. This is certainly an issue that has to be addressed not only by UKTI but also as an important part of the “Portal” approach.

## Skills

A common complaint was that, as a country, we are not producing people with the right skills in a number of areas: languages and business marketing were specifically mentioned. Similarly, there has been a well-identified problem with an under-supply of suitably qualified engineers and science graduates to support British businesses. Many in the engineering and manufacturing sectors referred to this in their comments to the Review team.

Many businesses also commented that Scotland (and for that matter the rest of the UK) does not perform well at sales and marketing for international markets. They believe – and we agree – that there is a larger potential role for Scotland’s colleges and universities to build on their relationships with the private sector in order to develop outlooks and expertise which are specifically geared to exporting and global career opportunities; for example building on the work of the Saltire Foundation<sup>10</sup>.

Universities are recognising these issues and at the same time, as part of their own internationalisation, are opening campuses in other countries<sup>11</sup>. There is a real interest on the part of our universities in working with government and businesses as part of this expansion, in order to promote Scotland’s wider economic objectives. This should be encouraged and supported through our exporting agencies.

10 The Saltire Foundation is a non political, not for profit organisation led by a committed and active group of Trustees who are business leaders drawn from key sectors in Scotland and internationally. It offers three unique and world class programmes that fast track the development of potential business leaders: Saltire Scholars, Saltire Fellows and Saltire Alumni.

11 For example GCU has recently opened a campus in New York and Edinburgh University has opened the Office of the Americas in Brazil

## Embassies and Trade policy issues

When discussing the value of experience in supporting new exporters, one issue that was raised frequently was knowledge of trade policy constraints.

Some commented that the only publicly available advice at the global trade policy level they know of is that published by ‘the big four’ accountancy firms (KPMG, Deloitte, PwC and Ernst & Young). There is a common view that the UKTI website is good for big companies, but that it is less useful for the small exporter. SDI’s website guidance links to the UKTI pages on country-specific information, so this criticism applies to Scottish exporters whichever route to guidance they take.

Among the most regularly repeated and clearly stated comments that the Review received were those which emphasised the vital importance business places on the Embassy and Consulate network and its role in supporting Scottish exports around the world. Many of our contributors gave us their experience of being able to make use of local consulate expertise or of attending a networking reception at an embassy with valuable practical outcomes for contacts, exports and jobs.

## Transport Links

Businesses commented that it is important that Scotland doesn’t feel like ‘the edge of the world’ to potential customer businesses in foreign markets. To do this many felt that frequent, direct or well-connected air routes were particularly important, both to attract clients and potential investors, and to help businesses as they develop their export markets.

## Some Examples of Sector Specific issues

### The Legal Sector in Scotland

The Scottish legal system was one of those aspects of Scottish culture which was preserved by the Treaty of Union in 1707. Although based on Civil (Roman) Law, 300 years of union with England have ensured that Scots Law has developed many similarities with English law, especially in areas where the law is substantially the same in each jurisdiction such as company law, tax law, intellectual property law, consumer protection law and many other areas besides.

There are now over 1,200 law firms in Scotland employing approximately 10,500 practising solicitors who have a wealth of experience offering legal services in Scottish and English law and in other legal systems besides. Scottish lawyers can be found throughout the world. Some firms manage global transactions in Scotland or work with other law firms internationally while others have established operations in jurisdictions such as Brussels, Dubai and Japan.

Many UK law firms are established in Scotland and operate on a cross-border basis. SDI have sought to promote the legal sector in Scotland identifying that legal services are “increasingly performed remotely and the relevance of the physical location of the person performing a legal service is ever decreasing”.

They note that many Scottish solicitors are dual qualified in Scots and English laws. Crucially, they identify that for many solicitors “specialising in company and commercial, consumer tax and employment law”; dual qualification is not necessary as the law in these areas is substantially the same throughout the UK.

The Ministry of Justice, in partnership with UKTI is also promoting UK legal services on the international stage in its document *UK legal services on the International stage: Underpinning growth and stability*<sup>12</sup> which stresses that “the UK Government will work to ensure that the entirety of the UK’s legal offer is promoted.”

These agencies have been working closely with the Office of the Advocate General and the professional bodies in Scotland and Northern Ireland with the aim of ensuring that all of the UK’s jurisdictions are integrated in promotional initiatives. It is important that this work is reinforced and underpinned. Building on the work of the MoJ and UKTI, SDI, Government and the professional bodies can make a real difference to the promotion of legal services from Scotland to the wider global market.

Not only does the legal profession in Scotland have a world-wide reputation for probity, it presents good value for money. The knowledge base is backed up by a qualification regime which involves not only a degree in law but also a post graduate diploma in legal practice and practical training. There are ten universities in Scotland which provide law degrees of the highest quality.

**The action points in the Ministry of Justice’s “Plan for Growth” need to be continually reviewed to ensure that the Scottish legal profession is adequately represented in the opportunities which are being created.**

12 <https://www.gov.uk/government/publications/uk-legal-services-on-the-international-stage-underpinning-growth-and-stability>

### Scotch Whisky

Exports are central to the Scotch whisky industry and to the Scottish economy. No less than 93 per cent of the product is exported from the UK. Without a successful exporting strategy and the effective back-up it gets from Government, the industry would be a shadow of its current self.

It is important to understand the foundations on which the Scotch whisky industry's success as an exporter has been built and what its on-going requirements will be. There is probably no industry in the country that works more closely with Government or relies more heavily on its effectiveness. The case study from Colombia on page 2 illustrates how effective UK commercial diplomacy can be.

It is often under-reported that trade strategy falls into two major areas. The first, which is well understood, is export promotion. But the second, in terms of relations with government, is even more important for the Scotch whisky industry – trade policy, as shown in the second case study on page 3.

This covers a multitude of issues and policy mechanisms – WTO dispute settlement, Free Trade Agreement provisions, EU market access rules, inter-governmental collaboration and so on. According to the Scotch Whisky Association in evidence to this review: “The industry relies heavily on the support of the UK's overseas diplomatic network in pressing our case at the highest levels with host Governments and in Brussels”.

The breaking-down of trade barriers is an on-going priority. There have been many successes all over the world. However, the industry's export potential continues to be held back by over 450 tariff and non-tariff barriers to the trade in Scotch whisky around the world – for example, the 150 per cent tariff in India which makes the product unaffordable for the ordinary consumer.

We have received several practical recommendations on how public sector support for the Scotch whisky industry could be delivered more effectively with, in some instances, benefit to the wider Scottish exporting efforts. We commend these proposals to both the Scottish Government and the UK Government:

- The industry would like to see better co-ordination of Ministerial and senior official visits, inward and outward. Often, they do not know about them until it is too late to feed into the briefing system.
- **There should be trade promotion support specifically geared to the smaller players in the industry including the numerous distillery start-ups and small independents. While the big companies can generally look after themselves in terms of export promotion and understanding of trade policy issues, focused support for the smaller ones would be of assistance to them.**
- The SWA, like many other organisations we spoke to, yearns for a more co-ordinated approach to trade across government, both in the UK and Scotland. The various departments and organisations with which they interface, they say, ‘do not communicate effectively and have different perspectives... the issue is magnified in Scotland’. We can only enter a plea for that old stalwart, more “joined-up government”.
- **The EC Directorate General for Trade (DG Trade) in Brussels should be better resourced, possibly by recalibrating priorities within the UK representation at the European Commission. Because of the expansion of the bilateral free trade agreement (FTA) agenda, massive strains have been placed on the DG Trade team.**
- The Scotch Whisky Association reported that the experience and expertise accumulated over many decades by themselves and their

members could be used more effectively to support other Scottish exporters, both by familiarizing them with trade policy issues and co-ordination of trade promotion efforts. **The industry is very willing to share its expertise but a mechanism to make it happen is lacking. We recommend that this should be pursued as a high priority with the SWA.**

Beyond all of this, the highest priority of the Scotch whisky industry in its relations with Government is the need to maintain the crucial links which exist on trade policy issues and the influence which the UK carries both in Brussels and in markets around the world.

### Financial Services Sector

UK financial and professional services generated a record trade surplus of £61 billion in 2013. Scottish financial services are an integral part of that figure, though they are not separately assessable.

Some £800 billion of financial assets are under management in Scotland, mostly for clients outside Scotland. Some asset managers have no clients in the UK.

While a wide range of expertise exists, Scotland is in particular the centre for investment and asset administration and servicing in the UK. Companies like JP Morgan, HSBC, Barclays, State Street, BNY Mellon, Morgan Stanley and Citi serve clients all around the world. The combination of time zone, talent and proximity to London is a powerful draw for these kinds of operations.

About 90 per cent of Scottish financial services are 'exported' to the rest of the UK though, of course, this takes place as part of the domestic market under existing constitutional arrangements. The City of London and the UK jurisdiction within which it sits are among the best in the world from which to export financial services.

It was made absolutely clear to us that being part of that jurisdiction has been absolutely crucial to the development of Scotland's financial services sector and the jobs that depend upon it. Financial markets are well regulated and the UK's reputation for legal and professional services stands very high indeed, Scotland adds depth and diversity to this overall proposition.

Scottish professional services (legal, accountancy, actuarial, advisory) support UK exports of financial services and, in doing so, contribute directly to them. Scottish professional services have a high reputation and offer competitive pricing to overseas clients, since operating costs are lower than in London.

**Having asked the sector what more could be done by public bodies to support them in the field of exporting, we were told that SDI should look for opportunities to promote Scotland to companies in the rest of the UK, especially London, as the best available source of professional and advisory financial services. The follow-through from this is to integrate Scottish services into the exporting capacity of these companies.**

**It is unusual to have more than one international financial centre in a jurisdiction and the UK should emphasise the diversity and opportunity that provides. It is therefore important that UKTI is mindful of the need to understand and emphasise that diversity thereby ensuring that the Scottish financial services sector is fully represented in its work abroad.**

Both SDI and UKTI should prioritise those markets where support of the UK Government adds lustre to a commercial offering; for example countries where government is seen as a decision-maker, even in areas seen in the UK as wholly commercial.

## Oil and Gas

UKTI and SDI offer a range of services to support exporters in this sector.

UKTI is focusing support to the oil and gas sector by “following the money”. This approach takes into account the expected expenditure forecasts across the global industry, set against a judgement of how much of it will produce opportunities which are accessible to UK companies. This drives the focus on the oil & gas High Value Opportunity programme. In taking forward the HVO programme, UKTI carefully researches and validates projects and offers companies of all sizes an intensive level of support to access these major opportunities. Key success factors include:

- Working in partnership with oil companies.
- Helping to position major UK contractors at the earliest possible stage of project cycles.
- Working with the UK supply chain to sustainably access opportunities (including meeting local content requirements).
- Targeted research to ensure UKTI match the appropriate companies to the opportunities.
- Taking professional advice on market entry strategies.
- One HMG team working together: prosperity/commercial diplomacy; HQ and specialist resources; UK Export Finance; DFID. It is obvious common sense that SDI should also be closely integrated into this “one team” approach.

Whilst this service provision and demand led approach is to be welcomed, it is worth considering further measures to improve the offer to companies active in the sector. Central to the provision of high quality, customer focused service is the resource base upon which the service provision depends.

The recent expansion of resources devoted to the sector is welcomed. However, there remains need to build greater oil and gas expertise across the UKTI network and we recommend the following:

- Establish an Oil & Gas Specialist cadre within UKTI staffed by people who have had long term engagement with the sector, providing the opportunity to develop deep knowledge and experience. This would include both UK and market based personnel who could move between posts. This approach would improve UKTI’s effectiveness and credibility with the industry.
- Make provision for more commercial officers in key oil and gas overseas posts, as is already happening in several East African countries, in recognition of growing opportunities.
- Recruit secondees from the prime contractors & Tier 1 suppliers overseas who would help UKTI to provide better commercial and technical understanding of opportunities in markets.

Beyond UKTI’s internal capability, we welcome in this as in other contexts the announcement in the Budget of increased scope for UKEF – oil and gas is historically a key area for their activity – it would be reasonable to expect more demand to flow from the sector as a result of the higher liability ceiling.

The industry itself has a part to play in sharpening its own international performance and we agree with the view of the Oil & Gas Industrial Strategy led jointly by BIS and representatives of the industry that useful ideas might include:

- Increased bursaries / funding to attract technical graduates to the industry to address skills shortages as this is an export constraint.
- Improved incentives for applied technology development focused on growth overseas / export demand – subsea, deepwater, gas utilisation, field rejuvenation.

In line with the Wood Review's recommendation to establish a new Regulator, we recommend that the remit should include a mandate and scope to promote the UK's regulatory framework internationally, even if only be on a responsive basis.

This type of activity can be valuable in offering insights from the UK's experience which foster relationships as markets develop (e.g. Azerbaijan, Brazil, Iraq, Mexico, Uruguay) and may influence the development of policy and regulation consistent with international norms and which UK companies recognise and can work within.

### The View From Two Embassies:

We met with Ambassadors, High Commissioners and senior UKTI and SDI personnel in many countries. Generally, the relationships between the UK and Scottish export support efforts were cordial, constructive and mutually respectful. It became clear, however, that this depended largely on personal relationships and the exercise of common sense. The best examples of the two organisations working together were where there was co-location. The worst were where they operated as two physically separate and competing entities. The following are two summaries of what we heard:

#### EMBASSY A:

"We could do much more for Scottish companies if SDI would share information and work more closely with the Embassy. The sector where Scotland might do best here is the extractive industries – oil and gas – but SDI tell us nothing about the companies they are bringing in. UKTI are operating in the same areas and could add value for the Scottish companies if they were allowed to. A call from the British Embassy can open doors that a call from SDI will not. This also applies to other sectors. (The host country) doesn't 'get' SDI or its equivalents in Wales and Northern Ireland.

In part, the problems are about personalities and SDI's territorial attitude. Some companies restrict themselves to the SDI services they can get for

free and don't push to be put in touch with the Embassy, so they lose out. We also get very few Scottish responses to opportunities in this market which are posted on the UKTI web-site, although this is a free service. We took a road-show to Edinburgh last year which SDI was supposed to be organizing. Two companies turned up, compared to 30 attending each of the English venues. It was a fiasco we won't repeat."

#### EMBASSY B

"We have a lot of respect for SDI and, in fact, UKTI could learn quite a lot from them. They know their priority markets, they do it well and they stick to it. They set a good example by putting serious resources behind strategic priorities. Communication is absolutely key and we produce best results by working together. This country has its own regional cultural identities and so understands the differences that exist within the UK.

There are some sectors which SDI doesn't really touch and they tend to come through the Embassy – for example advanced engineering and manufacturing industry. The UK residence here is an exceptional facility and is widely used by Scottish missions. I think Scotland gets the best of both worlds in this market – an effective, focused trade organization of its own plus the services of the UK network which covers sectors outside that focus and also offers facilities which are well plugged into by SDI."

**These contrasting accounts make the point very eloquently that co-operation is a lot more productive for Scotland than competition. It is perhaps unrealistic in the current political climate to expect a drive towards greater integration of the two efforts where they are currently deficient. If, however, the constitutional status quo prevails later this year, it should be an urgent priority for both UK and Scottish Ministers to ensure that all overseas relationships between UKTI and SDI aspire to the sensible standards described by Embassy B.**

# Chapter 4

## Challenges and responses



## Challenges and responses

This section lay out the full detail relating to the ‘headlines’ listed in the Executive Summary

1. **Many SMEs which wish to take the first steps towards becoming exporters and those looking to move into new markets still experience difficulties identifying where to get the help and advice they need.**

RESPONSE: We therefore recommend a new attempt, driven by Ministers, to achieve collaboration among all the organisations, public and private, Scottish and UK-wide, that provide guidance, advice, trade missions, and other support for Scottish exporters or businesses looking to exports.

**UKTI, SDI and the private sector must all be part of this formal collaboration, which could be branded as Scottish Exports and would provide a uniform “front door” to potential exporters throughout Scotland that will guide companies to the most appropriate source of advice and, where appropriate, support.**

It would be axiomatic to this approach that every company entering the Scottish Exports portal would have a named adviser who would remain as its point of reference until an outcome was identified, thereby minimising the frequently-heard complaint of companies before “passed from pillar to post” or experiencing a lack of follow-through after initial contact.

2. **Access to finance is the most significant barrier faced by SMEs seeking to turn themselves into exporters.**

RESPONSE: We recommend that Scottish Exports should incorporate a designated section, Scottish Export Finance, which will connect companies which have been confirmed as having exporting potential to the most appropriate sources of financial advice and support. It is essential that Banks and the Scottish office of UK Export Finance should be party to such an initiative. We welcome the fact that two UKEF members of staff are “embedded” within SDI but believe this has to be far better publicised. However it is clear that UKEF needs to review what products it can offer to SME exporters, including newcomers to exporting.

**In making these two recommendations, the last thing we want to do is add new bureaucracies to the organisations already involved in export support. Rather the objective is to achieve greater outward-facing clarity, cohesion and follow-through on the part of agencies which already exist and we believe that a portal approach could be developed through inter-organisational co-operation, driven by Ministers.**

**3. UKTI and SDI generally have good working relationships, but gaps within it can leave UKTI programmes less visible in Scotland and Scotland less visible in some overseas markets.**

RESPONSE: The working links between UKTI and SDI need to be clarified and should be regularly reviewed by the two Governments. SDI could make better and more effective use of UKTI's wide reach while UKTI must resist the assumption which sometimes arises that Scotland is "covered" because of SDI's existence. The branding of initiatives within Scotland, wherever they have originated, is of little interest to clients. What matters is that UK-wide initiatives do not by-pass Scotland and that specifically Scottish initiatives are supported around the world by UKTI. **From our contacts with overseas posts in markets where SDI is not present, we are concerned that better con-ordination is needed to ensure Scottish export effort is properly represented.**

In addition, there is often an under-representation of Scottish companies on UKTI trade missions. Ministers in the Scotland Office and Scottish Government should lead an early effort to ensure the integrated delivery of all available export services to Scottish businesses.

One important area in which the links between UKTI and Scottish companies are currently inadequate is the High Value Opportunity Programme. The decision by the UK Government to focus UKTI's effort mainly on 100 major worldwide projects, covering a broad range of markets and sectors, gives particular urgency to this issue. By far the most effective way into exporting for many SMEs is as part of the supply chain to major projects. Scotland alone cannot mount the same attack on these opportunities and Scottish companies must be in a position to benefit from them. **We strongly recommend a united SDI/UKTI approach to the maximization of participation by Scottish companies in the High Value Opportunity Programme.**

**4. There are major shortages of the skills which are required to support a successful exporting economy. These range from sales and marketing expertise to language competence and international trade experience.**

RESPONSE: We recommend that an audit of skill shortages should be carried out in consultation with a cross-section of exporting companies as the prerequisite for a strategic approach to addressing them. **FE Colleges and universities should be encouraged to develop courses or course modules which have a specific international trade focus.** Most of Scotland's universities are now opening campuses in key overseas markets and there is clear potential for this activity to be aligned with building exporting expertise related to these countries. **We recommend that this kind of aligned thinking should be more actively promoted by export agencies.**

The issue of language competence requires to be taken more seriously as a significant factor in economic as well as educational terms. We recommend that language teaching at all levels should be more closely aligned to Scotland's future exporting markets.

5. **There is strong support for a sector-led approach to exporting with public agencies supporting sector bodies and leading companies within each sector in order to identify opportunities which, if secured, can then involve a large number of companies in supplying goods and services.**

RESPONSE: **We strongly support the sector-led approach as the most effective, short-term means of expanding Scotland's exporting potential.** The role of public sector bodies lies in helping the private sector to identify international opportunities and then seeking to maximize the Scottish involvement within them. At the same time, the sector and sub-sector groups should identify their priority targets and the role of the public sector should be to help secure access to them. This concerted approach is much more likely to yield results than a more scatter-gun effort by individual companies. It accords closely with the strategy currently being led by Scottish Enterprise (increasing Scotland's international ambition) and can clearly benefit from close collaboration with UKTI's presence in both sectors and markets. It should also be **aligned to the High Value Opportunities approach which will usually involve companies from different parts of the UK and which is currently under-represented in Scotland.**

6. **The potential of services – for example, financial, accounting and legal – as growth Scottish exports was highlighted along with concerns about the London-centric approach to their overseas marketing by UKTI and other bodies.**

RESPONSE: Scotland has great strengths in these professional services. Edinburgh is the second most important financial services sector in the United Kingdom, behind the City of London. The Scottish legal system is held in international repute. There is a real appetite among professional bodies and enterprising companies for an expansion of their activities by seeking more work from outside Scotland and the UK. **It is essential to ensure that UKTI and other bodies give full representation to Scotland's distinctive offerings in these sectors.** This will require a conscious change in mind-set on the part of UK trade promoters. For example, the Lord Mayor of the City of London is currently used to lead international export efforts on behalf of the UK financial services with, in effect, Ministerial status. We think it is important that the Scottish financial services sector should normally be represented on such missions. This would also support the UK Government's 'rebalancing' agenda

**7. A high value is placed by our exporters on the UK's network of embassies and consulates around the world and many are concerned about the possibility of losing access to both the human and built resources.**

**RESPONSE: We strongly endorse this view and believe it is an aspect of the constitutional debate which should not be under-estimated. The UK has a diplomatic, consular and trade promotion presence in over 220 locations in over 100 countries, every one of which has a relevance to Scottish exporters and is highly valued by many of them.** Indeed, one of the most common pleas we heard was for more such posts, particularly in the further-flung parts of developing markets such as Brazil and Russia. Nobody suggested that Scotland would benefit from losing access to this formidable network which includes scores of countries which are not prime exporting targets but which, nonetheless, provide vital commercial and consular services to Scottish companies.

In addition to the services and local knowledge provided by staff, the facilities and prestige offered by many of these venues are highly valued, particularly by experienced exporters. **In the competitive environment of our major exporting markets, these are exceptional assets which our exporters have a strong desire to retain access to.**

The quality of service provided by these posts is highly dependent on the quality and commitment of the individuals involved. There should be regular professional continuing development training for in-market staff to build a consistently high level of service. Part of this training should be focused on ensuring that all parts of the United Kingdom are equally well served and – from the perspective of this report – there should be expert knowledge of the particular characteristics of Scottish exporting. Our experience suggests that this usually, but not invariably, exists and needs to be regularly reinforced. SDI should play an active part in this process particularly in markets which it is not itself represented.

**8. There is widespread frustration that Scotland does not have better air links with Europe and the world. This is seen as a barrier in terms of costs and logistics and perceptions of our peripherality.**

**RESPONSE:** We can only reinforce the importance of this issue in the eyes of many exporters and urge that efforts to address it should continue. It seems unfortunate that the Route Development Scheme, after operating effectively for five years, was withdrawn in 2008. One of its most conspicuous and lasting successes was the Emirate service to Dubai linking with many further destinations and we urge consideration of its reinstatement, consistent with EU rules on state aids. We also think it is essential that more active support should be given to new routes when they are introduced. In formulating airports policy, the UK Government should seek to promote direct routes between Scottish airports and international destinations as well as safeguarding slots at London airports which provide inter-connectivity.

### 9. More effective channels of information exchange on all aspects of exporting would be beneficial.

RESPONSE: This was one of the most frequently-raised points by companies we were in touch with. Indeed, we observed practical evidence of it in the course of round-tables in connection with this review. Participants repeatedly said that they were unaware of, and found useful, information – not least about SDI and UKTI programmes – brought forward by others taking part. This is a basic issue but an important one to address within a sustained, structured format. **We recommend that a consistent structure of Exporter Networks should be created and sustained across Scotland.** This might be contracted to SCDI or some other private sector body to organize.

The kind of issues which were spontaneously referred to as lending themselves to this kind of information exchange facility, if it was available, included guidance on local professional advice for smaller companies in export markets; how smaller companies can access the supply chains of larger ones; how best can the Global Scots network be utilised, building on good experiences and recommendations; how SMEs can collaborate in spreading cost as they contemplate new markets; and so on. These really are the nuts and bolts issues of exporting for many companies and the sharing of non-confidential information through an organised network could make a substantial contribution to enhancing both confidence and success, at minimal cost to the public purse.

The suggestion was also made that there should be a domestic equivalent of the Global Scots network with experienced exporters, including those who have retired, coming together as a group prepared to give of their time and expertise for the benefit of SMEs who are either first-time exporters or contemplating new markets of which these individuals have particular experience. In fact, Global Scots claim to have 90 such people located in Scotland but there is a clear need to promote awareness of their availability.

### 10. The Global Scots network can be helpful but is extremely inconsistent

RESPONSE: The Global Scots network, established in 2001, has been very helpful to some companies and that alone justifies its existence. However, there was probably no subject on which such polarised views reflected completely contrasting experiences. Some companies told us of the wonderful assistance and sustained interest they had received from Global Scots. Others told us of the Global Scots with whom they had been put in touch delivering absolutely nothing for them, in terms of either interest or useful advice. CBI Scotland, which supports the concept, says: “A common refrain from members is that they do not know who the Global Scots actually are, or how to contact them”

**We recommend that the Global Scots network should be maintained but that a rigorous approach to its membership should be adopted, based on a consistent reporting policy from companies which have experienced it.** It requires a support and maintenance resource committed to it that is currently lacking, as well as more effective marketing through its web-site and other channels.

**11. While discussion of “exporting” usually centres on trade promotion, the whole area of trade policy, trade diplomacy and our ability to exert influence over the conditions within which trade occurs is of fundamental importance and Scottish interests are currently well served through the United Kingdom.**

RESPONSE: Trade policy and commercial diplomacy are hugely important to our major exporting sectors including Scotch whisky and oil and gas. **The ability of Scottish companies to enter markets and trade on competitive terms, without facing protectionist tariffs and obstructions, is crucial to our exporting effort.** Trade policy objectives are pursued by the UK on a bilateral level, as well as through the formulation of EU policies and priorities and within the World Trade Organisation. It is beyond doubt that the UK is influential and effective in all of these contexts and our companies are thus able to win important battles working closely with major trade bodies such as the Scotch Whisky Association, UK Oil & Gas and the ADS Scotland.

We believe that there is an inadequate understanding of the importance of this work to Scottish businesses and jobs. For example the view expressed to us by the Scotch Whisky Association that the strength, power and influence of the UK were vital to the overseas agenda, particularly in the EU, and to influencing that agenda.

While the responses recommended here are by no means comprehensive, we believe that concerted action in order to address each of them would make a significant contribution to the Scottish exporting effort with minimal additional cost to the public purse. There is considerable potential for doing things better and in a more integrated way if this becomes a priority for all relevant organisations.

## Appendix 1 – Acknowledgements

Our thanks must go to all those who we spoke to and who contributed to this review. In particular we wish to credit the following people and organisations:

David Williamson, Deputy Director,  
International Affairs, Scotch whisky Association

Stuart Duncan, Director LatAm /  
Brazil Country Manager, Lloyds Banking Group

Michael P Clancy O.B.E., Director of Law Reform,  
The Law Society of Scotland

Atholl Duncan, Executive Director,  
UK and Global Member Engagement, ICAS

Les Haswell, Les Haswell Consulting

Gordon MacAulay, Ness Clothing Ltd

Fiona Fraser, slow-luxury.com

Professor Sir James Macdonald,  
Strathclyde University

David Lonsdale, Assistant Director CBI

Denis Taylor, Hidden Office

Angela Nicholson, Regional Sales Director,  
Scotland, Lloyds

Scott Wightman, Ambassador Seoul South Korea

Clifford Beeb, Head of UKTI, South Korea

Owen Kelly, Scottish Financial Enterprise

Peter Lederer, Diageo

Mark McQuade, UKTI

Ed Payne, SDI

Peter Hughes & Bryan Buchan,  
Scottish Engineering

David Lonsdale, Assistant Director CBI

Alison Nicholson, Regional Sales Director,  
Scotland, Lloyds

Shaun Earl, UKTI Russia

Christopher George, Managing Director,  
NuVision Abroad

Eduardo Valle, Managing Director, Brazil, ASCO

David Ramsey, Managing Director,  
Kelvin Consultants

Neil Gordon, Chief Executive, Subsea UK

Rodrigo Barbossa, Head of Corporate  
Communications South American, Rolls-Royce

Stuart Duncan, Brazil Country Manager, Lloyds

Dave Mitchell, Vice President Safety & Operational  
Risk, Brazil BP

Neil McManus, Paul Everitt, Ian Watson,  
Warrick Malcolm, Liz Lambert, of ADS

Bernie Hamilton, Babcock Marine

Angela Mathis, ThinkTank Maths

Steven Callan, UTC Aerospace Systems

Donald Gunn, Raytheon Systems

Alan Fraser, BAE Systems Regional Aircraft

Allan Colquhoun, Selex ES

Scott McLarty, Spirit AeroSystems

Alan Stevenson, Thales

Brian Humphrey, SEMTA

Nosheena Mobarik, M Computer Technologies  
& CBI Scotland chairman

Dr Mike Cooke, Devro plc

Doug Ross. Tullibardine Distillery

Eric Prescott , Havelock Europa

Alastair MacMillan, White House Products Ltd

Graham Hutcheon, Edrington Group

Professor John Wilson, Glasgow Caledonian University

Lesley Sawers, Vice Principal and Pro Vice-Chancellor Business Development, Enterprise & Innovation, Glasgow Caledonian University

Farquhar Mackinnon, Managing Director, Supply Technologies

Fiona Stewart-Knight, Director of Business Academies Glasgow, Glasgow Caledonian University

Laurie Clark, Managing Director, Anglo Scottish Concrete

Tessa Hartmann, Founder, Hartmann Media

Jane Gotts, Director International Business Development, Glasgow Caledonian University

Adrian Filby, Commercial Director, Celtic Football Club

Iain Irvine, Technical Director, Sgurr Energy

James Lang, Group Marketing Director, Scottish Leather Group

Siobhan Hazlett, International Trade Executive, SCDI

Stephen Telford, Managing Director, High Voltage Instruments

Kevin Toner, Head of Marketing and Business Development, Keppie

Scottish Borders Chamber of Commerce

## Appendix 2 – Data

Global Connections Survey: <http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/Exports/GCSDData>

HMRC Regional Trade Statistics: <https://www.uktradeinfo.com/statistics/rts/Pages/default.aspx>

### Raw data on Scottish international exports

Sector & Company Size <sup>1</sup>	Total International Exports (£million)					Absolute change 2011- 2012	Per cent change <sup>5</sup> 2011- 2012
	2008	2009	2010	2011	2012		
<b>Primary<sup>2</sup></b>	<b>780</b>	<b>1,030</b>	<b>1,520</b>	<b>1,520</b>	<b>1,280</b>	<b>-240</b>	<b>-15.8</b>
Large	400	595	830	845	705	-140	-16.6
Medium	190	250	495	405	380	-25	-6.2
Small	190	185	195	265	190	-75	-28.3
<b>Production<sup>3</sup> &amp; Construction</b>	<b>13,310</b>	<b>12,960</b>	<b>13,435</b>	<b>14,680</b>	<b>15,880</b>	<b>1,200</b>	<b>8.2</b>
Large	9,315	8,810	9,180	9,860	10,705	845	8.6
Medium	3,145	3,225	3,360	3,790	3,965	175	4.6
Small	850	925	895	1,030	1,205	175	17.0
<b>Services</b>	<b>7,490</b>	<b>7,900</b>	<b>7,790</b>	<b>8,250</b>	<b>8,715</b>	<b>465</b>	<b>5.6</b>
Large	2,495	3,075	3,175	3,560	3,445	-115	-3.2
Medium	1,580	1,680	1,705	1,830	2,230	400	21.9
Small	3,415	3,145	2,910	2,855	3,045	190	6.7
<b>Total Exports<sup>4</sup></b>	<b>21,635</b>	<b>21,985</b>	<b>22,810</b>	<b>24,550</b>	<b>25,995</b>	<b>1,445</b>	<b>5.9</b>
<b>Total Large</b>	<b>12,210</b>	<b>12,480</b>	<b>13,185</b>	<b>14,265</b>	<b>14,855</b>	<b>590</b>	<b>4.1</b>
<b>Total Medium</b>	<b>4,915</b>	<b>5,155</b>	<b>5,555</b>	<b>6,030</b>	<b>6,575</b>	<b>545</b>	<b>9.0</b>
<b>Total Small</b>	<b>4,455</b>	<b>4,255</b>	<b>4,000</b>	<b>4,155</b>	<b>4,440</b>	<b>285</b>	<b>6.9</b>

## Raw data on Rest of UK exports

Sector & Company Size <sup>1</sup>	Total Rest of UK Exports (£million)						Absolute change 2011-2012	Per cent change <sup>5</sup> 2011-2012
	2008	2009	2010	2011	2012			
<b>Primary<sup>2</sup></b>	<b>1,965</b>	<b>2,565</b>	<b>3,335</b>	<b>3,090</b>	<b>3,300</b>	<b>210</b>	<b>6.8</b>	
Large	1,390	1,895	2,455	2,175	2,370	195	9.0	
Medium	75	120	285	395	400	5	1.3	
Small	500	545	595	520	530	10	1.9	
<b>Production<sup>3</sup> &amp; Construction</b>	<b>14,615</b>	<b>15,965</b>	<b>16,685</b>	<b>17,805</b>	<b>18,935</b>	<b>1,130</b>	<b>6.3</b>	
Large	9,190	10,780	11,535	12,225	13,105	880	7.2	
Medium	3,585	3,490	3,705	3,790	4,155	365	9.6	
Small	1,840	1,695	1,450	1,785	1,675	-110	-6.2	
<b>Services</b>	<b>24,510</b>	<b>22,690</b>	<b>23,550</b>	<b>24,705</b>	<b>25,310</b>	<b>605</b>	<b>2.4</b>	
Large	13,835	12,415	14,425	14,480	14,900	420	2.9	
Medium	4,350	4,220	3,960	4,790	4,760	-30	-0.6	
Small	6,325	6,060	5,165	5,435	5,655	220	4.0	
<b>Total Exports<sup>4</sup></b>	<b>41,100</b>	<b>41,240</b>	<b>43,595</b>	<b>45,625</b>	<b>47,570</b>	<b>1,945</b>	<b>4.3</b>	
<b>Total Large</b>	<b>24,415</b>	<b>25,090</b>	<b>28,415</b>	<b>28,885</b>	<b>30,370</b>	<b>1,485</b>	<b>5.1</b>	
<b>Total Medium</b>	<b>8,010</b>	<b>7,835</b>	<b>7,950</b>	<b>8,975</b>	<b>9,315</b>	<b>340</b>	<b>3.8</b>	
<b>Total Small</b>	<b>8,665</b>	<b>8,300</b>	<b>7,210</b>	<b>7,740</b>	<b>7,860</b>	<b>120</b>	<b>1.6</b>	

## Appendix 3

UKTI – [www.ukti.gov.uk](http://www.ukti.gov.uk)

Business Opportunity Alerts – <http://www.businessopportunities.ukti.gov.uk/home.html>

UKTI Webinars – <https://www.gov.uk/ukti-webinars>

Open to Export – <http://opentoexport.com/>

Overseas Business Risk – <https://www.gov.uk/government/collections/overseas-business-risk>

OMIS – <https://www.gov.uk/overseas-market-introduction-service>

EMRS <https://www.gov.uk/export-marketing-research-scheme>

The Export Communications Review <https://www.gov.uk/export-communications-review>

High Value Opportunities Programme <https://www.gov.uk/high-value-opportunities>

Market Visit Support (MVS) <https://www.gov.uk/market-visit-support>

The Tradeshow Access Programme (TAP) <https://www.gov.uk/tradeshow-access-programme>

UK Export Finance – <https://www.gov.uk/government/organisations/uk-export-finance>

SDI – <http://www.sdi.co.uk/>

Business Gateway – <http://www.business.scotland.gov.uk/>

Smart Exporter – <http://www.hie.co.uk/business-support/exporting/smart-exporter.html>

Global Scot – <http://www.globalscot.com/>



