The Scottish Parliament and Scottish Parliament Information Centre logos.

Financial Scrutiny Unit Briefing
Scotland’s Exports

2 March 2017
17/14

Andrew Aiton, Greig Liddell and Iain McIver

This briefing analyses the Export Statistics Scotland 2015 release from the Scottish Government, providing a breakdown of exports by sector and location. With “internationalisation” being one of the Scottish Government’s four economic policy priorities, this briefing also summarises recent policy developments aimed at increasing the value and volume of Scottish exports.
CONTENTS

EXECUTIVE SUMMARY .............................................................................................................. 3
ABOUT THE EXPORTS STATISTICS SCOTLAND SURVEY ...................................................... 4
HOW IMPORTANT ARE EXPORTS TO THE SCOTTISH ECONOMY? .................................... 4
THE VALUE OF SCOTLAND’S EXPORTS .................................................................................. 5
RECENT EXPORT FIGURES AND SCOTTISH GOVERNMENT TARGETS ................................ 6
WHAT DOES SCOTLAND EXPORT? ............................................................................................ 6
  SERVICES ................................................................................................................................. 7
  MANUFACTURING .................................................................................................................... 9
WHERE DOES SCOTLAND EXPORT TO? ..................................................................................11
  INTERNATIONAL EXPORTS ....................................................................................................12
    Where does Scotland Export to internationally? .................................................................12
    Exports to the EU ...............................................................................................................13
  WHAT GOES WHERE? .............................................................................................................14
  SERVICES AND MANUFACTURING EXPORTS ....................................................................15
    Services ...............................................................................................................................15
    Manufacturing ....................................................................................................................15
  TARGET EXPORT DESTINATIONS .......................................................................................17
    Asia ......................................................................................................................................17
    North America ...................................................................................................................18
EXPORTS BY BUSINESS SIZE ................................................................................................18
SCOTTISH GOVERNMENT POLICY ...........................................................................................19
  SCOTLAND PERFORMS .........................................................................................................19
  ENTERPRISE AGENCY SUPPORT ..........................................................................................20
  MEASURING PERFORMANCE ................................................................................................21
  INTERNATIONAL TRADE AND INVESTMENT STRATEGY AND THE ENTERPRISE AND SKILLS REVIEW ..................................................................................21
  EXPORTS AND SCOTTISH GOVERNMENT RESPONSE TO BREXIT ....................................22
SOURCES .....................................................................................................................................24
RELATED BRIEFINGS ..................................................................................................................26
EXECUTIVE SUMMARY

This briefing analyses the Export Statistics Scotland 2015 release from the Scottish Government, providing a breakdown of exports by sector and location. With “internationalisation” being one of the Scottish Government’s four economic policy priorities, this briefing also summarises recent policy developments aimed at increasing the value and volume of Scottish exports.

Key points from the latest Exports Statistics Scotland release:

- Total exports from Scotland in 2015 were worth £79bn. This includes exports to the rest of the UK which were worth £50bn, while international exports were worth £29bn.

- Service exports were worth £39bn and make up around half of all exports from Scotland.

- “Financial and insurance activities” were the most valuable services export in 2015 worth £8.8bn, with £7.6bn or 86% going to the rest of the UK.

- Manufacturing exports were worth £26.4bn in 2015, and make up 34% of total exports.

- “Food products, beverages and tobacco products” were the most valuable exports in 2015, worth £8.9bn and accounting for 34% of total manufacturing exports.

- The EU remains Scotland largest international trading destination, with exports worth £12.3bn.

- Manufacturing accounts for 61% of exports to the EU with “Coke, refined petroleum and chemical products” the most valuable export to the EU.

- In terms of exports to the rest of the UK, a proportion may be re-exported internationally. While it is not possible to quantify this exactly, it is likely to be a small proportion of the total.

In relation to Scottish Government exports policy the following key points are discussed in some detail:

- The announcement of a “four point plan” in response to Brexit.

- An increased focus on “internationalisation” in both the 2015 Economic Strategy and the Enterprise and Skills Review.

- Criticism of how the effectiveness of internationalisation support is measured.

- A need for more collaboration and the establishment of Scottish Development International as a separate body, as highlighted in the Enterprise and Skills Review.

- Meeting the target of increasing the value of international exports by 50% between 2010 and 2017 is now looking very challenging.
ABOUT THE EXPORTS STATISTICS SCOTLAND SURVEY

The main source of data behind the Exports Statistics Scotland (Scottish Government 2017) release is the Global Connections Survey (GCS). The GCS is a survey of businesses administered by the Scottish Government. This year the Scottish Government received completed survey returns from 1,500 businesses (there are currently 174,000 registered businesses in Scotland). This is the only source of information for exports to the rest of the UK and also informs most of the estimates of international exports.

In addition to the GCS, estimates of Scottish exports are also derived from official and administrative sources produced by the ONS, including the ONS’s Monthly Business Survey and its International Trade in Services Survey. These sources are used to estimate export values and/or proportions. Turnover is sourced for most companies from the Inter Departmental Business Register.

As highlighted by the former Economy, Energy and Tourism Committee in its 2015 internationalisation inquiry, a relatively small number of companies account for the majority of Scotland’s exports (Scottish Parliament 2015). For example, in 2013 around 60% of the total value of Scottish international exports was accounted for by only 100 companies (Scottish Government, 2015).

The Committee noted that Scottish Government export statistics do not show the number of exporting companies. Given that the Scottish Government accepts that Scotland’s export base needs to be broader (Scottish Government 2016) the Committee felt it important, for performance measurement purposes, that statistics show the number of exporters and tracks changes over time. In response, the Scottish Government’s International Trade and Investment Strategy 2016-21 acknowledged the need for some improvements to export statistics, and suggested a range of further steps, including better use of non-official sources such as enterprise agency data and Chamber of Commerce export certification records, to “provide further insights into Scotland’s export performance” (Scottish Government 2016e, p.49).

HOW IMPORTANT ARE EXPORTS TO THE SCOTTISH ECONOMY?

Figure 1 shows the value of exports as a percentage of the Scottish on-shore economy. Presenting export figures in this way partly strips out the effects of inflation and allows us to compare performance over time (Scottish Parliament 2014).

Therefore, since 1998, the value of exports as a proportion of Scottish GDP has remained at around the 50% mark. Within this, exports to the rest of the UK increased from 28% of GDP in 1998 to 31% in 2015. The value of international exports as a proportion of GDP fell from 22% in 1998 to 18% in 2015, with much of this reduction taking place between 1998 and 2002.
THE VALUE OF SCOTLAND’S EXPORTS

Total exports from Scotland were estimated to be worth £79bn in 2015. This figure consists of exports to the rest of the UK (including exports of services to the offshore oil and gas industry), and international exports but does not include oil and gas exports from the Scottish section of the UK Continental Shelf.

Between 2014 and 2015 the value of total exports grew by 4.1%, or £3bn. Of this, the value of international exports grew by £1bn, or 3.6%.

Figure 2 shows that since 2002, the value of total exports from Scotland has increased by £30bn, or 61%.
RECENT EXPORT FIGURES AND SCOTTISH GOVERNMENT TARGETS

Scotland Performs presents information on how Scotland is performing against a range of targets and indicators outlined in the Scottish Government’s National Performance Framework. One of these indicators is to “Increase Exports”. This tracks the annual value of international exports (i.e. not including exports to the rest of the UK) and records whether it has increased or decreased compared to the previous year.

The Government specifies that

- a decrease of 3.0% or more suggests that the position is worsening
- an increase of 3.0% or more suggests the position is improving.

So the increase of 3.6% over the year means that the indicator is **improving**.

**Figure 3: Exports National Performance Indicator – current performance**

Source: Scottish Government

WHAT DOES SCOTLAND EXPORT?

Figure 4 shows total Scottish exports broken down by sector. Between them, services and manufacturing comprise £64.8bn, or 83%, of total Scottish exports. The rest is made up of:

- **Utilities (8%)** - providing electric power, natural gas, steam, hot water and the like through permanent infrastructure network such as lines, mains and pipes
- **Mining and Quarrying (7%)** - as the statistics exclude extraction of oil and gas this will include activities related to the preparation of extracted materials for sale for example concentrating ores, liquefaction of natural gas and collection of solid fuels. However this does not include the processing of material which is included in manufacturing.
- **Construction (2%)** - general and specialised construction activities for buildings and civil engineering works.
- **Agriculture, Forestry and Fishing (1%)** - growing crops, raising and breeding animals, harvesting timber and other plants, animals or animal products from a farm or their natural habitats. Food and drink products are included in manufacturing.
Figure 4: Exports by sector – 2015

![Exports by sector chart](image)

Source: [Exports Statistics Scotland](#)

Figure 5 shows the value of exports by sector between 2002 and 2015. “Utilities” has seen the largest proportional increase between 2002 and 2015, increasing by 315% or £4.6bn. “Service” exports have increased by £18.3bn between 2002 and 2015. The only sector to have seen a decrease in the value of exports is construction, falling by 12%, or £210m.

Figure 5: Exports by sector – 2002 to 2015

![Exports by sector chart](image)

Source: [Exports Statistics Scotland](#)

SERVICES

Total services exports in 2015 were worth £38.5bn and accounted for 49% of all exports. “Financial and insurance” exports were the most valuable services exports at £8.8bn.
Figure 6: Service exports (£m) - 2015

Source: Exports Statistics Scotland

Figure 7 shows the growth in services sectors between 2014 and 2015. Between 2014 and 2015 education saw the largest proportional increase in value of exports at 12.5%, or £145m. “Other service” saw the biggest decrease at 25.8%, or £70m.

The largest increase by value over the year was in the “Professional, scientific and technical” sector at £700m. The largest decrease by value over the year was in the “Administrative and support service” sector at £475m.

Figure 7: Growth in service exports between 2014 and 2015

Source: Exports Statistics Scotland (Note: other services’ includes health and other community activities, social and personal service activities, arts, entertainment and recreation).

Figure 8 shows the value of service sector exports between 2002 and 2015. Exports from the “Professional, scientific and technical” service have seen the largest increase in the value of exports both 178% proportional and in value at £5.1bn. The value of exports from “Financial and insurance” services peaked in 2010 and £11.4bn and has since fallen to £8.8bn.
MANUFACTURING

“Food products, beverages and tobacco” is the top exporting manufactured goods sector at £8.9bn. This includes the “distilling, rectifying and blending of spirits” which is worth £4.4bn.

Figure 9: Manufacturing (£m) - 2015

Source: Exports Statistics Scotland

Figure 10 shows the growth in manufacturing sectors between 2014 and 2015. Between 2014 and 2015 “Basic metals and fabricated metal products, except machinery” saw the largest proportional increase in value of exports at 19.9%, a £240m increase. “Electrical equipment” saw the biggest decrease at 18.0%, equal to £105m.
The largest increase by value over the year was in the “Coke, refined petroleum and chemical products” sector at £635m. The largest decrease by value over the year was in the “Computer, electronic and optical products” sector at £130m.

**Figure 10: Growth in manufacturing exports between 2014 and 2015**

![Graph showing growth in manufacturing exports between 2014 and 2015](image-url)

Source: Exports Statistics Scotland

Figure 11 shows the value of manufacturing exports between 2002 and 2015. “Food products, beverages and tobacco” exports saw the largest increase in value between 2002 and 2015. However exports from the sector have actually fallen by 1.7% since they peaked in 2013 at £9.1bn. This is because of an 8.3% fall in the value of “Distilling, rectifying and blending of spirits” exports between 2013 and 2015.

The value of “Coke, refined petroleum and chemical products” saw the largest value (as opposed to percentage) increase of all manufactured goods between 2014 and 2015.

The biggest decrease in the value of exports between 2002 and 2015 was for “Computer, electronic and optical products”. This fell by £5bn or 75% over the period, illustrating the demise of Scotland’s ‘Silicon Glen’ electronics sector during the early years of the century.
WHERE DOES SCOTLAND EXPORT TO?

Exports Statistics Scotland provides data on exports to the rest of the UK as well as international destinations.

Figure 12 shows the change in exports by broad destination between 2002 and 2015. In 2015, exports to the rest of the UK were worth £49.8bn, an increase of £28.6bn from 2002. International exports were worth £28.7bn in 2015 an increase of £20.3bn from 2002.

Figure 12: Value of exports to the rest of the UK and internationally – 2002 to 2015

In terms of exports to the rest of the UK, a proportion may be re-exported internationally. While it is not possible to quantify this exactly, it is likely to be a small proportion of the total. This is because exports from services, utilities and construction, which make up 70% of exports to the rest of the UK, are highly unlikely to be re-exported. The Scottish Government has also suggested that many of the manufactured goods exported to the rest of the UK are in sectors where re-exporting is unlikely.

Source: Exports Statistics Scotland
On the other hand, some products exported to the rest of the UK are incorporated into other products, and then re-exported. This will be counted as exports to the rest of the UK as only the original product comes from Scotland.

**INTERNATIONAL EXPORTS**

Figure 13 shows the proportion of international Scottish exports which go to EU and non-EU countries. Since 2005 the majority of the value of international exports has gone to non-EU countries. In 2015, 57% of international exports went to non-EU countries. Since 2002 the value of exports to the EU has increased by £0.9bn while exports to the rest of the world have increased by £7.6bn.

**Figure 13: Proportion of international exports by destination**

Source: [Exports Statistics Scotland](exportsstatistics.scot)

**Where does Scotland Export to internationally?**

In 2015 the EU was Scotland’s largest international export region, accounting for £12.3bn of exports. Between 2014 and 2015 international exports grew by £1bn, with an increase in EU exports accounting for 52% of this growth.

North America was the region with the second highest value of exports at £5.0bn. The majority of these exports go to the US, which is the single largest country destination for Scotland’s international exports (at £4.6bn in 2015).
Figure 14: Total International Exports by Geographic Region – 2015

Source: Exports Statistics Scotland

Exports to the EU

Figure 15 shows the value of exports to countries in the EU with a value over £500m in 2015. Within the EU the Netherlands is Scotland’s largest export destination. This is because Rotterdam is one of the largest ports in the world and while goods arrive there the Netherlands may not be the final destination. Over the year exports to the Netherlands have increased by £285m or 14%.

In 2015 France had the second highest value of Scottish exports to any EU nation. This is partly explained by France being the second largest international market for Scotch whisky (Scotch Whisky Association). The largest increase in value of total exports between 2014 and 2015 was to Denmark, which saw total Scottish exports increasing by £290m over the year.

Figure 15: Exports to the EU by country – 2015

Source: Exports Statistics Scotland
Since 2002 exports to the EU have increased by £895m, or 8%. However between 2002 and 2005 exports actually fell, by £2,500m. From 2005 to 2011 they increased by £3,360m or 37%. Since then exports have fallen by 5% or £700m.

**Figure 16: Value of exports to the EU – 2002 to 2015**

Source: [Exports Statistics Scotland](#)

**WHAT GOES WHERE?**

Figure 17 shows the proportion of exports for each sector that go to either the rest of the UK or internationally. They are ordered by the size of the value of the sector.

Manufacturing is the only sector which has a higher proportion of exports which go to international destinations. “Utilities” has the highest proportion of exports to the rest of the UK. As “Utilities” exports consist of services such as transmission of electricity through the national grid, this is not surprising.

**Figure 17: Proportion of exports by broad sector and destination - 2015**

Source: [Exports Statistics Scotland](#)
SERVICES AND MANUFACTURING EXPORTS

Exports Statistics Scotland provides a more detailed breakdown of exports by sector within the services and manufacturing sectors.

Services

Services exports, worth £38bn, make up 49% of all exports from Scotland. 72%, or £28bn, of these are classed as exports to the rest of the UK. International services exports are worth £11bn, with the majority, or £7bn, going to non-EU destinations. Looking at the services export sector breakdown in more detail, only “education” has a higher proportion of exports going to international destinations.

“Financial and insurance” exports were worth £8.8bn in 2015, with 86%, or £7.6bn going to the rest of the UK. Of the £1.3bn international exports from the sector, only £0.2bn went to the EU, 2% of the total value of the sector’s exports.

Figure 18: Proportion of services exports by sector and destination - 2015

Source: Exports Statistics Scotland

Manufacturing

Manufacturing makes up 34% of the value of exports from Scotland. Over half, approximately £15bn, are classed as international exports. There is an even split between the value of manufactured exports which go to EU and non-EU countries.
There are four sectors which see higher proportions of exports going to the rest of the UK than international destinations. These are:

- wood and paper products; and printing;
- basic metals and fabricated metal products, except machinery;
- transport equipment;
- furniture, other manufacturing; repair and installation of machinery and equipment.

However, 88% of exports from the “distilling, rectifying and blending of spirits” sector are classed as international exports. The majority of exports within this sector come from the Scotch whisky industry. 60% of the total value of exports from this sector are destined for areas outside the EU, with the US being the largest export market by value for this sector (SWA).

“Coke, refined petroleum and chemical” product is the second largest manufacturing sector in terms of value of exports, at £4bn. 58% of these exports went to the EU in 2015. Figure 19 shows the proportion of exports for each manufacturing sector that go to either the rest of the UK or internationally. They are ordered by the size of the value of the sector.

Figure 19 shows the proportion of manufacturing exports by sector and destination in 2015. It is worth noting that “Distilling, rectifying and blending of spirits” exports are included separately, but are obviously part of the larger “food, beverage a tobacco” sector.

Figure 19: Proportion of manufacturing exports by sector and destination - 2015

Source: Exports Statistics Scotland
TARGET EXPORT DESTINATIONS

The Scottish Government’s International Framework (first published in 2008) and refreshed in March 2015, sets out the Scottish Government’s “ambition to promote Scotland on the international stage to boost our trade and investment, influence and networks”.

Within the International Framework, the Scottish Government has identified a number of priority countries with the development of country plans covering countries in Asia and North America. The Scottish Government currently has country plans for China, India and Pakistan, the United States of America and Canada. A key priority within all the country plans is to develop trade opportunities for Scottish businesses. This approach is supported by Scottish Development International offices in China, India, Canada and the USA.

Asia

Exports to Asia were worth £3bn in 2015, which makes it Scotland’s third largest export market behind the EU and North America. Since 2010 exports to Asia have increased by 12%.

Figure 20: Value of exports to China – 2010 to 2015 (£m)

![Graph showing value of exports to China from 2010 to 2015.]

Exports to China were worth £605m in 2015 which is an increase of £90m from 2014. Since 2010 exports to China have increased by £230m, or 61%. In 2014 China overtook Singapore as Scotland’s top export location in Asia.

Figure 21: Value of exports to India – 2010 to 2015 (£m)

![Graph showing value of exports to India from 2010 to 2015.]

Exports to India were worth £215m in 2015 which is a decrease of £5m from 2014. Since 2010 exports to India have decreased by £10m, or 4%. 


**North America**

**Figure 2: Value of exports to North America – 2010 to 2015 (£m)**

Exports to North America were worth £5bn in 2015 which is unchanged from 2014. Since 2010 exports to North America have increased by £525m, or 13%.

**EXPORTS BY BUSINESS SIZE**

The majority of Scotland’s exports are from large businesses, i.e. those employing 250 or more staff. Across all sizes of business, the value of exports going to the rest of the UK is higher than that going to international destinations.

**Figure 23: Value of exports by business size and destination - 2015**

Source: Exports Statistics Scotland

Just over 50% of services exports came from small or medium sized enterprises in 2015, considerably higher than SME contributions in other sectors.

**Figure 24: Proportion of exports by business size and by broad industry sector – 2015**

Source: Exports Statistics Scotland
SCOTTISH GOVERNMENT POLICY

Promoting international trade is a central part of the Scottish Government’s economic development remit. “Internationalisation” is one of the Scottish Government’s “four Is” - alongside innovation, investment and inclusive growth – highlighted as strategic priorities in its 2015 Economic Strategy (Scottish Government 2015b). Indeed, improved trade is so important to the Scottish Government that it has stated that “Scotland’s long-term economic performance depends on greater success in international markets and in continuing to attract stronger investment” (Scottish Government 2016d). As well as supporting increased exports, the Scottish Government, mainly through the work of Scottish Development International (SDI), aims to attract potential inward investors to Scotland. These two aspects of the Government’s internationalising agenda are not mutually exclusive, as inward investors are often successful exporters (Scottish Enterprise 2010).

SCOTLAND PERFORMS

As highlighted above, the Scottish Government monitors progress towards its economic priorities through the national performance framework, Scotland Performs. Of the 55 National Indicators included in Scotland Performs, only one is directly relevant to international exports: the “increase exports” indicator, which focusses on increasing the value of exports to the rest of the world (i.e. not including ‘exports’ to the rest of the UK). Others indicators, such as “increase the number of businesses”, “improve digital infrastructure” and “improve Scotland’s reputation”, may or may not lead to increased exports over the medium and longer term.

Within the “increase exports” indicator, the Scottish Government sets out the following actions it believes will contribute positively to the desired outcome:

- Setting an ambitious target to increase the value of Scottish exports by 50% by 2017;
- Scottish Development International (SDI) to support more businesses to develop the skills to go international;
- Supporting growth companies to extend their exports, particularly into fast growing markets;
- Enabling SMEs with international ambitions to access finance from the Scottish Investment Bank;
- Delivering advice and support to SMEs with significant export potential;
- A focus on attracting strategic inward investment which enhances the competitiveness of growth sectors;
- Through the Scottish Government's engagement with other countries and international institutions, particularly in highlighting the areas where Scotland has particular expertise.

The first action point relates a target in the Government’s previous Economic Strategy (published 2011) which aimed to increase the value of Scotland’s international exports by 50% between 2010 and 2017 (Scottish Government, 2011). As highlighted in an earlier section, the value of Scottish international exports in 2015 stood at £28.7 billion, an increase of £5 billion (or 21%) on the 2010 baseline value. With two years until the 2017 target figures are published, the value of Scottish exports will have to increase by at least £7 billion for the 50% target to be met.
ENTERPRISE AGENCY SUPPORT

Most of the Scottish Government actions listed above are functions of Scottish Enterprise (SE), Highlands and Islands Enterprise (HIE) and their international trade and investment arm, Scottish Development International (SDI). Details of how these bodies aim to contribute to the Government’s internationalisation agenda are set out in their respective business plans. For example, on its website, SDI highlights some of the support services provided to businesses, including:

- Access to international market research;
- Export advisers;
- Networking events;
- Training sessions and workshops;
- Financial support to attend trade shows;
- Access to the GlobalScots network.

Scottish Enterprise’s 2015-18 Business Plan sets out planned internationalisation budgets of £41 million in 2015/16 and £42 million in 2016/17, approximately 13% of the organisation’s total annual budget (Scottish Enterprise 2015). Although, SE’s detailed spending plans for 2017/18 have not yet been published, the organisation’s overall grant-in-aid allocation from the Scottish Government will fall by approximately 20% from the previous year’s Draft Budget. What impact this reduction will have on its 2017/18 internationalisation budget will be documented in the agency’s 2017/18 business plan, due for publication in spring 2017.

In a recent PQ response, the Cabinet Secretary for the Economy, Jobs and Fair Work recognised the need for Scotland’s export base to continue growing in non-EU markets:

> “Scottish Development International works closely with a range of overseas partners to identify and deliver international opportunities in growth sectors and growth markets. SDI has a network of global field offices, with over 100 sales professionals promoting Scotland across the world. Since 2012, SDI has opened new offices in Saudi Arabia, Ghana, Canada, Brazil, China and India.”

(Scottish Parliament 2017)

In its Review of the enterprise and skills agencies, phase 1 of which reported in October 2016, the Scottish Government suggested SDI could be set up as a “distinct and separate” organisation delivering a broader range of international activities and support (Scottish Government 2016, p.10). Details of this additional support, as well as information on how the new body will be organised and governed, will presumably be included in phase 2 of the Review (planned report publication is March or April 2017).

---


2. During the [Stage 1 budget debate](https://www.parliament.scottish.gsi.gov.uk/Pages/Legislation/Stage1Budget.aspx), the Cabinet Secretary for Finance announced £35 million more for Scottish Enterprise than was published in the Draft Budget document. This will take the form of loans and equity investments (so called ‘financial transactions’ funding). If this is included, the reduction in total SE budget over the year is closer to 20%.
MEASURING PERFORMANCE

Scottish Enterprise and Highlands and Islands Enterprise services are mostly delivered as packages of support, often through the account management approach (Audit Scotland 2016). Services are rarely delivered in isolation. For example, a company may receive marketing assistance, manufacturing advice, a grant, as well as some exporting training or overseas market advice. This makes it difficult to isolate and evaluate the effectiveness of any single intervention, for example trying to understand what contribution attending a particular trade mission has made to a company’s exports. Difficulties in measuring and evaluating support were highlighted by the former Economy, Energy and Tourism Committee (Scottish Parliament 2015). Furthermore, in a mostly critical piece written for the Jimmy Reid Foundation in 2015, economist and statistician Margaret Cuthbert summarised:

“The government agencies funded to improve Scotland’s trade performance have had an easy passage to date. They have failed to collect and to provide solid data on how they have improved trade performance. And they have not been asked for it.”

(Cuthbert 2015)

Scottish Enterprise’s recent Business Plan does include a target to help between 750 and 900 assisted companies between 2015 and 2018 become new or active exporters. However, its most recent annual report shows that the organisation failed to meet, by some distance, its annual milestone of assisting between 200 and 250 companies to become new or active exporters in 2015/16 (the number achieved was 141) (Scottish Enterprise, 2016a, p.10). Asked about this missed target by the Economy, Jobs and Fair Work Committee, Chief Executive Lena Wilson explained:

“That is wholly down to the global environment that we are in and the levels of uncertainty that exist, which I mentioned earlier. If people want to beat me up for that, that is fine, but that is where we are. The world situation does not stop us going for those targets, but it will be challenging to meet them.”

(Scottish Parliament 2016a)

INTERNATIONAL TRADE AND INVESTMENT STRATEGY AND THE ENTERPRISE AND SKILLS REVIEW

Published three months before the UK voted to leave the European Union, the Scottish Government’s Global Scotland - Scotland's Trade and Investment Strategy 2016-2021 aims to “drive a shift in mind-set with increased global outlook and greater resilience to risk and give business the ability to compete and add the highest amount of value to goods and services” (Scottish Government 2016e). This document provides a strategic framework for the Scottish Government to support “more businesses to sell more goods and services to a wider range of international markets” (p. 6). The main actions relating to exports include:

- More collaborative working between agencies in a ‘One Scotland’ approach;
- Helping companies access expertise and advice through improved digital platforms, with the mygov.scot website providing a single point of access to trade support services across SDI, UKTI and other partners;
- More investment in Innovation and Investment Hubs in London, Dublin and Brussels;
- Plans to make Scotland a global innovation centre “to attract new forms of investment”.

Improved collaborative working is a theme discussed in more detail within the phase 1 report of the Scottish Government’s Enterprise and Skills Review, published in October 2016 (Scottish Government 2016d). Indeed, this document, as well as related parliamentary debates and
questions, highlights the Scottish Government’s desire for the establishment of a single strategic board to replace all or some of the functions of the individual boards of Scottish Enterprise and HIE (as well as the Scottish Funding Council and Skills Development Scotland boards). It is suggested that a single board could more effectively co-ordinate international activity “across public and academic agencies”.

The Enterprise and Skills Review report also confirmed the Government’s commitment to the First Ministers “four-point plan”, announced during her SNP conference speech in early October 2016 (Sturgeon 2016). In response to the perceived challenges arising from the UK’s decision to leave the European Union, the Scottish Government will introduce the following:

- The establishment of a board of trade (established in January 2017);
- An additional innovation and investment hub in Berlin;
- A new trade envoy scheme;
- The doubling of SDI staff working across Europe.

Some funding implications of these proposed actions were reflected in the Draft Budget 2017, with Level 4 budget figures showing an increase in the ‘Business Liaison & Networking’ budget from £2.6m in 2016/17 to £6.0m in 2017/18. Increased budget will, according to the Government:

“…establish Innovation and Investment Hubs in London, Brussels, Berlin and Dublin. The Hubs will bring together the Scottish Government and its agencies, with public and private partners, to support trade, investment and innovation and strengthen relations with governmental and institutional stakeholders. Support to Ministers ambitions to support expansion of Scottish trade and investment activity and the costs of large expansion of the number of SDI staff based in Europe.”

(Scottish Government 2016f)

**EXPORTS AND SCOTTISH GOVERNMENT RESPONSE TO BREXIT**

On 23 June 2016, in a referendum, the United Kingdom decided to leave the European Union. Following the referendum vote the UK Government has indicated leaving the European Union will also mean leaving the Single Market (UK Government 2017)

In its proposals for [Scotland’s place in Europe](https://www.gov.scot) (Scottish Government 2016g), the Scottish Government outlined its view of the economic importance of Single Market membership for Scottish business:

“It is difficult to overstate the importance of Scotland’s continuing membership of the European Single Market (i.e. a “soft Brexit”) as opposed to Scotland’s producers accessing that market as non-members, or “third countries”. Any country in the world is able to access the European Single Market as long as it is not subject to trade sanctions, but it will be subject to tariffs on goods and encounter regulatory barriers. As matters stand, the UK’s exit from the EU is likely to be subject to similar third country treatment. This would see the imposition of tariffs on Scottish exports to the European Single Market, damaging the competitiveness of our goods and driving down exports. However, perhaps more significant would be the nontariff barriers, such as divergent regulatory standards, which would restrict the extent to which companies could access the European Single Market.”

[Research by the Fraser of Allander Institute](https://www.fraserofallander.ac.uk) for the Scottish Parliament’s European and External Relations Committee (2016) modelled three different scenarios for the UK’s future relationship with the European Union. The scenarios were a Norwegian style model, a Switzerland style model and a model where the UK relies on WTO rules to trade with the European Union. In all
three scenarios Brexit is expected to have a significant negative impact on the Scottish economy:

Given the UK Government’s announcement that the UK will leave the Single Market and seek a Free Trade Agreement with the EU, the Fraser of Allander economic modelling suggests the impact on exports is likely to be more severe than if the UK had adopted the Norwegian approach of joining the European Free Trade Association and remaining within the Single Market through European Economic Area membership. The Fraser of Allander research indicated that under the Swiss model (which most closely matches the UK Government’s proposal for a new relationship with the EU), exports would be between 5.9% and 8.4% lower than would otherwise be the case, leading to GDP being between 2.7% and 3.9% lower than would otherwise be the case after around 10 years.

Membership of the European Union’s Customs Union means the UK, along with the other Member States applies a common tariff to all goods entering the EU from outwith the Customs Union. As a result of this common tariff, individual Member States are unable to adopt their own independent trade policies. Instead, the EU has competence for negotiating trade agreements on behalf of the Member States.

The EU (and as a consequence the UK) currently has in place Preferential Trade Agreements with some 50 partners including Chile, South Korea, Mexico, South Africa and the Central American countries (European Commission 2013). Upon leaving the EU, the UK will lose its preferential access to those markets (some of which are key markets for Scotland’s exports such as Brazil, the United Arab Emirates, Singapore and Australia) unless it renegotiates these agreements. It will also have to renegotiate new EU trade agreements currently in progress such as CETA. Formal talks for future trade agreements cannot begin until after the UK withdraws from the EU.

The UK Government’s White Paper, *The United Kingdom’s exit from and new partnership with the European Union* emphasises the opportunities that leaving the EU will present for negotiating new trade agreements with other countries around the world. The White Paper states that the UK is increasingly “trading with the key emerging markets of the world in Asia and the Americas”.

As illustrated earlier in the briefing, an increasing proportion of Scotland’s international exports are going to non-EU countries. In 2015, 57% of Scotland’s international exports went to non-EU countries.


RELATED BRIEFINGS

SB 15-09 Scotland's international exports

SB 15-52 Scotland's Economic Strategy

Scottish Parliament Information Centre (SPICe) Briefings are compiled for the benefit of the Members of the Parliament and their personal staff. Authors are available to discuss the contents of these papers with MSPs and their staff who should contact Andrew Aiton on extension 85188 or email andrew.aiton@parliament.scot. Members of the public or external organisations may comment on this briefing by emailing us at SPICe@parliament.scot. However, researchers are unable to enter into personal discussion in relation to SPICe Briefing Papers. If you have any general questions about the work of the Parliament you can email the Parliament’s Public Information Service at sp.info@parliament.scot.

Every effort is made to ensure that the information contained in SPICe briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

Published by the Scottish Parliament Information Centre (SPICe), The Scottish Parliament, Edinburgh, EH 99 1SP

www.scottish.parliament.uk