SUBMISSION FROM SCDI (SCOTTISH COUNCIL FOR DEVELOPMENT AND INDUSTRY)

Background to SCDI experience in international trade programmes

1. SCDI is an independent membership organisation which strengthens Scotland’s competitiveness by seeking to influence and inspire government and key stakeholders with our ambition to create shared sustainable economic prosperity for Scotland. SCDI’s membership includes businesses of all sizes and sectors, universities and colleges, local government and enterprise networks, trade and professional associations, trade unions, social enterprises, the voluntary sector and others.

2. SCDI has actively promoted Scotland’s international trade potential for more than 50 years. Since our first trade mission to Moscow in 1960, SCDI has delivered more than 370 trade missions comprising 6000 participants, to over 50 markets worldwide. Given the nature and purpose of SCDI, that activity has always been multi-sectoral and inclusive in approach. Most of SCDI’s trade mission programme (from the early Outward Mission Scheme to the later Market Visit Programme) has been financially supported by UK Government, in the form of UK Trade & Investment and its predecessor bodies. SCDI successfully achieved accredited status as a trade mission organiser, alongside other not for profit intermediaries such as UK Chambers of Commerce and Trade Associations, and at the height of this activity was the third largest trade mission organiser in the UK after London and Birmingham Chambers of Commerce.

3. Over the years, Government policy has in large part shifted from supporting multi-sectoral programmes to a sector-specific and priority market approach. Latterly UKTI funding for the Market Visit Programme has been devolved to the nations and regions for local management, and in the case of Scotland to Scottish Enterprise/Scottish Development International. Funding was available through competitive bidding for a (usually 3-year) contract with SE/SDI to deliver overseas trade projects on behalf of UKTI and SDI. This partnership was based on strong outcomes and objectives against which we measured the value of SCDI’s support, and the estimated return on the public funding invested.

4. The level of funding available was latterly £50k per annum to deliver a series of visits to target overseas markets, aligned with UKTI/SDI priorities. In addition SDI gave financial support to the organisation of key networking receptions for the group in market. The contract funding enabled around 5 projects per annum to be organised, and included funding support for participating companies. Travel grants available to eligible companies are determined by UKTI, and are in the region of, as examples, £750 for China and £550 for India. This programme was aimed at SMEs and particularly those new to market or less experienced in exporting, and funding allowed around 10-20 companies to participate on each mission.

5. SCDI additionally invested its own financial and management resources to this activity over and above the funding available from UKTI, reflecting its belief that SCDI can offer added value through its own networks and experience, and the sectoral and geographical diversity of its representation.
6. Having secured and successfully delivered this contract with SDI on three previous occasions, SCDI reluctantly decided not to bid for this contract on the last occasion it was available (2012), in view of issues around the nature of the tender.

7. SCDI has subsequently worked with some local authorities such as Glasgow City Council and City of Edinburgh Council on an ad hoc basis for specific trade-related projects supporting local companies. However it is not possible to develop a forward programme offering market visit opportunities to aspiring exporters across Scotland in the absence of core central funding.

8. SCDI is dedicated to playing its part in maximising the value of Scottish exports and increasing the number of Scottish businesses trading internationally. Delivering Scotland’s global ambitions is a core strand of SCDI’s forward strategy. We continue to work with exporters through highlighting market opportunities, signposting to sources of expertise and enabling networks to exchange information and experience. SCDI’s International Business Committee represents members experienced in exporting, and has been established to harness the expertise of industry leaders to help support companies achieve their international ambitions.

9. SCDI believes that maximising Scotland’s exporting performance is key to sustainable economic growth and we remain keen to work with UK and Scottish Governments, alongside other stakeholders, in ensuring we can collectively deliver greater capacity in support of all aspiring exporters.

Q1. The experiences and challenges faced by Scottish exporters.

10. SCDI welcomes the clear focus of UK and Scottish Governments on the greater internationalisation of our business base. The support provided by UKTI and SDI, and by other export related organisations in both public and private sectors, is crucial to this aim.

11. SCDI also recognises that finding support and identifying the most appropriate contact to assist export growth and international activity can be confusing for many SMEs and first time exporters. This is an issue highlighted in the Wilson Review of Support for Scottish Exporting published in 2014. While there is a considerable range of support available, this is not always articulated as clearly or coherently as possible. To maximise the opportunities for Scottish business, a more genuinely collaborative “Team Scotland “approach is necessary. The scale of the challenge to maximise the internationalisation of Scottish businesses is such that there is room for all players to contribute effectively in a more joined-up approach, thereby enhancing capacity and effectiveness.

Q2. The reasons why many Scottish firms particularly SME’s, do not export.

12. There are many reasons why Scottish firms may not export. In some cases, this may stem from a lack of desire on the part of individual firms to commit resources and explore beyond their traditional market place. This would particularly apply to companies which do not have a growth strategy, but are perhaps lifestyle businesses. However, for most businesses the competitive pressures and
opportunities generated by globalisation mean that they will at least consider the potential for them to have a footprint in international markets.

13. Research undertaken in a number of reports on the barriers to exporting highlight a range of issues:

- The “fear factor” may be a deterrent to some, who think exporting is more complex and risky than is actually the case
- Confusion about where to seek initial advice may deter some from persevering with initial interest;
- Concerns about financing exports and dealing with financial risk
- Resourcing export activity such as the need for on-going market visits over a period of time before business is achieved
- Uncertainty about the economic or political risk in particular markets. The EU remains core to Scotland’s exports, but current difficulties in Eurozone markets have limited the scope for Scottish businesses to some degree
- Issues of connectivity and distance
- Trade barriers, such as trade tariffs, making business uncompetitive
- Skills for global business, including language and inter-cultural skills

In most of these cases concerns could be alleviated by accessing advice at the right time from trade advisers or professional services such as banking and legal experts. This makes it crucial that effective signposting to early assistance for the entire range of exporters and export enquiries is a priority.

14. Building greater confidence to export can come from creating local networking opportunities for businesses, allowing exchange of experience and opportunities to learn from more seasoned exporters. In our experience, businesses do like to hear the narrative of other companies which have preceded them, and case studies highlighting successful (and unsuccessful approaches) can be beneficial. Such networks can be business-led, and experience can cross sectors as well as being sector-specific. Professional services experts and government agencies are usually more than willing to participate in roundtable discussions and workshops to cascade knowledge and signposting at the appropriate time. The Wilson Review recommends a consistent structure of exporter networks should be created and sustained across Scotland¹. SCDI endorses this view, and believes that it should be largely business-led with support from government to ensure consistency and continuity.

15. Given Scotland’s greater distance from major markets, the maintenance and development of a good airport infrastructure and direct air links to other economic centres are vitally important to the competitiveness and internationalisation of the

Scottish economy. To improve connectivity to global markets Scotland needs to expand its international flight route network with increased emphasis on connecting Scotland to global hubs and to high growth markets like India & China.

16. SCDI continues to call for the reintroduction of an EU-compliant air route development fund for direct air routes to key and emerging markets. The devolution and reduction of air passenger duty is also strongly supported by SCDI.

17. Scotland’s digital connectivity and broadband access across all Scottish regions is also a factor in internationalisation. Digital infrastructure is essential for enabling and improving the ability of businesses to compete in a global market, engage fully in international commerce and attract inward investment.

18. Limited understanding of International markets is also a significant barrier to the internationalisation of Scottish businesses. UKTI research found that 1 in 3 non-exporters do not know which export markets to target\(^2\). Scottish companies must be supported to help identify new market opportunities particularly in high-growth markets. With UK exports to Brazil, India, China, Russia and South Africa (BRICS) jumping from £12.7bn in 2007, to £27.1bn in 2012 there is considerable potential for Scottish companies in new emerging market economies\(^3\). It is likely that companies identified as high-growth or account managed companies will have easier access to such advice, but there are also potential exporters outwith these definitions who could benefit from guidance on how to access opportunities in more challenging markets.

19. A report undertaken for SCDI on behalf of British Council Scotland in 2014 entitled “Scotland’s Future Workforce – Keeping Pace in the Global Skills Race” addressed the perspectives of business, education and young people in ensuring the skills required to operate in a global market. This found that, even although English is the predominant language of business on the international stage, Scottish businesses were in danger of losing opportunities and being left behind through our lack of language and inter-cultural skills. As a sound appreciation of the business culture in which any company is operating is key to doing business successfully, this is an area in which better performance by Scotland can improve our ability to capitalise on opportunities.

20. Trade tariffs can also deter businesses from exporting. Although the number of these has been reduced significantly following bilateral and multilateral agreements, there are still tariffs in place that deter companies from doing business in international markets. For example, while Brazil is a target and fast-emerging market for Scottish companies, some companies which have explored the market have subsequently been deterred by facing tariffs of 50% making it extremely difficult to place some products in this market.

21. The shortage of working capital to finance international activity acts a barrier to companies, particularly SMEs, internationalising. Commercial banks are aware of the pressures on businesses, and are able to cite a variety of products and expert

\(^2\) UK Trade and Investment, 2010
\(^3\) Office for National Statistics, 2013
advice to assist exporters. SCDI welcomes initiatives like the Scottish Investment Bank and UK Export Finance (UKEF). This support is critical to both early stage and well established exporters, and merits higher visibility. However, there are growing concerns that government support cannot move as quickly as the international business environment requires. In a competitive global economy, companies have to respond quickly to new opportunities. Government support needs to offer sufficient flexibility where possible to take account of this, and ensure that Scottish businesses can win substantial business in international markets through appropriate support.

Q3. The effectiveness of SDI and UKTI, as well as Scottish Enterprise and Highlands and Islands Enterprise, in helping Scottish firms enter and grow in international markets.

22. UKTI, Scottish Enterprise, SDI and Highlands and Islands Enterprise offer extensive support to Scottish companies exporting internationally. The account management system is regarded by many target companies as providing valuable support in accelerating their export ambitions. There are also many companies with exporting aspirations which have not been designated or selected for bespoke account management services. To increase the potential of Scottish exporting, the Government agencies and other stakeholder organisations could collaborate more effectively to reach the widest audience and highlight the support that is available. This is particularly important if Scotland is seeking to increase the numbers of Scottish companies engaged in international trade, including a step-change in the numbers of SMEs actively engaged.

23. Increased collaboration between government agencies, trade bodies and industry associations is needed to help support Scottish companies more effectively. The 2010 EET Report on ‘the public sector support for exporters, international trade and attraction of inward investment’ also highlighted the importance of collaboration between the public and private sector4. More recently, the 2014 Wilson Review also discussed the need for closer collaboration and advocated a ‘single portal approach’ to provide advice and support for Scottish exporters5.

Q4. Changes SDI has implemented since the previous EET committee inquiry in 2010. For example the committee stated in its inquiry report that SDI’s primary focus should be on achieving a ‘step change in the number of Scottish companies that sees exports and international trade as a route to future success.

24. Collaboration was a key issue outlined in the EET committee inquiry in 2010 with some exporters describing trade and export support as a ‘cluttered landscape6. SCDI advocates a strategy for increased engagement and collaboration between the public and private sector, as the risk of potential confusion in the market place arising from competing interests or duplication is that companies will be deterred from making progress in their export plans. Increased collaboration and coherence should improve the number of Scottish companies that see export and international trade as a route to future success. The Smart Exporter initiative was established to encourage much higher numbers of SMEs to consider and pursue exporting, and it

---

4 http://archive.scottish.parliament.uk/s3/committees/eet/reports-10/eer10-08-vol01.htm
6 http://archive.scottish.parliament.uk/s3/committees/eet/reports-10/eer10-08-vol01.htm
would be interesting to establish whether lessons can be learned from this kind of approach to future initiatives.

Q5. Whether the Scottish government is likely to meet the government’s economic strategy target of increasing the value of exports by 50% by 2017 (and the usefulness of this target).

25. SCDI proposed that there should be an ambitious target to grow Scotland’s exports and is supporting the Scottish Government’s target to deliver a 50% increase in the value of international exports by 2017 through our work on international trade.

26. As we enter 2015, it appears unlikely that this target can be fully met. Current economic circumstances in some of our key markets, particularly in the Eurozone, mean that winning business in these markets is currently more challenging.

27. In order to make further progress towards this target by 2017 we should continue to focus on diversifying Scotland’s export base and working more closely to provide an effective range of services to the widest pool of companies. The evidence that there is a growing need to encourage more Scottish companies to trade internationally is seen in the Scottish Government’s Global Connections survey, which reports that 50% of Scottish exports are attributable to just 50 companies.\(^7\)

Q6. Why international exports of manufactured goods have reduced so dramatically since 1999 and what can be done to reverse the trend.

28. The international exports of manufactured goods started to decline significantly in the late 1990s when Scottish exports were heavily reliant on the output of the electronics industry. This sector represented 57.5% of all Scottish manufacturing exports in 1999 and the decline of exports by £3.36 million or 9.6% in 1999 sparked the downward trend of this sector’s exports from Scotland.\(^8\) Scotland was at that time the leading location in Europe for production of various electronic manufactures. The predominance of multi-national OEMs in this sector was subject to ready mobility. The closer integration of Central and East European economies as they moved towards EU membership, the launch of the euro and the subsequent fluctuation of exchange rates, and industry re-structuring to retain global competitiveness, resulted in a large proportion of the sector migrating towards lower cost markets in CEE and elsewhere. This was accompanied by a number of Scottish businesses in the supply chain also moving part of their operations to remain close to global customers.

29. Re-structuring of Scotland’s economy over a generation has also had a legacy impact on the level of manufactured exports from Scotland, where some companies have struggled to remain competitive and outward-looking.

30. However, there are also striking examples of manufacturing success in current exports – for example, in the Food & Drink sector and in the Energy sector built around Scotland’s North Sea experience. This has led to numerous small Scottish companies emerging to become world players in niche technology and products.

---


\(^8\) SCDI Survey of Scottish sales and exports in 1999
There are also numerous examples of engineering companies which have diversified into offering project management expertise and know-how in international markets and projects, with considerable success.

31. The manufacturing sector still remains a crucial part of Scotland’s economy. It is still largely dependent on the Eurozone economies which account for the majority of Scotland’s manufactured exports. In order to compete internationally manufacturing has to promote its high level of quality, niche market capabilities and know-how in order to compete. These qualities are also becoming increasingly attractive to some of the high growth and new emerging markets.

Q7. Scotland’s most successful exporting sectors and what can be learned from them.

32. Scotland has a range of highly successful exporters which have established themselves as iconic brands at home and in global markets. Some of these are businesses which do not need help from Government or others, as they have a real depth of experience in global business. The knowledge and experience of established exporters can be vital in supporting SMEs, and helping open doors for them, in their international activity.

33. The Food & Drink sector is currently a prime example of a highly successful exporting sector. This has resulted from a number of factors, such as a focus on higher quality products and the priorities of the customer, e.g. the increasing interest in the provenance of local food products, or the cachet invested in the story behind varieties of Scotch whisky. However, success has also stemmed from a collaborative approach in a shared agenda, led by the work of organisations such as the Scotch Whisky Association, proactive in representing the interests of its industry with government at home and overseas; and Scotland Food & Drink as an example of successful collaboration between industry and government, which has set a clear strategy, facilitated the sharing of knowledge and expertise, and as a result has exceeded targets set.

34. SCDI supports ‘business-led export networks’ which will enable companies to share their global experiences and expertise. Creating the right environment for this is key. SCDI’s experience is that many larger and more experienced businesses are willing to share their insights, and do whatever they can to support the international ambitions of aspiring exporters. Consideration could be given to developing a Scotland-wide mentoring programme dedicated to exporting. Creating an environment in which businesses are encouraged to deal more directly with each other through relevant networks and shared agendas can lead to effective learning and growth.

Q8. Where growth is likely to be seen over the next few decades and how these businesses/sectors can be best supported.

35. Scotland’s top 5 leading export sectors have been identified by the Scottish Government’s Global Connections Survey as 1) Food & Drink 2) Manufacture of coke, refined petroleum and chemicals 3) Legal, accounting, management, architecture, engineering, technical testing and analysis 4) wholesale retail, repair of
motor vehicles and motor cycles and 5) financial and insurance. Together these 5 industries accounted for around 52 per cent of total international exports from Scotland\textsuperscript{9}.

In order to best support international growth, there is a need to diversify Scotland's export base and the over-reliance on a small number of sectors to deliver the majority of export growth. All sectors need to adopt an international outlook and develop an international strategy in order for Scotland to achieve its full economic potential.

January 2015

\textsuperscript{9} http://www.scotland.gov.uk/Topics/Statistics/Browse/Economy/Exports/GCSIntroduction