OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 8 November 2016

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 8 November 2016

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ECONOMY, JOBS AND FAIR WORK COMMITTEE
10th Meeting 2016, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Jackie Baillie (Dumbarton) (Lab)
*Ash Denham (Edinburgh Eastern) (SNP)
*Liam Kerr (North East Scotland) (Con)
*Richard Leonard (Central Scotland) (Lab)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
*Gil Paterson (Clydebank and Milngavie) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Bryan Buchan (Scottish Engineering)
Neil Francis (Scottish Development International)
Mark Hogarth (Harris Tweed Hebrides)
Professor Brad MacKay (University of St Andrews)
Karen Marshall (Scottish Leather Group Ltd)
Alison McRae (Glasgow Chamber of Commerce)
Alastair Sim (Universities Scotland)
David Williamson (Scotch Whisky Association)
James Withers (Scotland Food & Drink Ltd)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 8 November 2016

[The Convener opened the meeting at 09:31]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning everyone, and welcome to the 10th meeting of the Economy, Jobs and Fair Work Committee. I ask everyone to turn off electronic devices or switch them to silent so as not to interfere with proceedings.

Agenda item 1 is a decision on taking in private items 3 and 4. Does the committee agree to take those items in private?

Members *indicated agreement.*

Economic Impact of Leaving the European Union

09:32

The Convener: Agenda item 2 is an evidence session on the economic impact of leaving the European Union. We have three guests on our first panel. I welcome Neil Francis, international operations director, Scottish Development International; Alison McRae, senior director, Glasgow Chamber of Commerce; and Professor Brad MacKay, chair in strategic management at the University of St Andrews Management School.

I will ask a general question before we move to more specific questions that committee members would like to put to you. You do not need to press a button to speak; the sound desk will deal with that. If you wish to come in on a point, simply raise your hand as the discussion carries on.

To start off, I ask you what challenges and opportunities for the Scottish economy you see as the top priorities in relation to leaving the European Union.

Professor Brad MacKay (University of St Andrews): Ideally, when we talk about the range of scenarios that could evolve and the implications of each of those for the Scottish economy and, crucially—given the configuration of the Scottish economy—for the British economy, a soft Brexit or something that kept access to the single market would be desirable for a range of reasons.

Particularly for the Scottish economy, immigration is fundamental. Scotland is facing very particular demographic challenges and a range of industries in Scotland are very reliant on immigration—particularly skilled immigration but also non-skilled. The financial services sector, for example, relies on being able to recruit top talent fairly easily; the university sector is hugely reliant on faculty, research funding and students; think of biotech—all those different industries are hugely reliant on that sort of easy access to top talent. It gives Scotland quite an advantage in a number of areas.

It depends what comes out of the negotiations. A hard Brexit, in which the United Kingdom does not have access to, or is outside the customs union and the single market, would pose some particular challenges in terms of costs and the increased complexity and difficulty of trading.

There has been some talk of a re-pivot towards places like India and China, emerging markets and maybe the US, Canada and other places, and of course those are real and important opportunities. However, the reality is that most trade, even in this global world, is still regional. Canada's top trading partner is the US and the US's top trading partner is Canada. Australia's top trading partner is China. They call it the gravitational effect.

In effect, there are certain location advantages to trade, so Europe will always be very important. In a hard Brexit, however, where the UK does not have access to the single market, trade will become more costly and difficult. Particular types of business might have to make decisions on whether the competitive environment in Scotland or in the UK more widely is still attractive enough that it compensates for increased complexity and cost in dealing with the European Union.

On the other hand, in the scenario of a soft Brexit or one where the UK still has access to the single market, that might mitigate against some of the challenges that a hard Brexit would pose for the economy. Shall I stop there?

The Convener: Thank you. You mentioned universities and access to people from across the world. Canada, for example, is not an EU member. Is there a problem at the moment with universities being able to employ staff or bring researchers in from non-EU countries?

Professor MacKay: No, there is not, although I think that it is getting more difficult to employ people from outside the EU. Scottish universities in particular have a disproportionate amount of faculty from the EU and that is the same for students and research networks. They are far more integrated with the EU than with Canada, the US, Australia or other places. That is not to say that there are not still very strong connections there, but the reality is that because of our proximity and integration with the rest of the EU a disproportionate amount of faculty, students and research funding comes from there.

Alison McRae (Glasgow Chamber of Commerce): Good morning and thanks again for the opportunity to present some evidence to you. I would like to come at this from a couple of levels, the first of which is Glasgow-wide.

Members may be aware that on 10 October Glasgow came together in the form of the Glasgow economic leadership board, which is chaired by Professor Sir Jim McDonald of the University of Strathclyde, alongside Glasgow City Council and the chamber of commerce, to publish recommendations and asks around the Brexit issue. That can be submitted as evidence after this committee meeting, if that would be helpful and if, indeed, members have not already taken it on board.

Many issues are raised within that document in relation to challenges and opportunities, and I will mention a couple. One is the desire and need for continued investment, and the fast-tracking of investment in infrastructure, particularly around Glasgow's city deal.

Another is about access to grade A property and a moratorium on business rates in relation to those properties. Glasgow is at that tipping point; it is at a new stage with grade A listed property and to help make that development happen and continue to build confidence in the business community and in investment prospects we would encourage that to be taken on board.

Glasgow Chamber of Commerce worked in partnership with Scottish Chambers of Commerce immediately after Brexit to look at the reaction of the member base across Scotland. Predominantly, the biggest ask from the business community was, perhaps unsurprisingly, about access to trading relationships. From our point of view, we are looking at collaboration within the city to unlock opportunity around that, along with the Scottish Government and Scottish Chambers of Commerce.

We have already started that process by signing a memorandum of understanding with the Manhattan Chamber of Commerce earlier this year and, more recently, with the British Chamber of Commerce in Milan, Italy, as part of the worldwide chambers of commerce network. We intend to build on that, particularly around Berlin and the relationship between Glasgow and Berlin on the sports championships in 2018—that gives a flavour of that process.

Consolidating relationships through the worldwide network of the chambers of commerce—business-led organisations—is definitely one opportunity. Of course, there is also the issue of the free movement of talent, which will undoubtedly come up. That would apply to us from a city point of view in relation to skilled labour and also access to students. We welcome and support the Government's view, which is to continue that.

Neil Francis (Scottish Development International): Scotland has a small economy. We have just over 5 million people and we know that our future economic prosperity will largely depend on how we make our way in the global environment. It remains vital for us to internationalise the Scottish economy and we would not welcome anything that makes that challenge more difficult.

Our relationship with the European Union is multifaceted, complex and wide-reaching. In my role, I will speak about the trading environment with the European Union. We know that the location of the European Union will not change—Europe will stay where it is—and it will remain a key opportunity for Scotland's products and services. Although the framework for our trading relationships might change, the opportunity for

Scotland's companies to sell its products and services will remain very strong.

Gordon MacDonald (Edinburgh Pentlands) (SNP): What has the impact of the Brexit vote been—given the devaluation of the currency—on exports and costs to manufacturers?

Neil Francis: The starting point is that we have continued to work closely with our account managed companies—they are companies that we have a relationship with—since the announcement of the result of the Brexit vote. On balance, people say to us that they are eager to understand more about the impact of Brexit, but that their near to mid-term expectations for exports remain fairly positive—slightly more positive than neutral.

To answer your question more specifically, the devaluation of sterling against the euro has given a greater opportunity for some of our exporters to sell into European markets, which is to be welcomed. There is some anecdotal evidence from the company base that there is an increase in the volume of exports to existing customers and they put that down partly to the difference in exchange rates. That picture changes for those who import raw materials or components in order to make their final product; the cost of imports is more expensive so the situation switches round. At this point, I do not have any quantitative evidence for how that is playing out.

The other thing is that, as imports to the UK become more expensive, that provides our companies with the opportunity to sell more in the UK market, which is a positive thing.

The Convener: Do you have a follow-up question?

Gordon MacDonald: I have more questions, but I thought that someone else would want to come in on that.

Alison McRae: The British Chambers of Commerce have noted a slight increase in exports since the referendum. That is slower paced than pre-referendum, but there has been an overall tone of slight growth.

The Glasgow Chamber of Commerce is accredited by the British Chambers of Commerce to deliver an international certification service to allow companies to sell their goods overseas. We have noticed considerable growth in that service in the past three months—uptake has increased by over 50 per cent. You could argue that that might be a bit related to currency variations or the quality of the business offer, but all that we can do is tell you what we are experiencing. From our perspective, it affords an opportunity to build on.

09:45

Gordon MacDonald: That is slightly different from what I have read from the Confederation of British Industry's economic forecast that was produced this week. It says that a survey of participants in the CBI's industrial trends survey

"found that while 32% of exporting manufacturers thought that sterling's depreciation was a net positive ... 47% considered it to be net negative, with 22% considering the overall impact to be neutral."

That is different from what Neil Francis said about the impact being slightly positive. The CBI is highlighting that 50 per cent more think that the impact is negative.

Neil Francis: Snap surveys will show different results. It is also about understanding the structure of our economy. Perhaps in Scotland a lower percentage of our total company base is made up of mainstream manufacturers that import components. That may account for the difference.

Food and drink, which is one of our biggest export sectors, does not import very much—it gets its produce from around Scotland. You can see why a devaluation of sterling is a real positive for them.

Gordon MacDonald: Yesterday, we met people involved in the food and drink industry and they were certainly not suggesting that volumes were increasing, in part because of the whole debate over Brexit. Retailers in EU countries were actually reducing the amount of shelf space for Scottish meat products because of the anti-EU feeling that they thought was emanating from the UK. Although I accept that we do not have the issue of importing raw materials, we could be losing sales.

Neil Francis: I am sure that James Withers, who is coming in to give evidence later, will be much closer to that issue.

The message that we are giving to the companies we work with is that if they are existing exporters with customers in the European Union, it is really important that they redouble their efforts to have good relationships with those customers. Businesses buy from businesses and the politics takes care of itself. We are encouraging people to be close to their customers or agents.

We are hearing little or no negativity in terms of people saying, "I do not want to buy from you any longer because Britain is coming out of the European Union". We have certainly not heard much of that at all.

Gordon MacDonald: The food and drink sector has worldwide reach, but 96 per cent of the meat industry's exports are to the EU. If that market were to constrict, what capacity does the Department for Environment, Food and Rural Affairs have for negotiating trade deals in order that we do not lose market share but find new markets? Are you aware of there being any capacity within the UK Government to negotiate trade deals?

Neil Francis: I might be speaking outwith my range of expertise, but I will enter into the spirit of your question.

If you look at trade agreements in the round, they usually comprise tariff and non-tariff barriers to exporting. Our relationship with the European Union at the moment is based on what I would describe as total conformity: there are no non-tariff barriers. We have single sets of regulations for health and safety, food standards, fire retardants—everything. We also have no tariffs. Going forward, you have to try to envisage why you would move to a situation that would make trade more difficult. That is an interesting thing to think about.

In the recent past, we have seen agreements reached with other parts of the world on food and drink—for example, on beef going to the US, on cheese, and on fish going to Asia. There is always capacity to come to arrangements with other territories on certain categories. At the moment, the US is our biggest single international market with £4.3 billion-worth, or 14 per cent, of our international exports going there. We operate largely under World Trade Organization regulations and tariffs with the US. We can therefore still trade. The important point from our perspective is that if our companies are producing high-quality products and services that meet the demands of global customers, businesses will always find a way of connecting in a mutually beneficial way that allows them to trade internationally.

The Convener: I will bring in Gillian Martin. Others on the panel can come in afterwards on this point or on previous points.

Gillian Martin (Aberdeenshire East) (SNP): The witnesses have all mentioned talent and skilled labour, but one of the issues for manufacturing companies with regard to manufacturing and exporting products of any kind, but particularly food and drink, is access to a sufficient volume of labour—and not necessarily skilled labour. Liam Kerr and I know that 90 per cent of the employees of the fish-processing factory that we visited in Peterhead yesterday are from eastern Europe and would be classed as unskilled labour. When you put together your asks, did you consider access not just to skilled, professional expertise but to the volume of labour that will allow us to manufacture products for export?

Alison McRae: We want to ensure that in any sector we have a workforce that is fit for purpose. In Glasgow, we like to think that we start from a position of strength because Glasgow is the most skilled large city in the United Kingdom outside London. Our higher and further education sector supports and sustains that position and is really one of our crown jewels. We have 190,000 students in the city, of whom 15,000 are foreign students. The ask is around ensuring access to EU students coming to the city. That is really important to us. In terms of the wider ask on labour, we want to encourage a vibrant workforce in the round. It is really important to ensure that we have that.

Gillian Martin: Is there not a risk that, by always mentioning skilled labour talent, you are missing out the fundamental issue of having the volume of workers that is required to sustain quite a few of the very successful Scottish industries? The fish-processing sector along with the food and drink sector in general have been mentioned; on paper, the people who come here from abroad to facilitate those industries do not have a university degree and are not termed “skilled labour”, but they are absolutely vital to the Scottish economy.

Alison McRae: The hospitality and tourism sector is another sector that has a major need for that labour, and ensuring that it continues to come from the EU is a priority for that sector. The Scottish Tourism Alliance will have submitted evidence on that to the committee and will probably submit further evidence because it is a critical issue.

The Convener: On that point, a witness at our meeting last week—Stephen Boyle—said:

> “I would turn quickly to the fact that, in Scotland, a very large proportion of the working-age population is still outside the job market. By all means focus on the actions that you can take to try to secure a good deal on the free movement of people, but it is at least as important to try to draw more people back into the job market, because that is in a sense a form of internal migration that you could think about drawing on.”—[*Official Report, Economy, Jobs and Fair Work Committee*, 1 November 2016; c 35.]

There might be areas of Scotland where there is very low unemployment, as levels vary from place to place. Is the large population of people who are already in Scotland but who are not in the job market something that should be focused on as we move forward?

Neil Francis: It is important for all economies to support as many as possible of their citizens into productive employment—that is a given. We need to ensure that we are developing an appropriate skilled workforce that meets demand and fits the types of employment opportunity that there are across our industry sectors. I agree that it is critical that we continue to ensure that as many as possible of our citizens have appropriate gainful employment.

Professor MacKay: I agree with that. Whatever materialises in the negotiations, it will mean a reconfiguration in all kinds of different ways. A focus on ensuring that Scotland remains competitive across a range of areas will be important, no matter what form Brexit takes. Skilled labour and training are a big part of that, as is ensuring that—moving up the scale—we have a pool of talented people who can take on senior positions and lead in what will probably be a more competitive world. A focus on productivity and innovation will also be fundamental in ensuring that businesses can seek opportunities around the world. All those areas will be important, whatever materialises, so I agree with the statement.

The Convener: I think that Gillian Martin's point was more about low-skilled workers than high-skilled workers. If we look ahead to our leaving the European Union, where will the low-skilled workers come from? There might be a large number of people in Scotland who are currently unemployed, but will the numbers be sufficient?

Gillian Martin: Let me clarify, because that was not really my point. My point was that we have a large number of people from eastern Europe who are doing jobs in quite a tight labour market—I am talking about the north-east of Scotland, where unemployment is not high and not a lot of Scots are doing jobs in, for example, the fish-processing or soft fruit sectors. That is where I was coming from. There is not a large number of Scots who want to do those jobs.

Professor MacKay: You make a good point. In my opening remarks, I talked about a reliance on skilled labour and, in some cases, unskilled labour. There is a range of sectors—agriculture, hospitality and construction, for example—that rely on migrant labour. Even if there was the prospect of switching to a more domestic source, there would be cost implications. Can such businesses remain competitive if their costs go way up?

A host of issues have to be unpacked, but what is likely to emerge from Brexit will mean a reconfiguration, which will have an impact on where different types of business recruit their labour, what their costs are and, in some cases—although not all—where they choose to locate. A fish-processing plant is obviously pretty well situated in the place where it currently operates, so thinking through the issues will be a huge challenge for such businesses.

Neil Francis: It is companies that grow the economy, and companies cannot grow if they do not have access to the right quantity and quality of labour. Gillian Martin's point was well made. It would be in Scotland's interests to find a way of ensuring that our businesses and companies can retain access to the right quantity and quality of skilled people that they need if they are to grow their businesses.

10:00

Gil Paterson (Clydebank and Milngavie) (SNP): I was going to put this question to the next panel of witnesses, but I will ask it now in case this panel has some answers. I should declare an interest: I am in the automotive industry, and my business imports quite a substantial amount. We deal not in parts but in coatings—very sophisticated materials—in particular for cars rather than buses and so on.

There is some manufacturing in Scotland—there is a car assembly line in Glasgow that a lot of folk do not know about—but repair shops across the country seek all the material that I am talking about, which is high end and very expensive, from the European Union. As far as I am aware, we do not manufacture that type of material in Scotland. Do you have any information on how the strength of the pound is affecting importers? What do you think will be the likely outcome of a hard Brexit, given the costs associated with the strength of the pound and the need to bring such products into the country?

Professor MacKay: I will start with a very general point and then come back to your specific question. My area of research and expertise is businesses' view of events such as referendums. It started in the lead-up to the Scottish independence referendum, during which we did a lot of work on businesses' perceptions and reactions. From that, we developed a framework that explained a lot of those responses. We then looked at businesses' responses to the European Union referendum, and the framework held up pretty well in that respect.

It all comes down a number of factors such as the ownership structure of the business—for example, whether it is private, employee owned, publicly traded or a partnership—and whether the bulk of trade happens in Scotland, the UK, Europe or globally. There are also different factors to do with the configuration of a business: its customers, its suppliers and its employees, and where that talent is being attracted from. When you look at different sectors and types of business through that lens, you start to find patterns. Going back to the CBI survey, the fact is that, as far as such surveys are concerned, different industry organisations represent different types of business. For example, the CBI represents a lot of very big businesses; the Federation of Small Businesses obviously represents small businesses; and the Institute of Directors and the different chambers of commerce represent a mix of different businesses. As a result, you tend to get different types of response in their surveys, and how a lot of different organisations responded, even in the lead-up to the EU referendum, was very much a function of the type of business that the responses came from.

Let me take, as a couple of prominent examples, the responses of James Dyson of Dyson UK or Lord Bamford of JCB. Both companies are privately owned, and the fact that they are private means that a lot of the risk of whatever happens is assumed by the individual rather than by shareholders to whom they have to pay attention. Moreover, because their customer base outside the UK is generally very global, they are not as exposed to the EU as other types of business are. In some ways, therefore, it was not a surprise that they came out pro-Brexit.

However, there are many other businesses—for example, a lot of the 7,500 or so American businesses that employ 1.2 million people across the UK—that are in the UK for location advantages and access to the wider EU. When you begin to look at the configuration of such businesses, where their customers are and so on, you begin to find very distinct patterns.

The businesses that you are talking about, such as those in the automotive sector, which is very highly integrated across the EU, and particularly businesses whose market is in and trade is mostly with the UK but whose supply chain is in the EU, face a very tough challenge. They must either reduce costs to ensure that costs do not go way up or, in some cases, reconfigure some of their supply chain in the UK. I was talking to a manufacturing business in the north-east of Scotland that is very much in a similar situation. It is employee owned and employs about 100 people, and although all its customer base is in the UK, its supply chain is primarily in the EU. With the depreciation of the pound, its costs have gone up 20 per cent and it is now losing money, so it has to figure out how to reconfigure its supply chain to carry out more of its total manufacturing activity in the UK; otherwise, it will face a real challenge in adapting to the changed circumstances. As an employee-owned business, it cannot simply move some of its UK-based manufacturing.

To answer your question, it seems as though the direction of travel for the UK Government is that the automotive industry is one of those industries where it is going to try to negotiate some sort of carve-out or deal. That is not unprecedented. About 20 years before the free trade agreement between Canada and the US, there was the automotive pact, so there are examples of that. If the UK Government does not get or, for whatever reason, is unable to negotiate such a deal, businesses such as yours, Mr Paterson, where the supply chain is primarily in Europe and the market is primarily in the UK, will either have to figure out ways of reducing costs or, where they can, reconfigure their supply chain so that it is within the UK. Alternatively, depending on other factors, the UK Government might introduce terms to mitigate some of those cost effects of a depreciated pound.

Where the pound will wind up as its natural level will probably depend on what is negotiated in the Brexit negotiations. I could be wrong but I suspect that, in the case of a hard Brexit, we are probably looking at a lower value, depreciated pound. In a soft Brexit scenario, it might begin to creep back up to historical levels.

I do not know whether that answers your question.

Gil Paterson: That is fine. Does anyone else want to comment?

Neil Francis: I entirely concur with Brad MacKay. As I said in answer to Gordon MacDonald, other than some of the anecdotes that you will have seen in the press, we do not have much evidence from people who import a lot. However, I think that Brad MacKay's analysis is absolutely right. If the import price increases too much, that will present opportunities for businesses to start up, because they will see that they can achieve high value. As Brad MacKay said, there will also be an opportunity to reconfigure the supply chain and attract inward investment that can add to Scotland's economy.

The Convener: Thank you. We have two final questions on the import and export area from Jackie Baillie and Liam Kerr, and then we will move on to a different area.

Jackie Baillie (Dumbarton) (Lab): I would like to explore the export statistics and make the link, as Professor MacKay did, to proximity to market. The latest published statistics that we have are for 2014. I understand that overall exports were down by 3.2 per cent, but if we interrogate the figures some more, we see that exports to the rest of the UK rose by £1.5 billion—the UK is already the biggest market that we export to—while exports to the Netherlands, France and Germany were all down. Exports to the Netherlands were down by 22 per cent and those to France by 8 per cent. I am curious about that. We exported less to the EU than we did in previous years, but is there any reliable evidence—not anecdote—to suggest that the position has improved in the past two years? Are we exporting more to the EU?

Neil Francis: Thank you for the question. When your predecessor committee looked at Scotland's internationalisation, everyone readily agreed about the imperfection of export statistics. We all know that a lot more needs to be done to get heavily reliable statistics.

The timeframe over which we look at things is interesting. According to the 2014 figures, some 42 per cent of our international exports were destined for the EU. As you rightly said, that was 3.2 per cent down on the previous year. As a proportion of Scotland's total exports, exports to the European Union have been decreasing since 2002. I think that they are down quite a lot as an overall percentage, but since 2002 we have been growing the total size of the pie. We have seen much more rapid growth in exports to other parts of the world including the US and Asia, which started from smaller bases.

To get back to your question, the European Union, with 42 per cent of Scotland's total exports, is still important, but it was probably on a trajectory to grow at a lower rate than the growth in international exports to the rest of the world.

It is interesting that our single biggest market is, as I said, the USA but we do not have a trade agreement with it at the moment. That illustrates that, where we have the right products and services and customers are looking for those, we can find a way of executing mutually beneficial trade.

Jackie Baillie: You talked about 42 per cent of all exports, but we should be careful about that because it is actually 42 per cent of international exports. Language becomes particularly important in this context.

Neil Francis: Sorry. I always think that exports are international, but you are absolutely right. The rest of the UK is around £42 billion, I think—you will know the numbers better than I do.

Jackie Baillie: Around 64 per cent of exports go to the rest of the UK.

Neil Francis: Thank you.

Jackie Baillie: Does anybody else want to contribute at this point?

The Convener: I am conscious of time, so I want to bring in Liam Kerr and then the witnesses can deal with both points.

Liam Kerr (North East Scotland) (Con): By a happy coincidence, my question is a follow-on from Jackie Baillie's. Professor MacKay talked about most trade being regional, but Mr Francis talked about globalisation being key. Mr Francis, will you comment on why we do not do more trade outside the EU? Can that be changed, either as a function of Brexit or otherwise, and, if so, how?

The Convener: Perhaps Mr Francis could comment briefly and then Professor MacKay and Alison McRae can respond on either of those points.

Neil Francis: I will be very brief. I agree with Brad MacKay that when a business is growing and it has saturation in its local market, it looks for the next closest market to it. Proximity will always be an advantage—that is for sure. However, we also have to look at the size of the markets and the growth in those markets. We know that some of our further away markets, such as the US or Asia, are potentially extremely large and are growing at a faster rate than others. With all of these things, at Scotland level it is important that we carry on developing relationships with those closest to us to get a base for our international trade while looking at those emerging economies that will perhaps be more dominant in the future.

Usually, the further away a market is, the harder it is to penetrate. Differences in the business environment, culture, customs and language make international trade harder, and it usually takes longer to get a toehold in the market. That is why it is really important, from the Government's perspective, that an agency such as SDI supports businesses to do that.

Professor MacKay: I agree with that, but I will add a couple of points. We have heard a lot of stuff about the manufacturing numbers and so on. However, aside from the fact that there has been a vote to leave the European Union and a depreciation in the pound, nothing else has happened. The way that businesses normally react to such big issues is that they do not make immediate decisions—they wait and see the direction of travel. I doubt that businesses will wait for the final outcome or resolution to start making business decisions about where to invest and locate, but there is a wait-and-see period, which we are still in. Therefore, one has to look fairly critically at a lot of the stuff that has been floating around in the press.

On the configuration of the Scottish economy, depending on what statistics you look at, 64 or 65 per cent of exports go to the rest of the UK and 15 or 19 per cent go to the rest of the EU. However, one area in which Scotland is likely to be slightly more resilient than the rest of the UK is in having some of the big exporting success stories, which are global industries. I am thinking about whisky and oil and gas, for example.

Given the nature of some of those big exporting success stories in Scotland, there is probably quite a substantial opportunity to continue to look at global opportunities. That is not to say that the gravitational effects of the EU—or the rest of the UK, for that matter—will go away; that is not the case at all. However, the reality is that how those industries are configured presents some more global opportunities for them.

10:15

Alison McRae: I hope that I can give a practical answer to Jackie Baillie's question about evidence on exports, although we have not done a formal survey. As you know, the Glasgow Chamber of Commerce is a membership organisation. I mentioned the countries that we are already working with through memoranda of understanding with their respective chambers. We have also gone through a process to select countries that we are going to work with. At the moment, they are America, Italy, Germany and the United Arab Emirates, and others are under exploration. We find that our members are active in relation to a range of products, from alcohol to electronic goods and engineering.

It is probably useful to reiterate why we chose those countries. First, our members are active in those territories, so there is a good evidence base and, based on the feedback that our members are giving us during their discussions with us, there is scope for much more activity in those markets. We have direct flights going out of Glasgow to those markets, which makes access and the movement of goods easier. Also, we have a president's club that enables us to work with people in the globalscot network who are interested in Glasgow and can open doors in market for us at that end.

That is a very pragmatic and practical response without being a macro answer on stats on exports.

Jackie Baillie: If I might ask—

The Convener: We are a bit tight for time.

Jackie Baillie: I will be very quick.

The Convener: Please.

Jackie Baillie: I absolutely understand the logic of that. If proximity matters, what are we doing to increase exports to the rest of the UK? You are telling us that if we want to grow the Scottish economy, all the evidence is that that is the quickest route in. Both responses, I think, dealt with the rest of the world as well as the rest of Europe, but what are you doing with the UK?

Neil Francis: From our perspective, the UK is business as usual. Our on-going work with our account managed companies is about helping them to grow in all aspects, and the UK market would be an important part of those discussions.

Jackie Baillie: So it is not your job, then.

Neil Francis: It is part of SDI's relationship, as one of Scotland's enterprise agencies, to support the companies.

The Convener: Thank you. We will move on to Richard Leonard, who has a question on another area.

Richard Leonard (Central Scotland) (Lab): Yes. It is part of SDI's job to attract inward investment and I have a couple of questions on that part of the task that SDI undertakes. The EY attractiveness survey that came out in May this year identified the key factors that have attracted inward investment to Scotland in the most recent past. The survey mentions the availability and skills of the local workforce, transport infrastructure, local labour costs and the availability of business partners and suppliers. In that list of factors, where does access to the EU single market sit as a critical factor in attracting inward investment?

Neil Francis: That is a really great question. Next week, I am coming to speak in more depth about inward investment, but I will try to do my best today.

Generally speaking, inward investors are motivated by two main factors: one is access to market—they want to go somewhere because there is a market for their products and services; and the other is access to resources. Those resources could be people and talent—intellectual assets—or they could be physical assets, for example our wind, our water and what have you. Those are the two motivators.

The importance of access to the single market depends on the type and nature of the business. If the inward investor is a research and development centre conducting global group R and D, its motivator is access to people—access to collaborations with our universities and intellectual property. From that perspective, they are probably less concerned about the single market. However, if an inward investor is manufacturing something here, whether it be cars or some other thing, they are probably much more concerned about access to the single market. It depends on the sector and the specific nature of the business.

The Convener: Andy Wightman has a question in this area.

Andy Wightman (Lothian) (Green): Thank you, convener. I am interested that the enterprise and skills review will potentially provide SDI with an enhanced role as a separate organisation. What are its priorities just now in responding to the EU referendum and how is the support that it provides to business changing? I also have a question for the other panellists about what the priorities for the Scottish Government should be now in relation to supporting business.

Neil Francis: Shall I start?

The Convener: Yes, and then we will come to our other panellists.

Neil Francis: Our priority at the moment is to stay close to all the businesses that we work with, to understand their concerns, to listen closely to them and to ensure that, in the first instance, they get clear information about what is happening as it comes to pass. As we all know, nothing has really come to pass so far, but staying close to our businesses, listening to them and providing them with clear information are absolutely critical.

As time goes on we need to do two things. One thing that we do with our businesses is to work with them on establishing an appropriate internationalisation strategy, helping them to think through the pros and cons of one market versus another, and what have you. As we progress through Brexit and as the framework of what businesses will need in order to operate in the future becomes clearer, it will be important to help them to digest that in relation to their strategy formulation. We will also need to look at the total range of products and services that we offer. We will be fleet of foot in relation to those as we see the framework for Brexit unfold. That is really important.

The Scottish Government has announced its four-point plan, including a trade board, trade envoys and an increase in the SDI footprint in Europe, and we are very supportive of that. We will be discussing with Scottish Government colleagues how to take that forward. That reinforces a point that I made earlier, in relation to either Jackie Baillie's or Gordon MacDonald's question. One of the big things for businesses to do at the moment is to ensure that they stay close to their existing customers, especially in the European Union. By having more resources on the ground in the EU, we will be able to help businesses to achieve that.

I hope that that answers Andy Wightman's question, at least in part.

The Convener: Thank you. Does Professor MacKay want to come in on that?

Professor MacKay: I agree with what Neil Francis has said. Also, a lot of work has to be done on a sector by sector basis to understand the specifics of how different sectors will be affected and how they might be supported.

We should also think about the general competitive environment in Scotland. If some of the advantages of being located here vis-à-vis the EU either disappear or become more cumbersome or complex, we need to think about the various things that Scotland can do to maintain an attractive and competitive environment.

The other thing to think about is the importance of immigration. It is not unprecedented for regions within countries to have deals. For example, in Canada, Quebec has an agreement with the federal Government that gives it quite significant control over its own immigration. That would not rely on negotiating with the EU; it could be done internally within the UK. If I were the Government, I would be putting an awful lot of effort into seeing what the prospects were for creating some sort of deal within the UK to have more control over immigration that suits and can be tailored to the needs of Scotland.

The Convener: Ash Denham has a question that may also relate to this area, before we bring in Alison McRae.

Ash Denham (Edinburgh Eastern) (SNP): I am interested in exploring the feeling that Scottish businesses have in this post-referendum period. I noted that Professor MacKay said earlier that businesses are in a wait-and-see pattern at the moment because of a complete lack of information about what the UK's trading position might be in future. However, businesses have to plan: they have to make contingency plans, strategic plans and decisions about where to invest or what to invest in. What challenges do they face given the fact that so little information is available to enable them to make such decisions?

The Convener: I will bring in Alison McRae and then, perhaps, Professor MacKay.

Alison McRae: I will respond first to Andy Wightman's question about what the Scottish Government's priorities should be for helping the business community. I have mentioned that we have our "Brexit and the Glasgow economy: impacts, actions and asks" report, which includes feedback and endorsement from more than 100 businesses across the various priority workstreams for the city, so it has considerable buy-in from across the city, including from the academic and wider business community, as well as from the local authority.

In that report, in the first instance there are six key recommendations, which I will canter through—some of them I have referred to already.

One is the recommendation to maintain the structural fund programme post Brexit to the tune of £780 million and to

> "prioritise urban areas where the vast majority of Scotland's economic output"

currently is in terms of the business community.

I have mentioned fast tracking infrastructural investment through the city deal to demonstrate confidence.

We also recommend that the transfer of surplus land holdings to the council should be considered to enable their inclusion in the city's strategic housing investment plan, which relates to people being able to live and work in the city, which are important factors.

On economic development and skills, we recommend that all the Government agencies

“develop more effective collaborations across agencies and with Glasgow—and Scotland’s cities generally—to support higher levels of city competitiveness, innovation and economic growth.”

We also ask for access to horizon 2020 funding beyond 2019, particularly for the university and further education sectors.

Lastly, we recommend a two-year moratorium on non-domestic rates, which I have already mentioned.

On what the business community is looking for comfort on at the moment, understanding and identifying new market opportunities was the absolute top priority, which is why we have been proactively considering chamber-to-chamber links. It would be great if the Government could start to consider collaborating on business-led engagement on trade-to-trade links and priority markets to help us to develop those new market opportunities and explore what those could look like. Guidance on the future of EU funding is cited as the second priority for reassurance, and then building connections with European and the global chamber network in the round.

Those are some specific pieces of evidence that we have.

Neil Francis: Could I add a comment?

The Convener: Perhaps briefly, in light of time.

Neil Francis: The response to Ash Denham’s question depends on the scale and nature of the business. Large multinational businesses that have a significant footprint in Scotland are clearly able and want to plan methodically to take into account uncertainty and what might unfold. The smaller businesses are running to stand still—they are doing their day-to-day tasks to make the business work.

Professor MacKay: I agree with Neil Francis. It comes back to the factors that I talked about before and the configuration of the business. The reality is that the vast majority of businesses will just be getting on to planning. Some will have experienced an upsurge in exports because of the depreciated pound.

There are two types of larger businesses. We have seen in the past that the ones whose head offices are in the UK or Scotland wait and see but also build in optionality. If they think that they might have to decide whether to invest, relocate or locate activity, they will build in options as they wait for the picture and direction of travel to become clear.

The other types of businesses, which have their head offices elsewhere—the multinationals—often already have pretty sophisticated business continuity planning in place. Some of that will involve optionality and the ability to reconfigure their business depending on the circumstances.

Those that have not built in options for scenarios that might come out of Brexit will be in the process of putting such options in place. I know that businesses that have big strategy planning departments are already looking at different scenarios and how they can reconfigure to ensure that they remain competitive.

10:30

Ash Denham: How is the business community responding to the UK Government’s handling of matters and the issuing of what we could call a letter of intent to a particular manufacturer in a particular sector? How is that perceived?

Professor MacKay: I have had limited conversations, so I cannot really say. We do not know what was in the letter of intent, so the position is fairly opaque. Given competition rules, my guess is that the Government cannot have done something that is specific just to that business. If I had to take a wild guess, I would say that, given that Carlos Ghosn is a smart guy and knows that it is not within the UK Government’s gift to carve something out for automotive—albeit that that might be a desirable outcome for the UK—and knows that there will be a negotiation, the Prime Minister probably told him either that she will ensure that there is a very, very attractive environment for the company to continue to trade from, which probably means thinking about how to mitigate the potential for the EU to put in place tariffs, which in turn probably means lowering corporate and other types of tax to give the company an advantage; or that the sector will be given support if its competitiveness winds up deteriorating. She will have said something that is not just for Nissan, but there will be something telling in what she has said, given that Nissan has made such a substantive commitment to invest in the UK.

The Convener: I will bring in John Mason and Dean Lockhart to ask two final questions and then ask all the witnesses to comment on both questions.

John Mason (Glasgow Shettleston) (SNP): We have talked a little about employment and employability, which I want to consider a little more. The Scottish Parliament information centre tells us that 115,000 EU nationals are employed in Scotland. Quite a large proportion of those people—I think about 33,000—are working in distribution, hotels and restaurants. Why do so many—or so few—EU nationals work in particular sectors in the economy? Are there fundamental reasons for that?

Dean Lockhart (Mid Scotland and Fife) (Con): My question is on exports. The rest of the UK is the major market for Scottish exports, as has been highlighted. Someone said that it is business as usual with the rest of the UK, but that might not be the case if there is a second independence referendum.

Professor MacKay, I note that you are doing some research on the impact of the independence debate on the Scottish economy and on the UK economy as a whole. Will you comment briefly on your initial analysis of the impact of a second referendum on Scottish exports to the rest of the UK?

Professor MacKay: Let us put aside the non-material reasons why a country might or might not want independence. The reality is that Scotland operates, in effect, as a regional economy in the UK, so whether in looking at labour markets, financial markets or trade patterns, we see that they are highly integrated. For the foreseeable future, the UK will be Scotland's most important trading relationship and trading partner. Anything that comes between that will have a challenging impact on the Scottish economy. If we combine that with potentially being out of the EU, too, it is not a scenario worth thinking about—to be frank with you.

Scotland's number 1 priority must always be to keep that trade relationship with the rest of the UK open and fluid, just because of the nature of how integrated it is. It is not inconceivable that that could change over time, but there would be quite a challenging transition to undergo in reconfiguring the relationship. Does that answer your question?

Dean Lockhart: Yes. Thank you.

Neil Francis: Why would we try to make it more difficult to trade with our largest trading partner or reduce the amount of trade that we do with the rest of the UK? Whatever circumstances play out, it will be paramount that we protect free trade or the open market with the rest of the UK.

I want to try to answer John Mason's question, otherwise we will all just have focused on Dean Lockhart's question. I am not an expert on the skills and employability environment, but it seems to me that the requirements of the sectors he mentioned—the types of job that exist and the skills, for example language skills, that are required to operate in them—will play a part in their attractiveness to migrant labour rather than Scottish labour.

John Mason: Should we be more worried about some sectors than others or can we treat them all equally? Will the potatoes stay in the ground because we will not get Scots who will dig them up?

Neil Francis: That is a really complex question and there are two things to say in relation to Brexit. Brad MacKay made the point earlier that we need to do much deeper analysis sector by sector in order to understand the potential implications, where the pressure points are and so on.

On the potatoes staying in the ground, we know that one of the big drags on the Scottish economy is productivity, which is a particularly complex issue in tourism, hospitality and some of our food manufacturing sectors. However, because productivity is a big drag on the Scottish economy, we need to wrestle with the question that John Mason has posed. However, if the answer was easy, we would have had it before now.

John Mason: I suspect that we do not have time to go into that in great depth today.

The Convener: I want to give Alison McRae the last word.

Alison McRae: I will be brief. On John Mason's question, we do not have statistics on that either, but they will exist in Glasgow and it is just a case of bringing them to the fore. As Neil Francis has already said, trying to answer that question is very challenging.

On Dean Lockhart's question about exports and the referendum, I reiterate the point—which will be known to many of you—that there are so many unknown factors in relation to all of the referenda and business does not like uncertainty. The main message that I leave you with is that uncertainty makes it extremely challenging to do business.

The Convener: Thank you very much to all our guests for coming to today's committee meeting. That completes this part of the session.

10:38

Meeting suspended.

10:48

On resuming—

The Convener: Good morning and welcome to our guests. Perhaps each of you could introduce yourselves and say who you are and the organisation that you are from. We will start with Bryan Buchan.

Bryan Buchan (Scottish Engineering): Good morning, everyone. I am the chief executive officer of Scottish Engineering, which is the representative body for engineering and manufacturing in Scotland. We look after the interests of about 360 companies, from small and medium-sized enterprises through to the major players, such as the Wood Group, the Weir Group, Babcock and BAE Systems. Thank you for the invitation to give evidence.

Mark Hogarth (Harris Tweed Hebrides): I apologise for being late. I am the creative director for Harris Tweed Hebrides.

Karen Marshall (Scottish Leather Group Ltd): I am the director of the Scottish Leather Group and the managing director of the Bridge of Weir Leather Company. I have never been to anything like this before, so please be gentle with me. [*Laughter*.] The Scottish Leather Group is based in the west of Scotland. Last year, we had a turnover of £128 million and we currently employ about 900 people. We are maybe not the biggest but we are certainly a substantial manufacturer in Renfrewshire, which I am absolutely passionate about.

The Convener: Thank you. We will of course try to be gentle with our witnesses. I should have said that the operator at the sound desk looks after the sound system, so there is no need to press a button when you speak. If you want to come in on a question or a discussion, simply indicate by raising your hand and I will bring you in.

Alastair Sim (Universities Scotland): I am the director of Universities Scotland, which is the representative organisation for Scottish higher education leaders.

James Withers (Scotland Food & Drink Ltd): Good morning, everyone. I am the chief executive of Scotland Food & Drink, which is the industry leadership body for the food and drink sector. We are a collaborative partnership of the main trade associations from the food and drink sectors along with public sector bodies. We are also a membership body, with about 360 members, most of whom are food and drink manufacturers.

David Williamson (Scotch Whisky Association): Good morning, everybody. I am the public affairs director at the Scotch Whisky Association, which is the trade body that represents Scotch whisky around the world. Currently, we have 63 member companies, from single-brand, single-distillery companies such as Kilchoman on Islay through to companies that operate globally, such as Edrington, Grant's and Chivas.

The Convener: Thank you. We will start with a question from Andy Wightman.

Andy Wightman: Although we are in the early stages, what evaluation have the witnesses done of the potential outcome for your sectors from the EU referendum? In broad terms, what are the most important or critical issues for your sectors in the negotiations?

David Williamson: The starting point for our industry is that we campaigned to remain in the European Union for a number of reasons, not least access to and influence in the single market, which is our largest market, with about a third of Scotch whisky exports. Our industry has done well and has secured benefits through the EU's free-trade agreements over the years.

Over the summer, the industry did a lot of work to look at the range of scenarios. Our priorities are pretty clear in relation to the single market and further afield. On the single market, we need to make sure that, as far as possible, there are pragmatic and non-disruptive arrangements for the transition to whatever the new model might be, whether it is in the style of the European Economic Area or a free-trade agreement. That is important because, currently, the single market rules cover everything from the size of the bottles that we sell our whisky in and the label that goes on them to the very definition of our product. It is important that we have continuity and certainty in that regard.

Looking further afield, the industry is focused on encouraging as open and liberal a trading policy as possible. If the UK is negotiating free-trade agreements around the world, we want to ensure that we maintain what we have now as far as possible—grandfathering the existing benefits that we have secured for industries such as Scotch whisky—and that we look further afield at where the opportunities might be, for example in markets such as India and China. We need to encourage trade deals that tackle tariffs and non-tariff barriers to trade and make sure that the geographical indication "Scotch whisky" is protected.

James Withers: I echo some of that. We work on behalf of the whole food and drink sector, but I will not talk about Scotch today, because the expert on that is sitting to my left. Therefore, my comments relate to other sectors, and mostly to food rather than drinks.

There are lots of detailed issues, but there are three top issues. Number 1 is on trade. Roughly 76 per cent of all the food that is exported from Scotland and that goes out of the UK goes to the European Union, so continued access to the European market in as pragmatic, tariff-free and sensible a way as possible is a priority.

The second issue is access to labour. Approximately a third of our food manufacturing workforce comes from the European Union. That is absolutely central and is woven into the fabric of our industry and communities. Reassurance to the existing workforce and on-going access to the EU workforce after Brexit are absolutely crucial to our achieving our ambitions for further growth.

The final issue that I would put in the top three is access to future funding and what that might mean for agricultural support in particular. Something in the region of £400 million to £500 million is paid directly to farms through EU funding and another £300 million to £350 million is paid through rural development measures. That supports much of the raw material that goes into food and drink manufacturing.

Future trade with the single market, access to labour and funding would be our top three priorities.

Alastair Sim: I will cover our top three priorities. In response to the first part of Andy Wightman's question, I say that we can see the risks and, to some extent, opportunities—if there are opportunities. We can see what they are more clearly than we can actually evaluate at the moment, because things are still unfolding.

The three areas that are of crucial importance to the university sector are staff issues, which I will unpack a bit, student issues and research issues. There are huge issues about what the future is for new staff and international staff. We are proud to have about 4,600 EU staff in universities, across academic and professional disciplines. About 16 per cent of the academic workforce are from the EU. To put it bluntly, they face rather an uncertain future.

University principals are doing everything that they can to assure those people that they are an extremely valuable part of our academic enterprise and we hope very strongly that they will be able to continue to contribute to universities on the current basis. At the moment, there are questions that frankly cannot be answered about their immigration status, whether they or their successors—if they come to Scotland in the future—will be able to send their kids to school on the same basis as UK citizens, and whether they can use the national health service on the same basis as UK citizens. All those issues make it an extremely unsettling time for EU staff, and it is a difficult time to attract staff from EU countries, because there are no answers to those questions.

Similarly, we are proud to have more than 3,000 staff from outside the EU. They, too, are huge contributors to our intellectual vitality, and we need to be able to give them and their potential successors the assurances that the UK and Scotland will remain a welcoming destination and that we will not be putting up unnecessary visa barriers or unnecessary difficulties to their residency in Scotland, because we wish them to contribute.

That brings me on to student issues. Part of the rhetoric has been about looking at the opportunities. We are encouraged to look at opportunities as internationally as we can, and universities are already extremely active in that territory. To give some examples, we have 36,000 students overseas doing Scottish degrees; we have overseas campuses in Dubai and Malaysia, and Aberdeen is just starting one up in South Korea. We are out there building our international footprint, but while we do that—particularly while we try to attract to Scotland international students, who are a vital part of our academic and cultural ecosystems and who contribute to our financial sustainability—we face real barriers, in terms of the existing visa regime and the suggestions that the Home Secretary made in his speech to the Conservative conference that the regime will be tightened up even further, which would make it more difficult for universities to attract international talent.

We have a kind of hierarchy of our main research funders. The biggest element of funding comes from UK sources, including more than £260 million a year from research councils and £135 million a year from charities. The next level down, hierarchically, is EU sources, which contribute about £95 million a year. The next level down from that is international non-EU sources, which contribute around £37 million a year. Obviously, the EU element of the research funding ecosystem is extremely important both in itself and as a catalyst for cross-border research collaboration, which is part of the vitality of the university offer. We wish to see that continue as far as possible, for financial, intellectual and academic reasons.

11:00

Karen Marshall: As a manufacturer in Scotland, I am probably aligned more with David Williamson. We export about 90 per cent of our turnover, of which probably 80 per cent goes to Europe. We will probably cover the uncertainty around Brexit in response to another question, but it is a big umbrella under which everything else sits. For us, there are three top priorities.

First, there are the international trade duties and tariffs. The situation regarding those is extremely unclear just now—it will depend on what type of Brexit we have and what trade deals are concluded both within and outside the EU. As a company, we operate in a very competitive global marketplace and our margins are always in low single figures, but we employ an awful lot of people and help with the balance of trade. Particularly in the automotive and aviation sectors, margins are very slim, and our global competitors are willing to buy business. Our competitors are not on the scale of Scotch whisky but they are much bigger than us and are able to operate very slim margins. The imposition of tariffs could make already extremely competitive business unprofitable—certainly, less profitable—and that, in time, may render some businesses unsustainable. It could also impact on our future investments in Scotland.

For us, it is really important that we get a quick resolution of the situation. I have not experienced how quick such resolutions can be, but I do not want the process to go on for a long time. The length of time that it has taken to get a trade deal with Canada has added to the uncertainty around what is going to happen.

The second impact involves labour. About 25 per cent of the people we employ—over 900 people—are from eastern European countries and have come here over many years, primarily from Poland since it entered the EU. Leather working is a skill that it takes years to train people in, and many of those people are now experienced and skilled workers. It is therefore important that their future in Scotland is secure and that we can secure other labour as and when it is required.

The third impact is in the perception of the risk and the emotional attitudes of our European customers about trading with a non-EU supplier. I personally travel the world—it is what we do at the Scottish Leather Group. We build long-term partnerships through personal relationships with our customers. We are forever in airports all over the world, travelling, meeting people and doing business, and all the people I have met since June are aghast. I was out in America last week on business, and the Americans were aghast that we have voted to come out of Europe.

Although there is no tangible evidence of a detrimental impact in the sector, there is a nervousness in some of our customer base about dealing with a non-European major supplier. We are the sole supplier to some of our automotive original equipment manufacturers—we have long-term partnerships going back over 30 years with some of them—and they are nervous about what the impact of Brexit will be. It is perhaps easier for them to choose a European partner than it is for them to choose a non-European one. Although I have no tangible evidence of that yet, the feeling and the undercurrents are that there are lots of questions about what Brexit means for our customers.

Mark Hogarth: I will try to give some specifics as well as adding to the content from the other witnesses.

The three priorities for Harris Tweed Hebrides are market access, currency and the emotion of buying—which is less easy to define—both at the wholesale stage and when the consumer buys at the retail stage. To give some context, Harris Tweed Hebrides was an openly pro-remain company and about 95 per cent of UK textiles and fashion companies were vociferously pro-remain.

On currency, it has been widely reported that a weaker pound is a positive because it makes the export situation better. We export 70 per cent of our products, but we are a company with luxury products. Like others who are represented on the witness panel, we see ourselves as offering a luxury product and the world market regards us as luxury. We do not want to trade on currency, because that does not have longevity; we want to trade on being affordable.

Obviously, there is growth potential in the US. There is also growth potential in a market such as Russia. We have tried very hard in Russia but most of our samples get sent back before entering the country. It is not easy to develop new markets, and Europe is a key market. For example, we have managed to crack Italy and sell Harris tweed, which is deemed by many there to be a rough Scottish fabric. To sell our product to Italians is like the English selling wine to France. It has not been easy and it is has taken years to build that market in Italy and get over its perceptions.

That leads me on to the third aspect, which is emotional consumption. To be seen to withdraw from Europe is to be seen to withdraw from the fashion fraternity. We are very fortunate in that our main expense is for wool that comes from Galashiels through the British Wool Marketing Board. However, the issue is the unknowns in how the buying process is going in both wholesale and retail. Ultimately, it will come down to tariffs. New tariffs and creating new markets from the old single market will prove very difficult. I guess that that all comes down to the politics of what kind of Brexit we get.

Bryan Buchan: I echo much of what has been said. In our sector, 78 per cent of our membership were in favour of remaining within the EU. On the back of the collapse in the oil price since 2014, the Brexit vote has been a really bitter blow for our sector. In the round, Scottish engineering and manufacturing is characterised by SMEs and our largest single market is the rest of the UK, so we are not deriving a benefit from the weak pound. On the contrary, we are suffering terribly from increases in the prices of raw materials. Notably, galvanisers that have to buy zinc from Norway that is priced in dollars have seen prices rise by almost 60 per cent since January. That is not just because of Brexit, but Brexit has certainly exacerbated the situation. The price of UK-sourced steel is rising markedly and nickel prices are going up.

We cannot pass on all those price increases to customers, so we are seeing businesses trading on the margin. If they can absorb the material costs, the labour costs and the fixed and variable overheads, they will take business but beyond that there is virtually no margin. I am not hearing yet of anyone buying business, but I am told that that is potentially imminent. We need to be alert to what could happen in our industry.

Another important issue for us is the free movement of skilled labour. If we walk round the aircraft carrier that is under construction at Rosyth, we will see that every sign on the vessel in English is replicated in Polish. If it were not for the Polish welders and platers whom we have brought in to do that work, it would not be completed. We still need access to skilled labour.

The big thing for us will be the hammering out of trade deals. What does the future hold? The word that is used repeatedly—with some justification—is “uncertainty”. The brakes are on hard in terms of capital investment and they are not likely to come off until there is clarity for the future.

The Convener: Thank you. Some of the questions may be directed to specific members of the panel if they are on a specific topic or area, so you should not all feel obliged to come in on every question, although you will be given the opportunity, as time permits, to respond on the various matters that arise.

Ash Denham has a question on a topic that has already been touched on.

Ash Denham: Yes—my question is specifically for the universities sector. I visited the University of Edinburgh last week and I know that it is very concerned about a number of issues. My colleague Gillian Martin wants to ask about funding, so I will confine myself to free movement and staffing.

The University of Edinburgh makes a significant contribution to the Scottish economy—as do all the universities—and in particular to the Edinburgh economy. It was explained to me that about 25 per cent of its academic staff are from the EU. If universities are going to remain competitive on the world stage, they need to be able to recruit the best in the world. Will you explain what the challenges might be if free movement is restricted? I guess that it will lead to a drop in applications. Universities can still recruit internationally, and they do, but I believe that it will now become a lot more complex and significantly more expensive. Will you speak to that in a bit more detail?

Alastair Sim: Free movement of talent is the life-blood of universities and we do not want it to be restricted. The effect on our existing EU staff has been really unsettling—they just do not know what the future holds for them, their partners and their families. Principals have been working hard to ensure that they have access to advice services so that they can find out, for instance, whether those staff are entitled to permanent leave to remain, but there are still massive uncertainties. As I said, they are not just about residency; they are also about entitlement to public services.

It is already apparent in recruitment exercises that it is more difficult to get a field of candidates with a strong EU element, and universities may not be confident that the person from the EU will take up the offer, because the questions about their entitlements are still unanswerable. Basically, that reduces our capacity. We are proud to have massive talent from within the UK, but universities are about free exchange of ideas and talent. That is what keeps us vital, and the ability to draw that from the EU continues to be essential.

International talent is equally valuable, at personnel level. At present there are more obstacles in that regard, such as the limited number of sponsor licences from the Home Office, and if we are recruiting part-time academic professionals who are also, for example, active in the creative industries, they may not meet the salary thresholds that are required for immigration from outside the EU. There are also issues in that respect.

My overall message is that we want to welcome talent from around the world. That is what universities are for and it is how we stay vital.

Ash Denham: Have you seen a drop in applications for vacancies?

Alastair Sim: I cannot quantify that at the moment. I can really only go on anecdote from people who are trying to recruit, among whom there is a feeling that it is getting harder to attract a field of candidates with a strong EU contingent.

The Convener: I take it that the universities are giving advice to their EU staff on the right to remain. Indeed, that information is, largely, publicly available: for example, the gov.uk website indicates that EU citizens who have been resident in the UK for five years have the right to remain permanently.

Alastair Sim: Yes. Typically, universities are giving access to advice services. Some are giving people financial help to go through the process of applying for right to remain or citizenship—whatever meets their needs. However, there are still long-term unanswered questions for EU staff, who may be thinking, “All right—maybe I can remain, but what’s going to happen to my access to public services? Will I be able to access them on the same basis as a UK citizen?”

11:15

Gillian Martin: A lot of what I was going to ask has been answered. I will pick up on something that is having a profound effect on universities’ ability to attract international talent—the post-study work visa. Recently, a pilot was opened up by the Home Office, but it did not include Scottish universities. What is your opinion on the importance of a post-study work visa—particularly given that we have the Brexit situation—on the pilot itself and on the effect that it could have on the devolved nations that have not been included in it?

Alastair Sim: Their not being included was a great shame. The rationale that was given by the UK Government was that four institutions were chosen that had particularly low rates of visa refusal. Quite a number of our members would say that they have low rates of visa refusal and wanted to be in the pilot, as well. Also, the pilot penalised institutions that are active in slightly riskier markets. For instance, if an institution is trying to attract really good people from Pakistan, it has a higher risk of visa refusal, so it would have been penalised for being entrepreneurial.

More generally on post-study work visas and on student immigration, we have made the point—and there has been extraordinarily strong cross-party agreement on it—that Scotland is disadvantaged in relation to competitors such as the USA, Australia and Canada by not having a competitive post-study work regime. A lot students want to leave India, China or wherever, come to do their degree, get some professional experience following on from that degree and then go home and use that combination of academic and professional experience to position themselves extremely competitively in their home workforce. Basically, our competitor countries all see the advantage of that, so we are at a particular disadvantage.

What worries me even more is that things look as though they might be getting worse. I am not sure how much is political rhetoric and how much is solid policy proposal—we will not know for a few weeks yet—but the suggestions in Amber Rudd’s speech to the Conservative Party conference that there will be a further crackdown on international student numbers and that there will be restrictions so that only certain institutions or courses will be able to recruit international students, would be pretty fatal. As the representative of 19 highly quality-assured higher education institutions, I cannot understand what would be the rationale for saying to some of Scotland’s universities, “Sorry—you can’t have international students.” It would be financially fatal.

Some really hard work is needed—there is good cross-party support in the Scottish Parliament on this—on saying that international students should not be counted as part of our migration totals. They are people who come here to study; if they can, they work here for a while and then they take their skills to their own economies and form a wonderful network of soft power around the world. We should take them out of the international migration statistics; they are irrelevant to those. As we look towards exploiting international opportunities in the wake of the Brexit vote, we are building perversity into the system by making it more difficult for us to go out and internationalise and attract the talent that contributes so much, academically, culturally and economically.

Gillian Martin: Following something that you alluded to briefly in your reply to Ash Denham, I want to ask about salary thresholds. Is it the case that quite a lot of researchers would fall beneath the salary threshold that would be considered positive in applying for a visa? Can you explain that to us?

Alastair Sim: There is a danger in that respect. We have seen some cases recently—for example, there is a well-known case about a creative professional—but the danger possibly lurks more in the future. Some months ago, the Migration Advisory Committee published advice that suggests that the salary threshold for people coming in on tier 2 visas might be increased.

There are various problems with that. First, those people might be taking a south-east England salary level that is inappropriate for early-stage professionals in other parts of the United Kingdom.

Secondly, all sorts of people would fall beneath the proposed salary threshold. Researchers at the very start of their academic careers would fall beneath it, early-career lawyers would fall beneath it and creative professionals would certainly fall beneath it. If we are trying to attract either people to move on from being international students to tier 2—the work threshold—visas, or people who can come to work in the United Kingdom, we need to ensure that we do not set artificially high salary requirement thresholds because many early-career people will have modest salaries but huge talent to offer.

Gillian Martin: Thank you for explaining that.

The Convener: Would you agree that the United Kingdom and Scotland are very attractive places for students because English is the language and, more often than not, it is the international second language?

Alastair Sim: We do not have an advantage over our competitors in that respect. Our competitors are the United States, Canada and Australia, which have that advantage and a much more international student-friendly visa regime.

We have been fortunate in general that the increasing prosperity of China and the increasing capacity of people from the Chinese middle class to come and pay for education has kept things bobbing along—although they are certainly not growing strongly. Students are voting with their feet: the number of Indian students coming to our universities is down 50 per cent since 2010-11 and the number of Nigerian students is down 23 per cent since 2010-11. People who can make a choice about whether to come to Britain or go to the United States, Canada or Australia are often choosing to go somewhere that has less unwelcoming rhetoric and better visa offer that enables them to stay on and work for a limited period after their studies.

John Mason: My question is linked to employment more generally; the last two questions have been specifically on universities. I was interested in Bryan Buchan's comment that the aircraft carrier could not be built without Polish people. To be devil's advocate, I will say that constituents have come to me saying that it is not fair that Polish workers undercut their price. Is it the case that if we do not have Polish workers, we just have to pay a better wage, and that there are many Scottish workers waiting?

In relation to food, I have a question for James Withers. I heard a radio programme the other day on people taking potatoes out of the ground. I think they said that five Romanians were operating that whole farm or area; the process is highly mechanised, so there was not a huge number of people. Again, if they were not here, could we find five Scots to do the job, or would the potatoes just stay in the ground?

James Withers: Shall I answer that first, or should Bryan Buchan come back on the aircraft carrier?

Bryan Buchan: Please—you answer first.

James Withers: The lesson of history would be that our sector and our businesses started growing significantly when we got greater access to the EU workforce. I will come back to agriculture in a moment. I will use one specific example.

Walker's Shortbread Ltd is based in Aberlour. The managing director, Jim Walker, phoned me just after the Brexit vote and explained that during the 1990s, his business could not grow because Aberlour is fairly close to full employment. Things changed dramatically in the early 2000s when he had greater access to labour from, in particular, east European countries. He now employs 350 Polish staff, and most of them have moved into the community with their families. He has huge concerns about the future of his business without access to that labour.

We see a bit of a perfect storm building up on the labour front. I say first that we are usually ambitious and optimistic about the future of the food and drink sector: we see great potential, Brexit notwithstanding. I would echo what Mark Hogarth said about the potential for us in premium markets and tapping into consumers' desire for quality, authenticity and provenance. None of those global trends has changed because of Brexit, so we remain usually optimistic, but we require that labour force in order to exploit the opportunities.

That perfect storm is caused by a few things. One is that the home countries from which most of the labour originates are developing, so opportunities are developing back home for the labour force. Also, the pound has weakened in the short term, so their earnings here carry less value at home, and they have developed skills here that are increasingly applicable back in their countries of origin.

The fourth thing is probably what concerns me most—it is the emotional messages that we are sending to the workforce just now, particularly messages from the UK Parliament. I have been fortunate to do a lot of travelling in my job, so I know that there is a difference between being allowed in a country and being made to feel welcome there.

We have been down to Westminster recently and were told that reassurances are being made. However, for migrant labour and foreign workers, the reassurance seems to be, "We probably won't send you home." That is very different to saying, "You are hugely valued, we want you here and you are a major contributor to our businesses, to our industries, to our communities and to our culture." My concern is that unless we change the dynamic of the conversation from, "We might not send you home" to, "Actually, we need you here, we are not just reluctantly employing you to fill a gap in the night shift and you are required at all skill levels", that will be the fourth element of that perfect storm.

John Mason: If I understood you correctly, you said that some companies have grown only because they could get EU labour.

James Withers: Yes.

John Mason: Does the opposite hold true in that some of those firms might have to contract if they cannot get the labour, despite the fact that they have a market for their products?

James Withers: Yes, absolutely—although there might be opportunities to reinvigorate our domestic workforce. Access to EU labour has perhaps allowed us to avoid the challenge of employability and skills development in the domestic workforce.

For businesses such as Walker's Shortbread, losing access to the existing workforce would mean contraction. Also, if we will not have future access to that workforce and if we do not have an immigration policy that reflects our requirements or skill levels, our ability to grow will be severely hampered. John Mason mentioned tattie picking. In the primary sectors, especially agriculture, access to the seasonal workforce is critical. The soft fruit sector is an obvious example—a third of the UK's soft fruit is grown in Scotland. I fear that there will be contraction and, which is probably more important, that we will be unable to exploit growth opportunities in the future.

John Mason: Mr Buchan, is it the same for you?

Bryan Buchan: No—and I also want to clarify that bringing in Polish welders and platers was not a price-driven decision, but was purely a response to skills shortages; we did not have skilled people in the numbers that we needed in Rosyth at that time.

The landscape changed dramatically with the collapse in oil prices, but it has been very slow to filter back through to the central belt. The central belt was hit really hard by the downturn in oil extraction and exploration. People in the central belt had been offered inducements to relocate to the north-east of the country to work in oil and gas with significantly greater salaries—quite often immediately on completion of their apprenticeships. There were often golden hellos, even for the likes of CNC—computer numerically controlled—lathe operators, who were able easily to double their salary by moving to the north-east.

However, now we have had a release of people coming back to the central belt and there has been a reluctance on the part of some employers to take them due to the belief that if there is an upturn in oil, they will go back to the highly paid locations where they were before. On the individuals concerned, CNC operators have been used to making £70,000 a year, so they balk at making £35,000 a year in central Scotland.

The easing of skills shortages has not happened to the extent that you might expect, and we are quite dependent on European labour, in particular. We do not think that there will be a huge problem with European workers disappearing because if it takes at least two years to hammer out the deal, most who are here now will have qualified for residency by having been here for at least three years. To be fair, in our sector there is pretty good integration of those families into the communities in which they live.

11:30

Karen Marshall: I absolutely agree with Bryan that there is no price differential between eastern European and Scottish workers—we have never had differential pay rates for those workers.

I do not think that the eastern Europeans allowed us to grow 10 or 12 years ago, but we certainly had a gap in the Scottish workforce that was filled by eastern Europeans. Many of the Polish workers who came were highly educated. We had teachers, university lecturers, welders and engineers getting manual jobs on spray machines, earning £8 an hour. Over time, we have been able to integrate them into the business—into more skilled jobs—and they are now a very valued part of our workforce. Many of them are in management roles now.

Over the past five years, we have also had a very proactive and positive apprenticeship programme. For example, we have worked with the University of the West of Scotland to develop particular Scottish vocational qualifications in leather-making, which is a first in Britain—there was no such qualification before. We are working with education institutes to bridge the gap and to home-grow talent for the future.

I do not think that the EU nationals will leave us; I think that most of them are integrated into the community. Their children are going to school here, their homes are here and they are settled here. However, they have that uncertainty—there is that word again—about what the future holds for them.

We are hopeful. Over the past few years, the Scottish workforce has responded better than it did 10 or 15 years ago and I hope that we can get some home-grown workers.

The Convener: I will come back on one point. I appreciate that you might not have seen the SPICe briefing paper on EU nationals who live in Scotland, but page 14 of that paper states:

> "The analysis shows that EU nationals are, on average, earning less than Scottish employees in general."

I appreciate that, in your area, there might be no differential in wages, but there appears to be an overall difference. According to the paper,

> "The overall Scottish average is £11.10 per hour, compared to £8.60 for EU nationals working in Scotland",

so there must be sectors in which EU nationals are earning less than Scottish employees in general.

Karen Marshall: The figures might relate to the jobs and where EU nationals are positioned in companies. If more of them are doing manual labour at the living wage as opposed to having jobs in middle management, we could be talking about the numerator rather than the denominator—I do not know.

James Withers: On like-for-like jobs in our sector, I echo Karen Marshall's point. I am not aware of a single example where there is a differential in pay rates. However, skill levels are an issue. We, too, have EU nationals working from board level and MD level down. If there is any such thing as an average EU national, they are more likely to be at the lower-skilled end than at the higher-skilled end, but there is variation. I suspect that that skews the figures.

The Convener: I just wanted to clarify the point.

Liam Kerr: I have two questions. The first is directed to David Williamson and the second is more general.

I am interested in the potential of Brexit for global opportunities. Scotch whisky exports to South America amount to roughly £500 million. In the past couple of days, Juan Manuel Santos, the President of Colombia, has said that Brexit offers a

"huge opportunity for British business"

and that Colombia is

"ready to simply have a free trade agreement with the UK and have the same conditions or even improved, because many times in free trade agreements with a group of countries some countries object to some issues and maybe we can even go further."

Does that suggest that Brexit presents new global opportunities? Is there any area that you can easily identify where you could go even further?

David Williamson: Thank you for the question. I will take Colombia first and then the wider picture. I am fortunate enough to have visited Colombia to represent the Scotch whisky industry during discussions about the EU free-trade agreement. It is a market of significant potential for us, although it might not be an immediately obvious one. Exports are at about £20 million to £30 million a year. In some bars and restaurants in places such as Bogotá, Scotch is already really prevalent. The issue is just about making it more affordable to the consumer.

Colombia is a classic example of an emerging market where there are all sorts of trade barriers. We face a 20 per cent tariff, which makes our products more expensive, although it is to be gradually eliminated. There is tax discrimination in the market, so local spirits—aguardiente—are taxed at a significantly reduced rate compared with Scotch. The wider international spirits industry is trying to resolve that issue at the WTO. There is also discrimination at provincial level, where Scotch is placed at a competitive disadvantage.

It is important that we take the opportunity to grandfather in the benefits that we have secured through the EU trade deal with Colombia, because it resolves some of those issues. If there is a chance to build on that and revisit trade agreements in order to tackle tariffs and protectionism in the market and secure a more level playing field, such an opportunity will be significant for an export-oriented business such as ours.

Colombia is definitely one of the markets that are on our target list in that regard and, over recent months, the whisky industry has looked more widely at the potential opportunities. If Brexit is to happen, where will we look to strike free-trade agreements? We can split the answer into four or five categories of market.

The first category is major markets that have long-term potential, such as India, China and Brazil, where there is huge commercial potential but where we are held back by tariffs or other trade barriers. India is the industry's top international trade priority and has been for a number of years. There is a 150 per cent tariff on Scotch whisky going into India, which makes our products largely unaffordable for the ordinary consumer. Any trade discussions that could liberalise the approach would be significant. We have a 1 per cent market share in India, and it has been assessed that substantial liberalisation of the tariff to get it down to the levels that we see in Brazil or China—10 to 20 per cent—would help us to grow the Indian market to about 5 per cent. That does not sound like much, but to go from 1 to 5 per cent in the world's biggest whisky market would be an important step forward for our industry.

The second category that we are looking at is markets that I would classify as fast growers, such as markets in sub-Saharan Africa—the Nigerias, Ghanas and Kenyas of the world—where economies have been growing and consumers have increasing amounts of disposable income and want to show that they are making progress. Scotch is a classic product for people to buy to do that. There are all sorts of trade barriers to resolve in such markets, and we hope that future negotiations will take that into account. There are also markets in south-east Asia that might not be immediately apparent, such as Vietnam and Burma, where we see the same dynamic but are held back by tariffs and other restrictions.

The third category is markets that have been—to be candid—a struggle for Scotch whisky in recent years, where exports have not been growing as fast as we would like them to or have been declining. I am talking about markets such as South Korea and Thailand, where, if we were able to secure strong benefits through free-trade agreements, we would get the boost that we need to start to grow again.

A fourth category is markets that are reasonably mature for Scotch, where there are still some nuisance trade barriers that should be relatively straightforward to get rid of. I am thinking of markets such as Australia, where there is a 5 per cent tariff, and Canada. There has been a lot of talk about Canada and international trade in recent weeks. I worked for the industry for three or four years on the comprehensive economic and trade agreement. CETA is not a perfect trade deal, but it will certainly bring benefits for our sector in tackling discrimination that we face, and it should be relatively straightforward to bank those benefits for Scotch in future UK discussions, because the EU and Canada have already agreed to them.

There are two areas in which the Government could look at trade deals slightly differently and more creatively. Such negotiations tend to be all or nothing, with people looking at a vast array of products, goods and services. There is an opportunity to be a bit more flexible, to strike deals where that is possible and to come back in the future as things develop. There is also an opportunity to consider what trade agreements exist and whether the UK could simply add its name to those agreements and become a party to them. One example is the discussions that there have been in the Pacific region over recent years.

Finally, we hope that the UK will re-establish itself as an autonomous actor at the WTO quickly, because it would benefit Scottish business to do more with a range of mechanisms there to remove the sort of trade barriers that I am talking about. There are committees in Geneva that deal with technical barriers to trade, review countries' trade policies and offer the chance to go to dispute settlement, which would be a way of resolving issues outside free-trade agreements, if necessary. Not much attention has been paid to that in the past because the EU simply dealt with it.

Liam Kerr: Yesterday, Gillian Martin and I visited a business in a sector that requires EU certification to export its products. I understand that the business gets a number that shows that it has been checked for hygiene, health and safety and certain other standards and which ensures that it can trade. It has a concern that coming out of the EU will mean that it will not have access to that certification, with all that that implies.

What do those of you who might face similar issues understand will happen? Will there be some way to retain such certification? Will the UK become an awarding body? What representations are your trade bodies making on that?

Mark Hogarth: That is a good point. It points towards the complexity that we have in not only the fashion and textiles industry but the whisky industry and the food industry, which are not just straight export businesses.

One of the biggest problems that we will have in the Harris tweed industry is the residual effects of Brexit. I will give an example. One of the big buzzwords in the fashion industry is reshoring—that is, bringing manufacturing back to the UK because it adds provenance and because there are still the embers of a skill set here. However, that is happening slowly. What tends to happen is that the manufacturing comes back from China, to which the majority of manufacturing of Harris tweed was pushed out 10 years ago, and goes into the European hinterland—Turkey, Romania and Portugal. Walker Slater in Edinburgh fabricates a lot of its goods in Portugal, but doing that is now 20 per cent or so more expensive, even before we get to the certifications that are needed. That will affect the buying of a premium product such as Harris tweed.

The issue is not simply about certifications and tariffs; there are all sorts of residual effects that will sort themselves out only when we get direct deals that are put through in the correct sequence.

Bryan Buchan: There is a fairly substantial machine building industry in Switzerland that exports to the rest of Europe. In a previous capacity, I used to spend a lot of money in Switzerland on high-speed automation. The Swiss can get their machines EU certified while not being part of the EU central bloc, so I do not think that that will be a problem for us in the future.

However, regardless of whether we are in or out, we will still have the problem that we have had for years of protectionism on the part of Germany, which hides behind DIN standards—set by the Deutsches Institut für Normung. In some cases, they are used as an excuse so that our products cannot be exported to Germany, and, to be frank, there is blatant protectionism on the part of France.

The Convener: So, from your point of view, the EU has not resolved those issues of protectionism.

Bryan Buchan: No.

Gil Paterson: I have a quick question on building new markets. The door has been prised open by the High Court judgment on article 50, so nobody knows exactly where things will land. My question is twofold.

Should the Parliament focus on expanding markets in a particular area? That question is aimed at the Scotch whisky industry, Scotland Food & Drink and the leather industry. I own one of Karen Marshall's covers—I use it for an old car of mine and it is brilliant; I will not complain about it.

When your business enters a market in the EU, all the provisos and regulations are in place to give you surety. Is it possible to develop new individual agreements at the same level—as it seems that you will now need to do when you try to enter a market—or would it be easier, if we could negotiate a deal around article 50 to keep the door open, to stick to using the cover that businesses currently get from EU involvement?

11:45

James Withers: How things will play out is uncertain. In the food sector, 90 per cent of the regulatory regime is driven by Europe, and the UK and Scotland simply interpret the directives on environmental safety, animal welfare and food safety and hygiene.

There has been some commentary that a great repeal bill might offer a chance to free the industry from a web of complicated regulations, but I am struggling to see how that will happen. A core requirement to enable us to continue to trade with Europe will almost certainly be that we must meet the EU's base level of regulation. That is also important because it is part of our brand and offers consumers assurance.

The reality is that, if Scotland comes out of Europe as part of the UK, we will be operating in a post-Brexit environment in which we will have to state categorically that we meet European regulatory standards in order to trade with Europe. I am relatively reassured on that point, but how we institute that will be interesting. Far from needing a great repeal bill, we might need the UK Government to pass a single statutory instrument to transpose into the UK system the current regulatory requirements for Europe, under which we all work anyway.

David Williamson: That is the Scotch whisky industry's preferred way forward—to transpose existing European legislation into UK law to provide the consistency and certainty to which James Withers alluded.

Regardless of what the future model looks like, the EU will still be Scotch whisky's biggest market. Countries such as France, Spain and Germany feature in our list of top 10 export markets. Access to the single market and the need for similar rules on the definition of our product, on the protection of geographical indication, on labels and on bottle sizes are important. Some of that might sound a bit technical, but it is fundamental that businesses understand the situation to give them certainty as we move forward. If there was a way to do that, that would be great.

One important area for us will be the protection of geographical indication, and we need to ensure that Scotch whisky continues to be protected to the highest degree in the markets that I mentioned. We are pretty confident that, if EU law on that is simply transposed into UK law, we will be able to transfer our current protection to a slightly different protection under the same regulatory framework. However, there will be challenges elsewhere in navigating that difficult environment for products that might not have the same level of protection as Scotch whisky has.

The Convener: I will bring in Richard Leonard, who has a new point.

Richard Leonard: The industries that are represented on the panel have faced shocks before, including an overvaluation of the pound in the early 1980s and the current oil price crash, to which Bryan Buchan referred. Many of you will remember that in 2001, foot-and-mouth disease was a big challenge to the leather industry and parts of the food industry, and perhaps to Harris tweed—I do not know whether it affected the sheep of Galashiels.

My question has two parts. First, can you compare the shock from Brexit with some of the other challenges that you have had to deal with? Secondly, can you learn lessons from those shocks to help you deal with the shock that you are beginning to experience now? I ask you to address, in particular, the support that is available to you from the Government and its agencies.

Mark Hogarth: There is no point in looking in the crystal ball when we can look back at the books. Harris tweed went from a peak of 7 million metres of fabric back in 1967 to its nadir of 300,000 metres in 2005, when the average age of weavers was 62 and the industry was facing terminal decline. Currency was the principal factor in that dynamic. There was parity with the dollar in the mid-1980s, and the United States was by far the biggest market up until then. Just at that time, synthetics came in. Once a market gets out of the habit of buying a product, it is very hard to get that market back. That is why the renaissance of Harris tweed has been very slow, but it has been sure—long may it continue. It has been spread across not just nation-state or European markets but markets within markets—that is how I talk about it. There is no uniformity.

For us, that is the biggest example of a shock, but Richard Leonard gave other good examples. Currency dictates, particularly at this time of year, when the majority of the buying of the fabric happens. I am also involved with the Campaign for Wool, so I know that that industry has huge problems, too.

All that taps into the internationalisation of the fashion industry. Companies are not seen as being just a British fashion house or fashion company. A European designer, schooled in one of the great institutions, such as Central Saint Martins or Glasgow School of Art, might set up their business in Edinburgh or London and then just take it from there. The biggest shock from Brexit is that it cuts across or truncates that international fashion fraternity, which is why the voices against were so strong.

Karen Marshall: I totally agree that currency is important, but we have to keep everything in perspective. Our company is 112 years old, and our chairman has reminded us that his forefathers fought two world wars and we survived. There is no doubt that we will survive this—we will learn to adapt to whatever trading conditions come post Brexit.

For me, the main thing is to get free trade, whether that is in the single market and beyond or a different model. There is a conundrum in our sector, because our European competitors do not pay the national living wage, whereas we pride ourselves on paying, as a minimum, the living wage, not the minimum wage, and the vast majority of people earn an awful lot more than that. Our European competitors are not subject to the same environmental laws as we are in Scotland, which are even more stringent in Scotland than they are in England. Our competitors' cost base is therefore different from ours. Manufacturing in our sector in Scotland is very difficult, and it is even more difficult when we export and are subject to the variances of sterling.

Although everybody thinks that the weak pound is the friend of the exporter, prudent companies, especially when they have many variables, generally hedge for a period. Therefore, we are not getting the benefit of the weaker pound—we will not get it until the start of January 2018. We have an awful lot of people's livelihoods to protect, so we do not gamble; we hedge over an 18 month or two-year period, and therefore we will not get that benefit for an awful long time to come. In the meantime, competitors are coming in and buying UK material more cheaply than we can buy it. We have a lose-lose situation. Some materials, such as chemicals, are not manufactured in Britain any more, so we import them from Germany and France, and some hides have to come from South America. When we are importing goods and buying in dollars and euros, we lose out. We import fewer goods than other sectors do, but we still have that lose-lose situation with the currency.

If the rates stay where they are, we will get the benefit in 18 months' time, but we are not getting it just now. It is the economic environment that we are trading in that is difficult for manufacturing in Scotland. We have all the rules and regulations and all the costs. All that we can do is make our company as lean as we can in order to be competitive.

The Convener: James Withers wants to come in, and then I will call Alastair Sim.

James Withers: We are writing a new strategy for the food and drink industry out to 2030. Some people have said, "What on earth are you doing? How can you possibly try to chart a road to 2030 when we don't know how Brexit is going to play out?" I take heart from the fact that our first strategy was written in 2007-08, in the midst of a global financial crisis. At times, it felt like the world was falling apart around our ears but, heigh-ho, we got through it. The world is different from how it was back then, but we got through it. The lesson that we draw from that is that it is important to identify vision and ambition

There are two other elements. The first is about building reputation and Scotland's brand for our particular sector, which will drive opportunities. The balance of attractiveness of different markets will change, but if we can build Scotland's reputation for food and drink, that will stand us in good stead.

The second element is where there is work in progress for us. We need to be a much more resilient industry. The one sector of the food and drink industry that is much more robust and resilient than all the others is Scotch whisky because it has a very nice, long-developed spread of markets. It is not too reliant on any one market. Eighty per cent of the food that we produce in Scotland is sold in the UK, and of the 20 per cent that leaves the UK, as I said, 17, 18 or 19 per cent goes to Europe. We are too reliant on a few markets.

We have already seen shocks. The eurozone crisis hit us and the Russian embargo flooded more products on to the European market. With foot-and-mouth disease, our export markets for lamb and beef closed again, which caused us a huge problem. We need to build greater resilience.

At present, we sell more food to Belgium than to the whole of Asia combined, which is crazy. However, we are already investing in that. There is a new export partnership, with industry bodies putting in money collectively with SDI and the Scottish Government to develop overseas specialists—there are 11 specialists in 11 cities round the world—and ensure that we spread our markets better. We recognise that there will be challenges in different markets at different times but, providing that we are not overly reliant on any one particular market, we will be better placed to withstand the inevitable shocks. We cannot predict them now, but there will be three, four or five of them between now and 2030. That approach will put us in a more robust position.

Alastair Sim: Mr Leonard said that there have been shocks before. A lot of my members have been in the game for a long time—some since the middle of the 15th century—and have seen reformations, wars and so on.

We are in an extraordinary position in Scotland. For a small country on the north-west edge of Europe to have five universities in the world top 200 is absolutely extraordinary, but let us not pretend that that is some sort of inherited right. We are there because we have been able to attract brilliant people from across the world and give them an environment in which they can do brilliant things.

A lot of continental European universities that used to be great 100 or 200 years ago are not great any more. We need to stay great. We are at a geographical disadvantage, and if we do not have excellent universities that generate ideas and attract inward investment—for example, universities are creating hubs around biotechnology and the games industry, where we are a world leader—we will lose not just our universities but the economic impact that sits around them.

We need a combination of sustainable public investment in universities and an open environment so that we can get out there and compete, attract the best talent wherever it comes from, enter arrangements with universities throughout Europe and the world, and attract students.

What could really help, apart from policy—we have talked quite a lot about policy in relation to student and staff migration—is the rhetoric. If the Government's rhetoric across the UK was that we are a great place to come to and invest in and that we really welcome people, that would help us in the new environment, where we absolutely have to be competitive on a global basis.

Dean Lockhart: I want to pick up on a point that James Withers and others have made about the changing mix of our export markets.

We heard earlier from Scottish Development International about its expanding network. SDI has a role to play in helping different companies and sectors identify new markets and increase exports to existing markets. What specific steps could SDI and the enterprise agencies take in that regard?

12:00

James Withers: I have only good things to say about how SDI has worked with our sector. We have a really close partnership with SDI. Three years ago, one of our concerns about SDI was that its staff were mostly generalists. If we went into a market, we would see an SDI adviser in a field office who would do food and drink on Monday, financial services on Tuesday, renewables on Wednesday and life sciences on Thursday. The lesson that we drew from countries that were more successful than us at exporting food—Ireland, New Zealand, the Scandinavian countries and Canada—was that they had dedicated specialists on the ground. We therefore now have 11 specialists based around the world who are securing existing strong markets and trying to secure other markets. There are three specialists in Europe—in Paris and Düsseldorf, and in Copenhagen, where we have a new recruit—and the remaining eight are in our growth markets around the world.

Having that expertise and local market knowledge is an absolute game changer for us. Traditionally, when our companies go out to a market, even with the best will in the world they spend only four or five weeks there, perhaps attending an international show and making a few visits. That leaves another 47 or 48 weeks when we need representation in that market. The dedicated resource that we now have is critical in that respect.

There is another aspect that we need to think about. We are building demand overseas for Scottish products as well as building the ambition of companies to export. However, we often fall down on the practical elements—for example, the certification of paperwork, which has been mentioned, or how to consolidate a product in the market through knowing the best port, importer or partner to use. We will develop over time, but industry tends to provide such practical support for itself because it has a lot of that expertise. Our job is to try to share that better. It would be interesting to look at how we can plug more of that support into the exploitation of growing opportunities.

David Williamson: The Scottish whisky industry generally gets excellent support from SDI. Its expertise has been growing over recent years through some of the work that James Withers has just outlined. However, I want to pick up on two or three points.

There is undoubtedly a need for SDI to revisit its international network and to look at where it puts its resources. I have outlined some of the emerging markets that the Scottish whisky industry has an interest in, such as Latin America and sub-Saharan Africa, which are areas where SDI does not have a significant presence. As part of the recent review, we have been talking to SDI about where the markets of the future might be. There is certainly a role for SDI and UK Trade & Investment to work together as closely as possible to ensure that there is no duplication of effort in relation to markets and that their work is as co-ordinated as possible as we try to develop our export offering.

Traditionally, SDI has focused on trade promotion, which is important work that needs to continue. However, a lot of our discussion today has been about something slightly different. We have been looking at trade policy, which concerns access to markets, tackling trade barriers and negotiating free-trade agreements. Trade policy is a different area of the same playing field. There is certainly a case for revisiting expertise and capacity within SDI and, indeed, the Scottish Government. We look forward to playing a full part in such talks in the future.

The final area where SDI is important is one in which James Withers and I have both been involved. SDI has an important role to play in bringing different organisations together and fostering as much collaboration as possible. The Scotch Whisky Association and Scotland Food & Drink have launched an export collaboration charter, under which we work with SDI to ensure that the networks, contacts and market intelligence that the Scottish whisky industry has in some new markets can be shared more widely. SDI has an important role to play in helping to foster that collaboration and taking the information out into the wider economy.

The Convener: Gil Paterson has a mini question on the same subject, after which Mark Hogarth wants to come in.

Gil Paterson: It is a fundamental question about Scottish and UK exports. There is evidence to suggest that some Scottish exports are counted as English exports because they go through English ports, I think because when the deal is done and the contract is signed, it specifies that an English port should be used. Where do the stats come from? How do we know that the figures that we hear about are accurate?

The Convener: I will bring Mark Hogarth back in; I am not sure whether he can assist on that particular point.

Mark Hogarth: I am not sure about bringing in a creative director to talk about figures. [*Laughter*.]

The Convener: I will let you make the point that you wanted to make.

Mark Hogarth: I have Karen Marshall beside me, who is much stronger in that area.

I concur with James Withers and David Williamson on their belief that, on the whole, SDI does an excellent job. That was particularly the case when Harris Tweed Hebrides was building up from the couple of hundred thousand pounds that we made in our first few years of trading to the £11 million of last year. I make special mention of the Scotch Whisky Association, which has been very kind in allowing us to hang on to its coat tails on visits to China and India, where we are trying to open up markets.

On those markets, four or five years ago, we came up with the idea of doing a tour of the BRIC countries—Brazil, Russia, India and China. Although those markets might seem huge, each of them is beset by various problems. Karen Marshall might have the stats on this, but I remember the situation in Brazil all seeming to be good—there was a small market for Harris tweed in the south, particularly in interiors—but then there was a specific tariff on all wool products to protect the Brazilian sheep industry.

Similarly, in India, Harris tweed and Scottish products in general have a very high value, probably because of Scotch whisky, but there is a very antiquated customs system, so it is extremely difficult to get our product into that market.

In Russia, there are problems at port in getting access to the markets. Harris tweed is seen—because of its provenance and its hand-woven nature—to be great value for money, but getting into the market is extremely difficult.

SDI's remit is primarily about promotion; it cannot change tariffs or the politics of getting our product into particular countries. Therefore, to come back to the original question, perhaps there could be a focus on that area. I do not know whether "lobbying" is the correct term, but it would be good if something could be done to reduce such preclusive tariff measures and, where it exists, antiquated customs legislation, which affect our ability to get our product to market. If that could be done, SDI and individual products could flourish.

David Williamson: On the question of export statistics, we could not agree more with the point that Gil Paterson made. Obtaining detailed and accurate Scottish export statistics has been a challenge, for a range of reasons. The fact that there are competing sets of figures—the figures in the Scottish Government's global connections survey do not always tally up with the figures of HM Revenue and Customs—makes it difficult to get a clear picture of what our export offering to the world is.

It is important that we get more comprehensive, consistent figures and set a benchmark, so that we can understand how this country's exports are doing and what is working as we look forward. That was certainly identified as a challenge in the recent Scottish Government trade and investment strategy. I know that officials have been looking at the issue, and we hope that they will be able to make progress and to put in place a system that is more robust.

Bryan Buchan: I sympathise with the Office for National Statistics and others in trying to untangle what Scotland exports. In my first year in my current job, I spent a bit of time with the ONS going through some of our companies that it had labelled as non-exporters. I give the example of an Aberdeen manufacturer of flotation devices and umbilicals, which are used for deep-sea extraction. None of them were going to the continent; all of them were going to the likes of West Africa and South America for deep-sea extraction. Nevertheless, the ONS categorised the manufacturer as a non-exporter because it was selling its components to major extractors, including the likes of Shell and BP, and through intermediaries such as Oceanics. It is quite difficult for the ONS to pick up whether something is an export.

The Convener: Thank you. Gordon MacDonald has a question in the same area.

Gordon MacDonald: I wonder whether James Withers feels that the data reflects his industry accurately. The methodology that is used by the ONS and by HMRC seems a bit simple: the ONS assumes that all parts of a business are involved in export rather than just the production side, and it allocates exports by the number of staff in any one area; while HMRC appears to identify each region as having a weighting of 1 if there is any export activity, regardless of how many production units there are in an area. For instance, if there were four production units in Scotland and one in Wales, both sites would have equal weighting—that is, the exports would be weighted 50:50 across Wales and Scotland despite the fact that the majority of the production was in Scotland. From your experience, do you feel that the statistics accurately reflect your industry?

James Withers: The quick answer is no. In a kind of act of surrender, having spent time with HMRC statisticians and having gradually lost the will to live trying to unpick how it is done, we have taken the view that, although the figures are flawed, provided that they are consistently flawed, we will at least get a sense of the direction. That is the approach that we have taken, although I do not think that it is good enough going forward.

I am almost certain that the £1.1 billion of food exports undervalues what we export for precisely the reason that Gil Paterson gave in talking about the port of departure. However, I suspect that David Williamson's sector will be as close as any to having it right, because the Scotch whisky sector has a specific six or eight-digit code that HMRC tracks, which we do not have for other sectors. It seems crazy to me that if someone buys a Scottish steak in a supermarket in Shanghai, we can tell them what farm it came from but we cannot track whether it is a Scottish export using our way of measuring that in the UK. The system needs to be fixed.

I believe that we are also undervaluing our exported salmon—which is our number 1 export and the UK's number 2 export—but the data is incredibly difficult to unpick. At the moment, we take the figures with a huge pinch of salt and use the annual changes just to give us a sense of direction.

The Convener: Jackie Baillie has a question.

Jackie Baillie: I would like to develop a point that James Withers and David Williamson have made. Food and drink is our biggest export sector. If I picked up what James Withers said correctly, 80 per cent of what we export goes to the rest of the UK and 20 per cent goes abroad. Would it be fair to say that the balance is absolutely the reverse in the whisky industry, because it is a truly global industry? I wonder about the percentage of whisky exports that go to the rest of the UK, the rest of Europe and the rest of the world.

That brings me on to two questions. First, if the Scottish Government is putting its efforts into increasing the trade opportunities around the athletics championships in Berlin, what efforts would suit your industries and grow your exports? Secondly, everybody talks about the lack of negotiating capacity at a UK and a Scottish level, so what opportunities are there for us to share—as Harris Tweed has done—the expertise in the Scotch whisky sector?

12:15

David Williamson: I will kick off. There are a lot of points to address.

You asked a statistical question at the start, and I will try to give a sense of where Scotch whisky is. Ninety per cent of our market is overseas and 10 per cent is in the UK. That 10 per cent is still significant, as the UK is our third-largest market globally, but there is obviously a very heavy international focus. On the split between the EU and other trade partners, a third of our exports—£1.2 billion of the around £4 billion a year—go to the single market as it stands.

On priorities, I go back to what I said earlier about some of the markets that the whisky industry has been looking at as offering significant commercial potential in the future—markets such as India, Brazil, China and some of the others that I talked about, where we see real opportunities but significant trade barriers at present. As the trade and investment strategy is implemented, and as SDI looks at its network, we need to look at how we play better into those markets as well.

When it comes to exporting, the lesson from the whisky industry is to take a long-term view and to be as international as possible in your focus. As James Withers said earlier, our picture as an export industry has been very strong over the past 10 to 20 years. It has been more difficult over the past two to three years in a range of markets, but we have continued either to grow or to mitigate some of the challenges because of that export spread—because we are in nearly 200 markets. That will not work for everybody, but the lesson from the whisky industry is to take a long-term view and to tackle the trade barriers consistently over time, working with Government.

On the final point, there is a job to do around trade policy expertise and capacity. The Scotch Whisky Association has been very active in that area for many years because we have had to be. We have been active in different markets, using the embassy network to raise issues, working through the European Commission, using World Trade Organization mechanisms and understanding that language. In the coming months, there is definitely a challenge: for Government, in putting in place that capacity and expertise; but also for business, in better understanding the opportunities in trade policy to make progress on the issues.

James Withers: I have a couple of quick comments on that. We are crystal clear about what our export priorities are and we have an export strategy that covers all assets with the exception of whisky. The Scotch Whisky Association is our model of what the future might look like if we get things right.

We have eight priority markets, which are: North America, the Nordics, France, Germany, the Middle East, Singapore and south-east Asia, China and Japan. That is where we have put in specialists and that is where we want the resource to go.

On the point about sharing knowledge within the industry, the beauty of having within our family of food and drink sectors in Scotland the global model for premiumisation of market development is that we can access that expertise. We have not been very good at doing that over time—I do not think that we or the Scotch Whisky Association have been very good at doing that, but we now have the collaboration charter in place.

There are 10 specific commitments within the charter and I can give examples of the kinds of thing they include. They include the Scotch Whisky Association giving seminars on intellectual property protection—protecting brand—which they do very well and which is becoming an increasing issue for our new success firms in, for example, salmon. We are finding "Scottish salmon" that actually is not Scottish being sold in some markets. Also, we will potentially use whisky companies to mentor other food and drink companies, and we can use the incredible network of brand ambassadors in whisky to profile Scottish food, as well as the whisky, when they are doing events in the market. We are trying to improve and transform the level of collaboration within the sector.

On Jackie Baillie's main point, we are very clear what the priority markets are. One of the outcomes of the enterprise review has been the doubling of SDI resources in Europe. That will be valuable, but we really need to think beyond Europe.

Jackie Baillie: Thank you.

The Convener: That brings us to the end of our evidence session. I thank all of our witnesses very much for taking the time to come today.

12:18

Meeting continued in private until 12:55.

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