OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 20 March 2018

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 20 March 2018

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ECONOMY, JOBS AND FAIR WORK COMMITTEE
10th Meeting 2018, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Tom Arthur (Renfrewshire South) (SNP)
Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Kezia Dugdale (Lothian) (Lab)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Dr David Bunton (ReproCELL Europe)
Marc Crothall (Scottish Tourism Alliance)
Dr Diane Harbison (Stratified Medicine Scotland)
Ewan MacDonald-Russell (Scottish Retail Consortium)
Claire Mack (Scottish Renewables)
Willie Macleod (UKHospitality)
Malcolm Roughead (VisitScotland)
James Withers (Scotland Food & Drink)
Gareth Wynn (Oil & Gas UK)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 20 March 2018

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning, and welcome to the Economy, Jobs and Fair Work Committee's 10th meeting in 2018. We have received apologies from committee member Jackie Baillie.

Agenda item 1 is for the committee to decide whether to take items 3 and 4 in private. Do members agree to do so?

Members *indicated agreement.*

Scotland's Economic Performance

09:30

The Convener: Item 2 is our inquiry into Scotland's economic performance. On our first panel, we have Dr Diane Harbison, who is the chief executive officer of Stratified Medicine Scotland; Dr David Bunton, who is the chief executive officer of ReproCELL Europe; and Claire Mack, who is the CEO of Scottish Renewables. I welcome all three of you. We will shortly be joined by Gareth Wynn, who is the stakeholder and communications director for Oil & Gas UK.

There is no need for you to press any buttons—the sound engineer will turn on your microphones when you speak. If you want to come into the discussion or answer a question, please indicate that by raising your hand and I will bring you in as time and questions permit.

To begin with a general question, I will canvass your views on the performance of the Scottish economy over the past 10 years. Perhaps Dr Harbison can start.

Dr Diane Harbison (Stratified Medicine Scotland): The life sciences sector, which we represent, has performed very well over the past 10 years. A huge number of really interesting and innovative small and medium-sized enterprises in the sector have grown to become companies of size and scale—David Bunton represents one such company. Scotland has a unique opportunity in stratified medicine, which is the field in which I work. We do not have a direct impact on a lot of the companies that are working in Scotland—our influence is global—but we have seen a lot of change in the pharmaceutical industry. The demise of the blockbuster model has led to a move towards more targeted therapies, and those changes have filtered down to companies such as ReproCELL Europe that operate in the precision medicine and stratified medicine ecosystem.

Dr David Bunton (ReproCELL Europe): I agree with Diane Harbison. We experienced quite a difficult spell after the great recession, but there has been a recovery over the past two or three years. Since 2010—I do not have figures for the whole 10-year period—the pharmaceutical sector, in which ReproCELL operates, has grown by 30 per cent. Much of that growth has happened in the past three or four years. There is a very positive outlook in terms of the infrastructure and the skills among the working population. Scotland has performed reasonably well on investment—outside London, it has been one of the most successful areas for investment in life science. There are a lot of positives, but—as we can discuss—there are certainly areas in which we can go further and opportunities on which we can seek to build.

Claire Mack (Scottish Renewables): Broadly, the Scottish economy has demonstrated some key strengths over the past 10 years. Our university sector is acknowledged as one of the best in the world, and we have experienced high population growth, which has been helpful to the economy. There has been a heavy concentration in certain sectors—for example, energy and food and drink.

Renewables, which is my sector, has a good story to tell. Installed capacity has gone up from approximately 3.3GW in 2008 to around 9.3GW in 2017. A lot of that development has been supported by strong mechanisms that have enabled big long-term investments and have, essentially, guaranteed a market price for our products. Those mechanisms—the contracts for difference and renewables obligation systems that the UK Government put in place—were good because, to some extent, they insulated renewables from the recession. They allowed our industry to buck the trend, as development and investment continued in Scotland because the risks were mitigated.

Gordon MacDonald (Edinburgh Pentlands) (SNP): It is good to hear that Scotland has a bit of global influence and some key strengths. What are the key opportunities and risks that will face your sector and the Scottish economy over the next 10 years?

Dr Bunton: There are a number of opportunities in life sciences on which we should build. We already have some areas of strength—Scotland has always been at the forefront of innovation, and it is pretty good at predicting which aspects of life science are going to be the next hot areas for research and development.

As Diane Harbison mentioned, precision medicine is one of those areas, so it is very important that we demonstrate long-term commitment to that opportunity. In the past, we may have swung a little too much between different opportunities, but there are definitely opportunities in specific areas. Diane Harbison will say more about precision medicine. Another such area is regenerative medicine—there was some news yesterday about the results of a trial for patients with macular degeneration.

However, those technologies take a very long time to develop. As the head of a Scotland-based company that has been acquired by a Japanese company, I can say that there is a long-term vision in Japan, which is looking 20, 30 and 40 years ahead. We have to strike a balance between opportunity and risk. The risk is that we pick the wrong areas in which to invest and on which to focus and build. Nonetheless, Scotland has a pretty good track record in regenerative medicine, which we have been building up for a long time. Precision medicine has been developed over the past five to 10 years, and there are developments in digital healthcare and in the pharmaceutical services sector more generally. We are in a good position to go forward.

Dr Harbison: It will not surprise the committee to know that I agree completely with what David Bunton said. Scotland has traditionally been very strong in the two areas—regenerative medicine and precision medicine—that he highlighted. However, as he said, it takes a long time to develop and commercialise those technologies. He also mentioned a clinical trial that has just had a positive outcome. I worked on that project in 2010, and it has taken all that time for the product to go from the development stage to a clinical trial in which it has been shown to work in patients. The patients are able to see again—it is amazing.

Scotland has a real opportunity in the field of precision medicine. We have a small and stable population, really good health informatics—in fact, they are some of the best in the world—world-leading clinical researchers, and a real ability to make a positive impact on some of the diseases that are a major burden on the Scottish population. As you are all aware, many complex diseases are hugely prevalent in Scotland. We have clinical expertise in those diseases, and pharmaceutical companies are interested in trying to find cures and treatments for them.

Given everything that we have in Scotland—our very strong health informatics, our stable population and our use of the CHI number—we are in a unique position to capitalise on the situation and to drive the growth of precision medicine approaches. That will have a positive impact on the Scottish economy—for example, on the drugs budget. If we prescribe a drug only to patients whom we know will benefit from it, rather than taking a trial-and-error, one-size-fits-all approach, we can reduce the amount of money that is spent. We can give the right drug to the right patient, which means that there is more chance that they will take the drug in order to treat or manage their condition.

We are on the cusp of being a world leader in that particular field, and it is a real opportunity, but other countries are catching up. Countries all around the world—as many as you could mention—are doing population-based sequencing studies. Before Christmas, Finland announced that it is sequencing 500,000 Finnish people using electronic records. Finland, which has a population of similar size to ours, represents a real threat, but countries all around the world are taking the same approach.

As David Bunton said, digital health and telehealth are important parts of the life sciences sector, especially for populations in Scotland's remote areas. They should not be forgotten, because they, too, could have a major impact on patients and how they are treated.

Claire Mack: In the renewables sector, there are—believe it or not—a lot of similarities. Scotland also has a world-leading renewables sector and, given that climate change is a global issue, a lot of other countries with similarly strong levels of natural resource are looking to catch up with us. Our first opportunity, therefore, is that we already have a world-leading industry and strong and abundant natural resources.

Our second opportunity—which, again, is similar to the situation in health and life sciences that we have just heard about—is that we have been able to develop innovation in the laboratory to commercialisation. It is a long journey, but we have managed it in Scotland, and the renewables industry represents a really strong part of that picture. We need to be clear about the importance of that capability, given that we have such a strong university sector.

With regard to risks for future growth, the UK Government does not currently allow onshore wind, which is our cheapest form of energy, to compete under its revenue stabilisation mechanisms, which is certainly hampering the market. We have a lot of estate in Scotland and we are looking to develop a lot more, and that route to market is critically important for the renewables sector.

In our sector, we are also thinking a lot about the supply chain. The contracts for difference mechanism is an options process that continually drives cost reductions. We are mindful that those reductions can come from various places, and we are looking at costs across the whole system to ensure that we drive efficiencies without driving out value in terms of the wages that we pay and the investments that we want to make.

Our investment timelines are long and very risk heavy. The contracts for difference mechanism unlocks investment and allows it to happen, which brings me back to my point about the route to market.

I turn to the positive opportunities. Digital and smart systems, as we have just discussed, will be a huge part of the future. Scotland has taken a leading role in developing electric vehicles, which will drive some of the new smart-system innovation in which, as has been mentioned, investment is needed. We also need to think about turning our weaknesses into strengths. For example, the grid in Scotland has particular constraints, and a lot of people are off grid. The constraints on the grid in Scotland's remote and rural areas have led us to be more innovative earlier, so we have a particular strength in that area that we can demonstrate and use around the globe.

Gordon MacDonald: You have all indicated that although Scotland is at the forefront of innovation, other countries are catching up. Last week, the committee heard from Professor Anton Muscatelli that Scotland needs to increase levels of research and development and innovation significantly. Are there challenges in your sector in being able to increase expenditure on R and D and so on?

Claire Mack: That is one of the key risks of Brexit for the renewables industry. Our sector has had phenomenal support from the Scottish Government as part of Scotland developing its economy. However, a lot of the funding for early-stage innovation technology in wave and tidal power has come directly from the European Union, which also shares our very high ambitions in that area. That is a big concern, because companies in Scotland such as Nova Innovation have managed to get strong support from European funds for their technologies, which has allowed them to make the journey from innovation to commercialisation that I spoke about. It is a big issue for us to consider.

Dr Harbison: It is absolutely an issue for us. Our role as an innovation centre is to work with the university sector and with SMEs and industry to help to translate the exciting innovative ideas in the universities into commercial output.

09:45

Funding for such projects, and the ability to assist those companies, is vitally important. The innovation centres were set up with a pot of money that allowed us to seed projects; for example, our innovation centre worked with David Bunton on a really exciting project. It is important that we have a pot of money for doing innovative and risky things, because we often do not know the outcome of a project before we start—which is the whole point of science. The ability to fund that work is an issue. I, too, highlight Brexit as an issue, because we will potentially no longer be able to access a huge amount of European Union funding that we currently tap into, which could impact on what we do.

On the plus side, there is a lot of money from Innovate UK. There is a lot of emphasis on my area—precision medicine—and data; we use an awful lot of data in precision medicine. The ability to access money from Innovate UK is hugely beneficial for us, but we also need to work with innovative SMEs that are prepared to take the risk and take time to write grant applications to get money from Innovate UK. All those things take time, and they compete with all the other things that SMEs are trying to do—grant application writing is not necessarily very high up on their radar. Perhaps David Bunton can comment on that.

Dr Bunton: It is always a challenge to ensure that there is sufficient investment at the early stage of company growth. For spin-outs and start-ups in Scotland, investment comes not only from venture capital and business angel networks—Scotland has been very well supported by such networks—but from the Scottish Investment Bank, which is the most active investor in life sciences in the UK. Its support for early-stage R and D has included match funding for some of the early risk capital that has come from business angels, private investors or—in most cases—the founders who have put in their own money. The really tough phase involves getting those companies across the barrier from proof of concept to an actual commercial product that is starting to generate revenue, and Scotland has led the way in that. Again, I emphasise the importance of getting spin-outs and start-ups over that hurdle.

In the next phase of development, the challenge lies, rather than in research, in scaling up and getting higher levels of investment. Again, Scotland has done well in terms of the total number of companies that have received investment, but perhaps not as well in the total average value of investments that would allow companies to grow more quickly. We have done okay in getting funding from Europe through the horizon 2020 programme and the SME instrument, but perhaps not as well as we might have done. Nevertheless, it is important that we do not lose access to those funding mechanisms, which can really help to take companies across the first risk barrier and help them to scale up.

Gordon MacDonald: We have heard evidence to suggest that the vast majority of SMEs in Scotland are very small, and that we are missing a middle section of medium-sized companies. Is that part of the reason why we are having the difficulties that you describe? You mentioned that your company was taken over by a Japanese company. Was that because future financial investment was required?

Dr Bunton: Yes—it was a means for us to achieve the level of investment that we needed, and the Japanese company has been as good as its word. It is important that we get that sort of long-term investment from companies, because we do not want the resource base to move into a different market and the scale-up to happen elsewhere. We need to select which type of investors we attract.

We also need to try to make the ecosystem attractive, which is an aspect that has been emphasised in precision medicine. In attracting inward investment, the main draw is the company and the opportunity that it represents, but we also need to emphasise the supporting ecosystem, which includes the universities, the national health service and the skilled pool of talent in Scotland. As I said, we need to pull all those things together as a selling point.

Gordon MacDonald: My last question relates to Brexit. A couple of you mentioned that Brexit presents a difficulty in terms of access to finance. I am also thinking of research and development, in which a lot of collaboration goes on across Europe, and which requires access to skilled labour. Can you say a wee bit about the difficulties that your sector will face in that regard over the next 10 years?

Claire Mack: We recently looked into that. In the renewables sector, a number of the relatively large companies that operate alongside the small companies are internationally owned, so by their very nature they operate globally. We do not use high-volume, low-skilled labour in the same way as the food and drink industry does, and there is no seasonal element to our business, so that aspect is not such a worry for us. However, we are very concerned about the impact of a reduction in freedom of movement on high-skill to mid-skill collaboration-type roles.

If we wanted to develop subsidy-free projects in the global market, any tariffs or trade barriers that came in as a result of Brexit would be very difficult for us. However, the renewables industry, and energy as a whole, presents a bit of a Brexit bridge for Scotland. We have to collaborate because that is now the way in which our energy system operates, so we have the opportunity, as a result of Brexit, to maintain our current links and to use our energy system as a way of building bridges outside Scotland.

The Convener: Gillian Martin has a follow-up question. Dr Harbison and Dr Bunton might also want to say something in response to Gordon MacDonald's last question.

Gillian Martin (Aberdeenshire East) (SNP): Gordon MacDonald has spoken about some of the issues that could affect whether or not your industry reaches its potential. You have referred to other countries, including Japan. Are other countries doing anything that we in Scotland could adopt to solve some of the issues that you have experienced in relation to reaching your potential?

Dr Harbison: In the field of life sciences, regenerative medicine and precision medicine, one of Scotland's real assets lies in our electronic health records and patient data. I have heard people say that that is Scotland's new oil—that is the phrase that is used more often than not—and it is a fantastic asset. The challenge is that we are not building our system from scratch. We are starting to think about how we can use our data productively to benefit patients and Scotland's economy. Countries such as Estonia and Qatar, which do not have a national health system, have started from scratch, so they have been able to build a system that works very well and that can be interrogated and integrated quite easily. Our challenge is that our system has grown organically, and it is therefore a bit less structured and ordered. That is where I see a real opportunity. We have a huge wealth of data that we could use in a lot of different ways—in the academic and clinical communities, in SMEs and in the pharmaceutical industry—to improve Scotland's health and economy. We need to think about how we restructure the system to make data easily accessible and—more importantly—to do so ethically. Countries such as Finland and Estonia have managed to build helpful infrastructure, purely and simply because they are starting from scratch. That makes a big difference—it is less difficult than trying to morph a system into something different with a huge legacy of existing data.

On R and D and collaboration, we have world-leading universities in Scotland, and we want to ensure that the best and brightest people come to work and do their research in Scotland. At the University of Glasgow, we were fortunate enough to encourage Professor Andrew Biankin to come from Sydney to work at the Wolfson Wohl cancer research centre up at the Garscube estate. He works in the area of pancreatic cancer, in which there is huge unmet medical need. We worked with him on a project. He has managed to attract £10 million of Cancer Research UK funding for his lab, and he is now doing precision medicine clinical trials for pancreatic cancer, which is a fantastic achievement for Scotland. We need more of those people to come to Scotland and do their groundbreaking research here.

However, we need not only the heavy hitters and the professors, but the graduate research students and the people who may want to do PhDs and post-doctoral study here. We need to ensure that we have an environment that encourages them to come over to work in Scotland. Our innovation centre will then have an opportunity to collaborate with some of the best and brightest people in the university sector and enable them to work with people like David Bunton. We should be reducing the barriers to entry for researchers so that they can work on precision medicine projects. People in Scotland who are working in precision medicine may not be aware that that is what they are doing. We need to find those companies, work and collaborate with them, and help them to grow to become companies of size and scale. As David Bunton said, we have in Scotland an issue with companies remaining quite small and niche, and we need to think about how we enable them to scale up. We need work to take place with fantastic academics and with the innovation centres, which need to be properly funded so that they can seed risky projects that the SME community does not necessarily have the funds to pursue.

Gillian Martin: So we need to be less risk averse.

Dr Harbison: Yes, I think so. We have to be bold. The opportunities are there, certainly in my sector. As a country, we have all the components to enable us to be a world leader in precision medicine, but we are not the only one. Finland—I keep going on about Finland because it is comparable to Scotland in population size—has been incredibly successful in attracting funding to do population-based sequencing studies. Just before Christmas, €60 million went into Finland to enable it to sequence 500,000 Finnish people. The Finnish innovation centre gave €20 million to that project, and six or seven pharmaceutical companies, including Pfizer and AstraZeneca—big blue-chip companies—are working with the researchers to help them to exploit their expertise in that area. Why have those companies not come to Scotland? Why are we not doing that? We could do it.

Gillian Martin: What about the renewables sector? I am interested to hear whether you have any examples that might help to solve your route-to-market issues.

Claire Mack: There are different set-ups in different countries. We hear from our members that other European countries, despite being in the EU and subject to the same state-aid structure as Scotland, have been allowed to invest in infrastructure such as ports and harbours, which has facilitated their competitiveness.

There is another interesting area. In the past couple of years, I have had the benefit of going to Switzerland to see the work that it does on skills. Its skills system is very different to ours, in that it is heavily dominated by apprenticeships rather than by the graduate route. The links between industry and academia are very close, so industry sets the standard for vocational courses, which certainly seems to power up the Swiss economy. I know that we are seeking to change our approach in Scotland, but a faster drive towards our objectives in that area would be good.

In countries such as France, which is the key area, and Canada, a lot of weight is being thrown behind wave and tidal energy. There is a lot to be gained from driving those new technologies. The wave and tidal sector has loomed large in the Scottish landscape for obvious reasons—because we have a lot of natural resources—and we are still trying to build an industry of scale in that area. We are doing really well, and we have obvious world-leading prowess in that sector, particularly off Orkney. A key aspect of the renewables sector is that it can reach parts of the economy that other industries potentially cannot reach, and we need to recognise that we can use it to help to create the kind of economy that we are looking for in Scotland.

Gillian Martin: Do you feel that enough is being done to encourage people who have transferable skills in oil and gas, for example, to move over to renewables?

Claire Mack: That is a critical point, and I am glad that you have touched on it. It would be good for us to work with the enterprise agencies to ensure that we make the best use of the transferable skills that exist in Scotland in areas such as oil and gas, floating offshore wind and wave and tidal energy. It would be helpful for us to capitalise on what we already have—it would give us a competitive advantage and would help us in working on the cost reduction cycle that we are currently looking at.

John Mason (Glasgow Shettleston) (SNP): Until now, we have been looking mainly at sectors. Can you give us examples within your sectors of companies that have done better, or—conversely—companies that have done worse? What is it about those companies that makes them different? I know that Dr Bunton is the head of a company, which might make it more difficult for him to answer the question. If you want to tell me that everyone in the sector is doing equally well, I am happy to hear that.

10:00

Dr Bunton: Certain companies in Scotland have done extremely well and have led the way in global terms. BioOutsource is a rapidly growing pharmaceutical services company. Interestingly, there are three or four companies, including Vitrology and Bio Reliance, which test the safety of manufactured pharmaceuticals. Scotland has built up a reputation in that respect; it is known not only for the quality of its work, but for the assurance that it offers customers that they will receive good service and a highly regulated and carefully delivered approach. Those softer elements have played a big part in building the reputation of the whole sector.

John Mason: Were those companies just lucky in choosing that sector?

Dr Bunton: No, absolutely not. Their success has been ensured by some very good science, which originally came out of the universities, and which has underpinned regulatory development. The science has led the way on what sort of regulations should be used to test the safety of certain manufactured products. There has been real success on the back of very good business skills and commercialisation from companies such as Bio Reliance and Q-One Biotech Group, which have built up that area. The people from those companies have recycled their work into new businesses, which they have scaled up—they have done the same again.

John Mason: You mentioned skills and universities, which I guess are linked. Is it key for a successful company to have very close links with a university?

Dr Bunton: It is key as a starting point, but the scale of those companies' success has been built on commercial skills, which we want to see in other clusters. There is perhaps not enough focus on developing good commercial skills among our scientists in addition to good science skills. There are not many focused commercial business people around, which may relate to our reticence in Scotland to see sales and business development as a vocation and a real career. The companies that I mentioned have excelled in that area, and they have sold Scotland as a place of excellence. They have gone on to employ hundreds of people in Europe, and they are carrying out approximately 40 per cent of the biopharmaceutical testing across the continent. The science from the universities is important for sure, but companies also need the right commercial skills to grow their business.

John Mason: Is that your view, Dr Harbison?

Dr Harbison: I agree with David Bunton. Scotland's contract research organisation and pharma services industry is world renowned. When I worked at Pfizer, we worked with many companies that were based in Scotland. It is definitely an area of strength for us.

We also need to think about other exciting areas of research, such as therapeutics and new medicines. There are a lot of interesting SMEs in Scotland that are working on particular diseases. Caldan Therapeutics is working on fibrosis, and Mironid is working on inflammation. Those are small companies, and we need to think about how we grow them to become companies of size and scale. What kind of investment can we give them to enable them to grow? We have had successes in that area, such as IOmet Pharma, which was acquired by Merck, and NuCana, which works in oncology and which had one of the largest initial public offerings, but they are few and far between.

John Mason: What has been their secret?

Dr Harbison: They are fantastic. IOmet Pharma was working in immuno-oncology, which is a very hot area of science—the whole pharmaceutical industry is keen to develop interesting products in that field. The company was in the right place at the right time when another company was looking to acquire some assets. NuCana had developed a very interesting way of treating cancer, and it simply had a compelling story and a belief that that was the right way to go. For other companies, it is critical that they get the next level of investment. We need to look at how we grow those businesses to become companies of size and scale. That is the challenge.

John Mason: Does that normally involve selling the company to a Japanese, Chinese or American company?

Dr Harbison: Not necessarily, although that is what happened with IOmet Pharma, which was bought by Merck, and with David Bunton's company ReproCELL Europe. In other cases, the idea starts in Scotland and goes to America, where it is commercialised.

It is important that skills are recycled through our ecosystem. As David Bunton said, that does not happen as much as it should do. There is still a fear of failure, and people have the idea that it is a bad thing to fail. In America, failure is not seen as a bad thing. If you build a start-up and it fails, you start the next one; the failure is not hung round your neck like a millstone. You learn from what happened before, and you do not do the same again—you think about how you can build on those failures. My background is in business development, and I agree with David Bunton that the ability to go out and commercialise early-stage research, or research from SMEs, is vitally important. We are lacking in people who understand the science and also have the business acumen to go out and commercialise those opportunities. That is hugely important.

John Mason: Is that an issue in the renewables sector too?

Claire Mack: Yes.

John Mason: Do the people with the science have good commercial skills?

Claire Mack: The revenue stabilisation mechanism and the subsidy system that I talked about earlier have been good for our industry, because they have created a strong environment for further private investment, so that is first and foremost the important aspect. However, I agree with Diane Harbison's points about the fear of failure. Scotland has two world-leading companies in the tidal sector—MeyGen and Scotrenewables Tidal Power—which have both come through the process of innovation and failure, and they are learning from those mistakes and going forward. The plan for moving the marine sector forward is based on the ability to enhance and accelerate all that learning and use it to drive cost reductions.

There are two key factors that have supported different technologies in my industry: the ability to be innovative and take on innovation, and the ability to be international and think about international markets. We are using renewables in Scotland to solve a global issue—our work is about combating climate change—so we need to be open, and we have to reach out to international markets and diversify. Another company that comes to mind is Windhoist, which is based in Ayrshire. It has operations in pretty much every European country and two bases in Africa. Its ambition is not constrained by its location in Scotland—it is very much open to the world.

John Mason: Is that simply up to the individual company and the individuals who are involved, or can Scottish Enterprise, or we in the public sector, do anything to help in that regard?

Claire Mack: Yes, you can—absolutely. The renewables industry has had strong support from Scottish Enterprise and Highlands and Islands Enterprise, given that it was identified as a growth sector. I think that we have taken the right approach, given our abundant natural resources. Scotland has 25 per cent of Europe's wind power, 25 per cent of its tidal resource and 10 per cent of its wave resource. As I said, there is an on-going debate among our members regarding the investments that other countries make in supporting infrastructure—ports and harbours, for example—which could potentially be helpful in Scotland. We are keen to work with the agencies to try to smooth out some of the work for the supply chain. We share the supply chain with oil and gas in a number of areas, and the ability to do a bit of planning in that respect would stand us in pretty good stead.

Andy Wightman (Lothian) (Green): In recent years we have heard quite a lot about automation, on which there are mixed messages. What is your view on automation? Can it be harnessed to improve Scotland's economic performance or does it pose challenges?

Claire Mack: I will go first, because the other witnesses will probably have a lot more to say about automation and change. Renewables is a relatively modern industry and we have been relatively well penetrated in the field of automation and systems-type stuff. By that, I mean that we are able to change the optimisation of wind farms, for example. There are exciting things happening in Scotland in that area.

I had the pleasure of going down to Castle Douglas to see Natural Power's new smart operation centre, which is all about trying to optimise yield from wind farms and ensure that we get the best designs, and that kind of automation is ever present in our industry. Wind farms are operated from a distance and have been for quite some time, and we can get a lot of great productivity gains from being a bit smarter in that regard. For example, we can get people off site and check their work tickets against databases rather than having to undertake the process on paper. That kind of development is really exciting.

The renewables sector is more a disruptive force than disrupted, so we do not face the same issues in terms of changing out technology and people. The big impact in the energy sector will be more at the consumer end. As I said, we have a great opportunity in Scotland to be very good at building new smart energy networks and localised energy networks. People are taking a much more active interest in their energy use and energy efficiency, and consumers can use the data that we present to them to make good choices, which will also allow us to make choices about where and how we generate energy in the future.

Dr Bunton: High-value manufacturing is another key part of the life sciences sector in Scotland. GSK is a long-standing major employer here, and start-ups and spin-outs have taken manufacturing processes to market.

There are certainly opportunities for us to automate and lead the way. There is increasing automation in digital health, and I am sure that Diane Harbison will comment on that in relation to precision medicine. Automation is taking place in laboratory processes, and some of the more routine laboratory tests have become commodities.

However, the area in which we can stand apart from the rest of the market is the application and analysis of data to make a real impact on patient health and to add value to companies. The combination of the added value that new automation processes bring and our talent pool in Scotland is important, and we need to ensure that there is a link between those two elements.

Dr Harbison: As David Bunton said, the life sciences sector has long been familiar with automation. Many of the pharmaceutical services companies that we mentioned earlier are using robotics to operate high-throughput screens so that they can screen loads of compounds quickly and efficiently.

Automation is nothing new in life sciences; it has been happening for years. The interesting opportunities lie in artificial intelligence and data. As I said, we have a huge amount of data in Scotland. We need to mine it in order to find interesting details that could have an impact on patients' health, and there is a real opportunity to use AI to do that. A lot of companies are springing up that are looking at the possibilities in that respect. That applies across all data, and not just health data. Some groundbreaking, innovative developments could come out of using those two technologies—automation and AI—together.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I will start by showing a bit of ignorance on my part. Dr Harbison mentioned the term "CHI". Where I come from, that is a cow, but I suspect that that is not the case in this context. Will you explain what that is?

Dr Harbison: It is the community health index number. Every child that is born in Scotland gets one, as does everybody who comes into contact with the health service. Basically, everyone has a CHI number, and when someone goes to their doctor, their prescription, their imaging data and any blood work are all associated with that number. It is hugely powerful.

Colin Beattie: Thank you. Scotland's economic strategy identifies six designated sectors: food and drink, tourism, life sciences, financial and business services, creative industries and energy. From your perspective, what is the benefit of having those sectors designated as growth areas, with policy behind them?

Dr Bunton: The benefit comes from the joined-up nature of that support, which brings a long-term commitment to those sectors. I return to my point about the time that it takes to realise the economic benefits of precision medicine, regenerative medicine and so on. I mentioned several pharmaceutical services companies that are now of scale, but it has taken a long time for that success to come from the science. Some of the science breakthroughs that were made in the 1980s and 1990s are now creating hundreds of jobs.

The identification of our sector as a growth area allows us to pick out the main areas of importance. In life sciences, they include the infrastructure and the talent pool as well as the need for investment and the right regulatory environment. That is another point that relates to Brexit: we have a very strong regulatory environment and we must protect it. If we get those things right, we can scale up companies.

10:15

Dr Harbison: I agree. Being part of an identified sector means that we can think about how best to co-ordinate our activities and focus on the areas in which we truly have world-leading expertise. We can look at how we encourage more investment in

Scotland from venture capitalists or companies that are looking to acquire interesting and innovative technologies. Being part of that strategy, and being able to take a co-ordinated approach to a particular problem, is good.

Claire Mack: The benefit for renewables is largely similar. The strategy signals a level of ambition in Scotland that is very helpful in enabling us to bring in international collaborative partners and investment, and to enhance our visibility. The growth sectors are monitored and measured, and we are able to take our place on the global stage—in renewables, the stage is global—and lay claim to what we have achieved in Scotland. It provides for a co-ordinated approach.

Colin Beattie: The word that is coming through strongly is co-ordination. Is that done by the Government or within the sector, or is there a partnership? How does that co-ordination function?

Claire Mack: Scottish Renewables is the trade body for renewables, so we do an element of co-ordination. We sit across all the sectors within renewables, so we can easily identify where the strengths and weaknesses are and where links exist. For us, the key link is that we sit very much between UK Government policy and Scottish Government policy. As I said, the revenue stabilisation mechanism is a UK Government policy, whereas our deployment and delivery are very much governed in Scotland through the planning and consenting process. In that regard, co-ordination is critical for us, and we continually focus on that area to ensure that we get it right so that we can create in Scotland the best environment in which to run a renewables business.

Colin Beattie: Does co-ordination manifest itself in similar ways across all the sectors?

Dr Bunton: It has to be a partnership. If the strategy is led only by Government with no market feedback, it may go in the wrong direction. We need a combination of investment in infrastructure and an environment in which there is support from the Scottish Investment Bank and export assistance from Scottish Development International, for example, as those are important Government interventions to support the economy. However, it is the companies that provide a barometer of where the markets are going and where the future opportunities are coming from. The partnerships have to be right.

The strengths in the universities and the NHS are great, but we should not kid ourselves that those institutions are perfect. The NHS is a unique structure and we can work with it in partnership for economic benefit and, most important, for patient health, but there are still ways in which we can improve that relationship. The health innovation partnerships have tried to address the problem of companies finding it difficult to engage with the NHS as customers. We need to go further, while still working in partnership.

In talking about economic performance, we need to recognise that the industry base is sensitive to changes in what customers want and where the market is going. Industry can work with Government, universities and the NHS to try to direct strategy in that respect.

Colin Beattie: Is the balance in the partnership between Government and the different sectors about right at this time?

Dr Bunton: Scotland has led the way with initiatives such as the Scottish Investment Bank. We have been ahead of the game in that respect, and it is important that we keep that up to provide funding for early R and D. We need to ensure that we do not fall behind on that after Brexit, because that early investment is very important. The balance between the NHS and companies has improved a lot, but it is still not perfect.

Colin Beattie: I will take a slightly different angle. Are companies in your sectors confident and supported enough to sell more goods to both the internal market and, importantly, the international market? Do they have the confidence to get out there and expand?

Dr Harbison: I think so. Companies get support from organisations such as SDI to go to meetings. In the sector in which David Bunton and I work, and for SMEs in other parts of the Scottish ecosystem, conferences are essentially partnering meetings. Going to a conference is almost like speed dating with a potential customer. If a company goes to Boston or San Diego or an area of life sciences expertise anywhere in the world, SDI can help it to facilitate meetings. Often, it has office space in the cities where people can hot desk and hold meetings that may enable them to meet potential new customers. The work that SDI does in that respect is very helpful.

The Convener: We have been joined by Gareth Wynn. I wonder whether he has any comments in response to Colin Beattie's question.

Gareth Wynn (Oil & Gas UK): First, I am really sorry to be so late. There was big confusion on my part about the start time, so apologies for that.

I will respond to Colin Beattie's question. In the oil and gas sector, the home market and the export market are linked. In order to create a really strong platform for exports—our industry already exports overseas some £12 billion of goods and services a year—we need a strong base in Scotland that allows us to develop expertise and know-how so that we can export it to other parts of the world where it might be useful. The skills that we have in Scotland are very exportable to offshore basins in Brazil, Indonesia and other countries. That is a key part of the sector deal that we have just proposed to the UK Government, which will enable us to build on that knowledge and create centres of excellence in Scotland to develop that area a bit further.

Colin Beattie: I have a final question. Do companies in your respective sectors consider boosting exports to be important, or is it a secondary consideration behind their aim to expand their businesses domestically?

Claire Mack: In the renewables sector, one of the key constraints around export, which essentially involves putting electrons somewhere else, is the need for grid modernisation and for the correct interconnectors to be in place to enable us to export some of our resource. Everybody is well versed in the fact that the wind industry is often constrained because the grid cannot cope with what it can generate, and that is a key issue for us. A lot of modernisation programmes and projects are going on through the Office of Gas and Electricity Markets and National Grid, and we can also think about options in relation to the islands and their potential capacity to export northwards.

Gareth Wynn: It is a similar story in the oil and gas sector. There are two ways in which we can secure a longer-term future for the companies that are currently operating only or mainly in oil and gas. The first involves diversification into other energy sources—in that respect, our sector overlaps with the renewables sector—and the second is about geographies. The companies that operate the supply chain in the oil and gas sector have a big part to play.

The Convener: We will move on to questions from Kezia Dugdale, as I am conscious of the time.

Kezia Dugdale (Lothian) (Lab): In listening to the remarks this morning, we have heard references to the need to maintain high standards in regulatory regimes across Europe, and the witnesses have talked about the importance of maintaining free movement of labour across Europe and tariff-free and barrier-free access to Europe. In general, we have heard about the importance of collaboration across nations. Can you spell out to us in the clearest terms possible how big a deal Brexit is and what the consequences will be if, in leaving the European Union, we either stay in or leave the single market?

Dr Harbison: The area that we work in is global, so the impact of Brexit will possibly be slightly less for us than for other industries. Pharmaceutical companies will go and work with the best people, irrespective of where they are in the world. David Bunton highlighted some of the concerns about the regulatory approval system and what its impact might be. There may also be an impact on our ability to recruit the right talent. We talked earlier about the exciting and innovative research that is being done in universities because people have come to Scotland. It would be a concern if we could not attract the right talent here, especially in areas where there is a big lack of skills. Information technology is one such area—there is a real lack of data scientists and bio-informaticians. We are doing a lot in the innovation centres, and in the data lab in particular, to ensure that we have the skills to work in that space. If we were unable to attract those people to Scotland, that would be an issue.

Gareth Wynn: The situation is a little bit similar in the oil and gas sector. The issue for us is not so much whether we are in or out of the customs union, but what the customs processes are. I will paint a picture for you. Imagine that a critical pump on a platform in the North Sea has failed, for whatever reason. At least one of our operators currently relies on pumps that are manufactured in Italy, and a new pump will be shipped post-haste directly from Italy. That process needs to be quick and smooth; tariffs are not as much of an issue as customs barriers. That is not to say that tariffs do not matter—of course they do. In an industry that has fought so hard to bring down its costs since the downturn of 2014, any additional costs would be an issue. If we ended up trading on World Trade Organization terms, the cost of operating our industry would more or less double. That is obviously a worst-case scenario—I hope that it will not come to that—but it gives an idea of the scale of the issue.

Claire Mack: The picture in the renewables industry is similar, in that the impact of Brexit is probably slightly less than it might be in other areas. The drive in renewables is very much around cost reduction, as Gareth Wynn described in relation to oil and gas, so anything that would impact that process would be an issue. The landscape is changing. The whole of the energy system is facing increasing pressures on costs across all elements of projects, so we need to ensure that Scotland is the best and most competitive place in which to establish a renewable energy project. That is our key aim.

Kezia Dugdale: You mentioned skills. I invite you to consider the role of the enterprise and skills agencies and the work that they are doing just now. Do you consider the landscape to be cluttered? How would you evaluate the quality of the advice and support that you may or may not have received from the agencies?

Claire Mack: I am very interested in all the work that has been happening as part of the enterprise and skills review to change the skills set-up. I have mentioned my experience of apprenticeships in Switzerland, and we in Scotland are already moving down that road. Scottish Renewables would very much welcome tighter working around the more place-based economic development plans, in which the renewables industry can really come into its own. We have seen such developments over the past couple of years—for example, in remote islands wind. The cost of that energy will obviously be much higher as a result of the grid and connection charges, but there are socioeconomic aspects that will drive strong positive outcomes for areas of Scotland that would not ordinarily be attractive to broader industry groups. We are keen not only on working with the enterprise agencies in that area, but—as Gareth Wynn mentioned—on transferring skills from the oil and gas sector and smoothing the supply chain for both our industries.

Gareth Wynn: I agree with most of that. There are around 300,000 people working directly in the oil and gas industry across the UK, and more or less half of them are in Scotland. The big challenge for us, as for most technical industries, is how we get more well-qualified engineers and people with technical competency—whether those are apprentices or graduates—to replace people in the ageing workforce who are starting to reach the end of their working life. Anything that we can do on that front would be good—

Kezia Dugdale: Are we doing anything on that front? My question was about the quality of the support that you receive.

Gareth Wynn: Yes—there is a lot of good support out there. You could perhaps help us with one particular issue, which is the way in which the apprenticeship levy is rolled out, at least in the oil and gas sector. In Scotland, the institutions that provide the training and qualifications that people receive through the apprenticeship system are not those that are most useful to our members. For that reason, our members are telling us that, while they are not unhappy about paying the apprenticeship levy, they are a bit unhappy about the fact that some of the places from which they would like to take their trainees do not qualify under the scheme, and they therefore cannot draw down effectively—in Scotland, at least—on the benefits of the levy.

Dr Bunton: With regard to skills development in life sciences, we found that, having set up a US subsidiary, it was much easier to recruit good scientists. That is partly to do with the combination of academic and practical skills. I have heard a couple of concerning statements from graduates that we have recruited about the extent to which practical skills are being replaced by computer simulation and so on. That is a note of concern rather than a huge worry, but it is important that we maintain quality. In Scotland, we punch above our weight with regard to life scientists, and the practical element is important for our undergraduates.

10:30

Dr Harbison: I agree. As David Bunton said, we have strong research-intensive universities in Scotland that produce highly skilled graduates. For me, there are concerns around data scientists and informatics. We need to ensure that we have the skills to make the most of AI and other new technologies. As I said earlier, we need to recruit scientists with business acumen or project managers. Graduates need to think much more widely about what they can do with a science degree; it does not necessarily mean that they have to be at the bench, working in the lab. David Bunton and I both started off in the lab, but neither of us is there now. We need graduates who come out of university with an ambition to do something different—they do not necessarily have to work in a lab.

Kezia Dugdale: What needs to change to make that happen? In previous evidence sessions, the committee has heard that, in China, there are compulsory business elements in all undergraduate degrees. Is that the type of thing that you are looking at?

Dr Bunton: That is happening. It is also up to industry to play a part by offering that type of training. Skills Development Scotland started a CV competition, which is now a work placement competition. It has grown rapidly, and students benefit from a summer-long work placement in which they gain commercial skills. We need more companies to buy into that. The answer lies not only in intervention, but in companies offering those opportunities.

Dr Harbison: We do that. In our innovation centre and in the other centres, students have been coming in over the summer to work on projects. They are not necessarily based in the lab—my centre offered people the chance to take on a business development role to see whether that was something that they would enjoy doing. One of our recent graduates who worked with us on a project did very well and went on to work with Innovate UK.

Kezia Dugdale: With respect, my question was about what happens in universities before graduates arrive on your doorstep. Should more be done around business skills in the state element of the system?

Dr Bunton: Universities are building in some elements such as training on regulatory compliance and graduate skills development. Glasgow Caledonian University has developed graduate skills masterclasses in which students run small projects. Students have really bought into that approach, and they are attending those classes in high numbers. We could integrate those elements more into the undergraduate programme.

Jamie Halcro Johnston (Highlands and Islands) (Con): A number of the issues that I was going to ask about have been covered by colleagues, but I have a quick question. If the current education and skills structure in Scotland is not changed, will it meet your future needs and the needs of your sector?

Claire Mack: That is a difficult question; we all know the stats on the number of jobs that do not even exist yet. We are quite lucky, as our approaches are quite well blended. Again, I go back to my experience in Switzerland. I looked across the whole system, and I saw what happened in career development. It is interesting, in that context, to reflect on the points that have just been made about the graduate space. I went on a careers day for school-age children of around 14 and 15, and I was struck by their level of confidence. Those kids were expected to write their own CVs, get themselves to an interview and get through the interview. It gave them skills at a very early age, which is helpful. I know that the modern apprenticeship network in Scotland allows that to happen to some extent through the foundation apprenticeship model. The Swiss approach seemed to be a really good way to equip young people well for the world of work.

In general, we need to focus more widely on preparing our young people for the kind of world that they are going to enter. In the renewables industry, they will be working in a much more international world; it is the same with the oil industry. There is an adage that, no matter where you work in oil around the world, you will hear a Scottish accent, and we want the same for renewables. Young people need to recognise that their career will potentially be based around international travel, undertaking international projects and working collaboratively with people. Those skill sets are important for the future.

Jamie Halcro Johnston: How early should careers advice and business engagement with schools and colleges be happening? Are we, or businesses, currently getting involved early enough?

Gareth Wynn: In Scotland, the key moment is when young people move towards choosing their highers. That is when they start to narrow the breadth of their education and begin to lock out, if not lock in, certain options. We need to look at that if we want people to go down a more technical route. I agree with a lot of what Claire Mack said about the necessary foundations. We could redouble our efforts on STEM—science, technology, engineering and mathematics—subjects. Whether people want to go into infrastructure, engineering, oil and gas or renewables, the STEM foundation is fundamental. No matter how much we are doing, we can still do more; that is true in Scotland and across the UK.

Dean Lockhart (Mid Scotland and Fife) (Con): I want to return to the commercialisation of innovation, because it is an important part of the economic business development analysis. We have heard examples today, and in other sessions, of start-up companies and new technologies that have been established in universities, colleges or businesses in Scotland being bought by overseas investors, who have a longer-term outlook. Given that hundreds of millions of pounds are being spent by the enterprise agencies, and the new Scottish national investment bank is coming on stream, what can we do to address that gap? What can we do to keep more innovation in Scotland, and to ensure that the innovation that is developed here is owned by Scottish companies in the future? Is it largely a question of whether money—long-term patient capital—is available, or should we consider other ways to address the gap?

Claire Mack: There is an issue with patient capital—we are all quite well versed in that. There is a huge opportunity in the renewables industry for the mooted Government-owned energy company and the Scottish national investment bank to work together. That could be a powerful combination for our industry, as it could help not only in developing innovative technologies and getting them to market but in developing the scale-up space. A lot of interesting work is being done in that space at the University of Strathclyde's Hunter centre for entrepreneurship—I am watching that work closely, because the centre is doing very well.

The renewables industry provides an excellent living example of how businesses move from innovation to commercialisation, and how that knowledge can be banked and used across sectors. The so-called valley of death issue, in which businesses are afraid to become too big—I have also heard it described as a fear of heights—is not unique to my sector. We need to be genuinely able to utilise what we have. There are some big companies that stay in Scotland and manage to be the big fish around the place. We need to bring all that knowledge much more closely together, as that will stand us in good stead.

Gareth Wynn: A combination of factors are at work in this area. It is important that we maintain the long-term incentives, the political support and the national investment in initiatives such as the Oil & Gas Technology Centre. Our sector deal builds on that support by proposing the creation of centres of excellence. Beyond that, it is important to ensure that, in general, Scotland remains a good place in which to do business. We need the right personal taxation regime, and we need to make Scotland a nice place to live, because that will make people sticky. In our industry, we have a much improved fiscal environment and a good regulatory environment. If we layer in those elements as a stimulus for innovation and technology development, and maintain the attractiveness of Scotland as a place to live and work, that combination will ultimately make us stand out and stay strong.

Dr Bunton: We need more companies that are market led from the outset. Speaking from my experience in running a university spin-out, we were not focused on the right market at the start, which limited our initial growth until we went out and developed commercial skills, and looked to export.

That brings us back to the importance of the development of good commercial business skills in the ecosystem. Not all spin-outs and start-ups are going to scale up, but there are many ways to ensure that the ones that are in the right market and have the biggest opportunities can grow from there. Sometimes inward investment will be required, but that does not mean that the company is not anchored in Scotland. The anchor point can be the skills of the people, the regulatory environment or the quality of the work that is delivered. In pharmaceutical services, it is the people, whereas in the manufacturing sector, it is not only the people but the infrastructure and the long-term investment.

Inward investment can play an important part, but we need to look at ways to consolidate start-ups and spin-outs, or select the winners earlier and back them further. The Scottish Investment Bank and Scottish Enterprise look at those aspects. We need to look at the transition from early seed funding to other forms of funding such as debt finance and longer-term capital. In many cases, angel investors are pretty patient. In addition, they want to be able to recycle those funds, so an exit is not necessarily a bad thing as it allows the investment to go back into early-stage companies.

Dr Harbison: For many global biotechnology companies, acquisition is an exit strategy, and it is not necessarily a bad thing. It enables not only some of the capital to be recycled back into the community, as David Bunton said, but some of the skills and experience. The question is how we make those people stick. If someone buys a biotech company or a wee SME, how do we ensure that the skills and the knowledge that have been generated as the company has grown are retained?

Gareth Wynn: I offer one final thought on that point. Private equity investment in the oil and gas industry has, in many ways, invigorated sections of it. If someone buys a new asset, they tend to want to do something with it. In some respects, we should not worry about outside investors coming in, so long as it happens on the right basis and in a properly regulated way.

The Convener: Thank you very much—we have to leave it there. I thank all our witnesses for coming along, and I suspend the meeting briefly.

10:42

Meeting suspended.

10:50

On resuming—

The Convener: I welcome everyone to today's second session of our economic performance inquiry. We have a new panel of witnesses, for the most part. I welcome Willie Macleod, who is the executive director for Scotland at UKHospitality; Malcolm Roughead, who is the chief executive officer of VisitScotland; Ewan MacDonald-Russell, who Is the head of policy and external affairs at the Scottish Retail Consortium; Marc Crothall, who is the chief executive officer of the Scottish Tourism Alliance; and James Withers, who is the chief executive of Scotland Food & Drink.

I also welcome back Gareth Wynn. Due to an administrative mix-up, he attended only part of the previous session, so he will join this panel, although he will perhaps not answer some of the questions that we covered with him earlier.

I start with a fairly general question. In your view, how has the Scottish economy performed over the past 10 years, both in general and in your specific area or sector? Who would like to go first?

Ewan MacDonald-Russell (Scottish Retail Consortium): I am happy to volunteer. The retail industry has a locus in economic performance through our interest in consumers. Pretty much everybody in Scotland is a consumer of the retail industry, and we are one of the largest private enterprises. We have 240,000 workers, and stores in pretty much every community, and—according to the most recent Scottish annual business statistics—we have a retail turnover of about £25 billion.

We track performance through our own Scottish retail sales monitor, and the Scottish Government produces the retail sales index. With regard to performance in recent years, both those sets of figures tell pretty much the same story. From 1999 to 2008, year-on-year sales growth was about 5.9 per cent in Scotland; it was slightly lower in the UK. There was a definite change in 2008—since then, sales growth has remained at 0.5 per cent each year, which is about a quarter of the UK rate. That has been driven by the factors that we would expect to see following the financial crisis, such as nervous consumers and a downturn in economic growth; gross domestic product broadly tracks the impact of consumer confidence and consumer spend. At the same time, the retail industry has gone through an enormous process of change. The past five years have altered pretty much every facet of our industry, as digital has risen and technology and automation have taken hold. There have also been a number of significant public policy interventions. It is an interesting time, but it is also quite challenging.

James Withers (Scotland Food & Drink): For the food and drink sector, the past decade has been a success story. Back in 2007, the sector was static in growth terms and was worth about £10 billion; it had been worth roughly the same amount for the previous five years. A new growth strategy was put in place, and food and drink has become Scotland's fastest-growing export sector and one of the best-performing domestic sectors. Interestingly, some of the factors that have driven that success have been outwith our control. For example, when the exchange rate has worked in our favour, food price inflation is one factor that has driven our turnover growth.

There are quite a few areas in which Scotland has acted a little differently from other parts of the UK—and, in fact, from the rest of the world. I will give one example. Between 2008 and 2015, the food manufacturing industry in England grew by about 13 or 14 per cent, whereas in Scotland, the growth was almost double that figure. We have been growing at approximately twice the pace of the rest of the UK. The growth of the sector has been a real success, and there are several reasons for it, which we will no doubt get into later in the discussion. Overall, the sector is in a growth phase, and we think that some of the real opportunities still lie ahead.

The Convener: I should have said at the outset that you should not feel that you each have to answer every question. If you want to come in, please indicate by raising your hand; the sound system will be operated independently.

Willie Macleod (UKHospitality): I will make a few observations on the hospitality industry and the licensed sector. We are a major component of the tourism industry—we deliver services not only to visitors in Scotland but to our resident population for leisure and business purposes. We do that all the time.

The most recent figures show that the wider hospitality industry employs just over 300,000 people in Scotland and contributes just over £6 billion to the economy in gross value added. Those figures show that there has been significant growth since we produced figures back in 2010. Our industry is growing and is fairly buoyant. It is supported very much by tourism, and by the resident population who are going about their daily business by eating out and drinking away from home, and by looking for entertainment and accommodation for short breaks.

Gareth Wynn: The oil and gas industry in Scotland has had a tough time since 2014, when the oil price collapsed. However, it still employs more or less 150,000 people, and in 2016-17 it still contributed a little over £200 million to the Scottish exchequer. We are currently expecting a better year, and the UK Government's Office for Budget Responsibility recently announced around £1 billion of production tax revenues in the coming year and for the next five years. The majority of our members are now saying that they are going to hire more people this year, so we have—we hope—seen the worst of the reductions in the numbers of people.

Marc Crothall (Scottish Tourism Alliance): On the tourism front—to pick up from where Willie Macleod left off—we have seen really good growth since 2010, certainly in the past couple of years. There has been growth not only in the volume of visitors and in spend—especially in international spend, both this year and in the past—but in the number of enterprises that have started up. There are now just over 14,000 companies in the tourism sector, so there is clearly an appetite. In 2012, we launched our national tourism strategy as an industry-led collaboration, and it has stimulated much more engagement around the tourism agenda. Our markets have changed, and there are growing markets all around the world, which is encouraging.

The Convener: Last but not least, we will hear from Malcolm Roughead.

Malcolm Roughead (VisitScotland): Over the past decade, we have seen the resilience of the tourism industry, which has come through pretty tough times not just in the UK but globally. It is now worth £11 billion in economic activity to the Scottish economy, and it makes up 5 per cent of Scottish GDP. Over the past decade, the GVA in the industry has grown by 42 per cent, which illustrates the sector's underlying strength. As Willie Macleod mentioned, there are about 300,000 jobs in the broader visitor economy, and in tourism there are 217,000 jobs that are spread over the length and breadth of the country. The industry touches every constituency in Scotland and sustains a lot of fragile communities, especially in rural areas. One great development is that the industry and the public service bodies are now working much more closely together than has been the case at any time that I can remember, certainly in the past decade.

The Convener: We come to questions from Gordon MacDonald.

Gordon MacDonald: What do you see as the key opportunities and challenges that will face your sector and the Scottish economy over the next 10 years?

Marc Crothall: Our workforce is probably the big challenge. We need a workforce to be able to service the increased volume of business. We have an ageing population and a gap, and the sector across the UK is underresourced anyway. Our sector needs certain skills more than others—for example, we need chefs, of which there is a great shortage.

11:00

As the sector has changed and evolved, language and technology skills have been key, but workforce is—without question—the number one concern that we hear from the majority of our businesses. We are looking at how we can get more people to see tourism more widely as a career of choice, and how we can address the misperception of tourism as a narrow field and of working in tourism as something that people do if they fail at school.

Malcolm Roughead: There are many opportunities. Tourism is one of the sectors that are growing worldwide, which brings with it numerous challenges such as the need to maintain our competitiveness as a destination and as an industry. We have to overcome those particular issues. In a broader sense, we need to look at skills, capacity and capability. That includes our ability to compete on a global stage with regard to technology—in our take-up of technology in the industry, Scotland is still lagging behind many other countries. Yesterday, Australia announced a new $12 million tourism bid fund for conferences and events, and we are seeing massive investment from countries such as New Zealand, the States and Canada. The global market is very competitive, and we need to be able to compete.

James Withers: We see growth as a big opportunity. Our industry is now worth £14 billion, and last year we launched a new strategy that we believe could result in the sector being worth £30 billion by 2030. We are looking to increase growth at home—we are working closely with the tourism industry to make sure that our food and drink offering is a shining light for visitors as part of Scotland's tourism potential. We need more of our companies to trade across the rest of the UK, where there is much more opportunity for growth.

In addition, there is a real transformational opportunity overseas. We can build on two aspects in that regard. The first building block is the growth of a brand and identity for Scotland—the land of food and drink, as we term it. There is a lot of on-going work in that area, with sectors working collectively to build the brand and the story, which resonates not only overseas but, increasingly, at home. Our products are not going to compete on cost—if people want cheap food, they will do better to get it from somewhere else—but we can absolutely compete on high production standards and a strong provenance story.

The second building block is collaboration. Malcolm Roughead referred to the close working relationship between the industry and the public sector on tourism, which has been a complete game changer for the food and drink sector. Ten years ago, when I worked at NFU Scotland, we pretty much worked in a silo. We did not speak much to our fishing counterparts or to the trade bodies such as the Scotch Whisky Association and the seafood and red meat organisations. These days, we work collectively to agree a single plan and, crucially for us, the Scottish Government and its agencies have swung behind that plan over the past 10 years. We need to do more to deepen that collaboration. We see huge growth opportunities for the sector as a result of working collaboratively, building on our brand and investing in skills, innovation and the supply chain.

Brexit is a short-term hurdle that we need to clear, especially given that 30 per cent of our workforce are nationals from other EU countries and 70 per cent of the food that we sell out of Scotland goes to the European Union. That is absolutely an issue that we need to tackle, but it does not take away from our underlying view that there are huge opportunities for us in the coming years.

Gareth Wynn: The oil and gas industry has an eye on a 2035 time horizon, and we have set out a vision that is built around two strands. The next 10 years are about getting us on that track properly. The first strand is maximising economic recovery, and ensuring that we make the most of the oil and gas in the North Sea and get as much of it out as we can in a cost-effective way. That will mean holding on to the cost improvements that the industry has delivered in the downturn. The second important strand is the need to develop the supply chain to provide more exportable expertise, which means helping companies to improve their margins. Many companies in the supply chain have been holding on to revenue at very slim margins, so we need to help them to boost their revenue. We think that, taking those two strands together and focusing on the 2035 time horizon, there is approximately £920 billion of additional value to be gained if we get our approach right.

Ewan MacDonald-Russell: I have a few points to make. First, if our industry grows even in line with the somewhat disappointing growth of the past few years, that growth will be worth £2.5 billion or so to the Scottish economy—it is really quite significant. Secondly, consumers already benefit, and are likely to continue to benefit, from technology and from really strong competition in the industry. For the past four and a half years, shop prices in total have fallen, which has had a huge impact on households. Thirdly, the job profile in our industry is changing: the jobs are broadly becoming better and more highly paid, but they are becoming fewer. That leads on to my point about tech, which is very much double sided, as it presents both opportunities and challenges. Technology is changing every single element of retail. My favourite stat is that 50 per cent of online shopping is now done on smartphones—people are literally shopping on the move. On one side, that gives us an opportunity to be more sustainable and efficient, but on the flipside there will be huge changes to the current profile of our industry.

In the past eight years, 16,000 Scottish jobs in the retail sector have gone and 1,800 shops have closed, and we anticipate that those trends will broadly continue. Last April, we produced a report that said that up to a fifth of Scottish stores might close. That is only twice the current rate; I do not know what the exact number will be. We will see extra growth and better jobs, but there are huge challenges in how that happens, especially as those changes are likely to be quite asymmetric. Successful and desirable retail areas with high footfall will do well, while others are likely to lose out.

Willie Macleod: I do not disagree that there are huge opportunities for growth in the tourism industry. In hospitality—the recent well-publicised difficulties of some businesses in the casual dining sector notwithstanding—we still see a massive opportunity for growth. However, as Marc Crothall pointed out, there is the potential for growth to be constrained by the labour market. We are not quite as dependent as the food and drink industry on non-UK workers. On average, the proportion of non-UK employees in the hospitality industry in Scotland is about 18 per cent, which includes a mixture of EU and non-European Economic Area employees, although the figure can be as high as 65 per cent in some city-centre hotels.

To keep those figures in proportion, I should point out that the hospitality industry employs about a quarter of a million UK citizens. However, if—as seems likely—free movement is going to end, our industry will be in pretty serious trouble. We are a labour-intensive industry, and we will continue to need people to deliver services to our customers, who look for those services seven days a week, 24 hours a day, 365 days a year. We will need to address the labour market issue. If free movement ends, we will have to look at a fairly radical review of the immigration system at UK level. The current system of tiers that range from 1 to 5 will not work for our industry, given the way in which it is structured.

Gordon MacDonald: You talked about changing the immigration system. Is there any other way that we can tackle the workforce shortage that the tourism and food and drink sectors appear to be facing? In particular, how do we tackle the skills shortage?

Willie Macleod: There are difficulties, given that we currently have such a high level of employment, or a low level of unemployment, in the UK, and the industry is taking steps to address those issues. UKHospitality has worked up a 10-year plan to set out how we can make our industry a lot more attractive than it currently is to people who are looking not necessarily for an academic career but for vocational opportunities. As an industry, we can offer entry-level and elementary jobs that allow people to move rapidly through the careers structure. However, we have to become much better at demonstrating career progression, not only to prospective employees but to parents, school teachers, careers advisers and other influencers.

You will be aware of the UK Government's industry strategy. An industry sector bid for tourism and hospitality is currently with the UK Government, and we are awaiting a decision on that. The bid includes a career-of-choice programme, on which my organisation will lead. We intend to progress with that programme even if the industry sector bid is not approved, because there will be a real constraint on our growth if we do not address the shortages in the labour market and in skills.

Marc Crothall: Those issues sit not only in the tourism sector deal at the UK level, which Willie Macleod touched on, but in our national tourism skills investment plan, which is an industry working group that is backed by Skills Development Scotland. A number of really good organisations, such as the Springboard Charity, the Prince's Trust and Hospitality Industry Trust Scotland, are working together to encourage youngsters to see working in tourism as a career of choice. We need to change the perceptions of mum and dad, but I feel that more could be done in schools, especially at primary school level, to ensure that the teaching workforce has a better understanding of what the tourism sector is about and of the careers that exist within it. A lot of the thinking in that respect is currently quite narrow. The industry will do whatever it can by going into schools—we are doing that quite a lot in the current year of young people. However, we are fighting against many other sectors, and against the perception of working in tourism as being a poor career of choice with poor pay. People are not really aware of the opportunities in the sector to accelerate quite quickly into diverse and well-paid jobs that take them round the world—that aspect needs to be highlighted, as it is not necessarily well known or understood.

James Withers: I echo much of what has been said. On the skills issue, much of the responsibility for increasing the attractiveness of the sector should sit with industry. In our sector, we have neglected that issue rather than addressing it as we should have done. We have to step up a bit more, whether that involves companies engaging with schools or running internships. The foundation apprenticeship model that Skills Development Scotland has created looks quite innovative and interesting. We are currently seeking to ensure that SDS goes well past its target for the number of foundation apprenticeships that it intends to fund in our sector this year.

Ten years ago, we would have said that there was not enough connection between food and drink and the education system and the curriculum. It would not be fair to take that view now—I have a son in primary school and a daughter in high school, and they get more food education in two weeks than I got in the 13 years when I was at school, so things are changing. However, we need to think about how we connect initiatives together. Scotland is very good at doing an awful lot of things for very laudable reasons, but those initiatives can sometimes be a bit disparate. There are already projects in place that engage with primary and secondary schools and with the college network, but they are not as well joined up as they could be. I can barely drive anywhere in my car without hearing a recruitment advert for the armed forces—a lot of investment has probably gone into recruitment and awareness raising in the food and drink sector, but the initiatives are not as well connected. That is a job that we in industry have to do, alongside the public sector.

Gordon MacDonald: I have one last question. A lot of investment is often required to boost productivity in your sectors. We have seen a growth in digital technology and internet sales in retail in particular. In your specific sector—I am thinking of the tourism, food and drink and oil and gas sectors—is there enough investment in new technology to improve sales or whatever?

James Withers: Productivity has been a real issue for our sector. The food and drink productivity figures look fantastic because they include the whisky industry, but if we strip that out, we see a more mixed picture. The level of R and D investment in our sector is lagging behind the average in the Scottish economy. It has increased, and food manufacturing productivity has risen to 71 per cent since 2007, but there is much more to be done. I will not get into the whole industry 4.0 jargon, but there is a huge amount to be done in the next phase of artificial intelligence, augmented reality, big data and robotics. We have been looking at how we can tap into the Scottish Government's investment in the institute of advanced manufacturing. We have a phenomenal track record in innovation in Scotland, but—although things are changing now—a lot of the innovation in food and drink historically happened because international companies came to Scotland and invested here. We can do much more to tap into our world-class research base in particular.

The Convener: We will move on—the rest of you may be able to come back to cover some of those points in response to the next question from John Mason.

John Mason: I realise that there are quite a lot of witnesses on the panel. So far, we have talked mainly about whole sectors—food and drink, for example. Can you each give us one example of a success story in your sector? It could be an individual business or a subsector. Are there lessons that the rest of the sector or we, as the public sector, could learn from those success stories?

11:15

Ewan MacDonald-Russell: I will definitely not pull out an individual consortium member, because I would not make it back from the next meeting in one piece. The biggest success story is the way in which multichannel retailing has developed. That is a huge example. Quite a lot of high street stores saw the digital revolution coming and, rather than hiding away, they completely revisited their model. We can look at the way two or three of the high street chains have integrated their websites and stores so that customers can order products online and collect them from, or bring them back to, a store.

A couple of stores—there is one particular example—have food businesses, and they link their high street stores and their food businesses in the same manner. They are building a synergy so that the consumer can get things at every point, which is massively efficient and effective.

People talk about the online world versus the non-online world, but the multichannel approach is an interesting element that has really challenged that view. There has been tremendous success in that area, but it has required all the inputs that we have spoken about—significant investment in tech, a change in job profiles and more training for employees. The multichannel approach is expensive to do well, but it has been really successful in some environments.

John Mason: Can small retailers copy that approach, or is it purely for big retailers?

Ewan MacDonald-Russell: The multichannel approach can definitely work at smaller scale, especially in quite specialised areas. If a company manufactures or develops a certain type of product or range of products, and it has good transport links and a good broadband connection, the approach will work well. It is probably easier for smaller businesses to do business purely online than also to sue a store, but the multichannel approach still applies.

Gareth Wynn: I, too, am probably not allowed to name a name in our sector, but the big success has been the reduction in costs, which has allowed us to get more oil out and to remain sustainable at a much lower oil price. Significant components of that success are new players coming into the market and collaboration with the supply chain. In the old world, an operator might have let a contract on a master-and-servant basis, but the way forward involves collaborating to find the best ways to deploy new technology. A lot of the big players in the North Sea are names that people had probably never heard of a few years ago.

John Mason: Has that success been patchy, or have all companies in the sector learned the lessons?

Gareth Wynn: At the start, the success was quite patchy, but the new approach is becoming the norm—it is now just the way things are done. There is broad recognition among our members of the fact that collaboration has been a good thing and that it has helped the industry to address the significant challenge that it has faced over the past few years. In addition, it has given companies the appetite to do more, so I think that we will see more collaboration—not least because some of the new players are private equity investors that actually need the supply chain. They outsource much of the operation of the rigs and the production to service companies, and they rely on proper collaboration to do the job well.

Marc Crothall: I will follow the same approach as the other witnesses—rather than name an individual business, I will focus on a destination. The word "collaboration" has come up. The Argyll and the Isles Tourism Co-operative Ltd is a good example of that. The co-operative has created its own strategy around the national strategy, and by drawing on leadership and working together, and with investment and support from Highlands and Islands Enterprise and its project managers in the area, the destination has really punched above its weight. The co-operative has embedded tourism and produced some great marketing plans, and there is a real sense that, even though there are challenges around technology and connectivity, it is delivering a much higher-quality product. There is also a real sense of ownership. That is a stand-out example.

John Mason: Who has made that happen? Was it Argyll and Bute Council or HIE?

Marc Crothall: There has been collaboration involving everyone. It comes back to Malcolm Roughead's earlier point; we have never before had the right partnerships between the agencies and the industry. That said, the success of the approach comes down to strong volunteers and individual leaders from industry at destination level who are prepared to give up their time to lead. If they know that they have support from, and partnership with, the agencies, they are happy to take on that role. However, those individuals can make only so much time available, so we need the next leadership group to come through the pipeline. We are seeing the same evolution in the Outer Hebrides, and some great work is being done in the cities—

John Mason: I had better keep you to one example, because of the time.

Marc Crothall: I will stick with Argyll as the stand-out example.

John Mason: That is great. Thank you.

Malcolm Roughead: This is probably not so well known, but what we have been doing across tourism over the past 10 or 15 years is at the cutting edge of technology. That has generated a whole lot of benefits for small businesses, as well as for the larger businesses. The technology generates data, and people can use the data for evidence-based decision making and to increase the return on their investment. For infrastructure development, we can overlay supply and demand in order to make strategic decisions on where to place public resources.

As was mentioned in the discussion with the previous panel, artificial intelligence allows us to ensure that information is pushed through to users at their point of need, so that they can get the information that they want at any time.

The technology also allows people to reduce the stress inventory. There is no reason why small businesses cannot have a shop window to the world if they embrace the technology and learn how to use it.

John Mason: We have heard that people cannot book online with some accommodation providers, which is a source of disappointment. Is that changing?

Malcolm Roughead: It is changing, but slowly.

John Mason: Is there a mixed picture?

Malcolm Roughead: It is a slow process. When we embarked on the joint activity on increasing capability and capacity about three years ago, the figure for tourism businesses that would transact online was sitting at about 36 per cent. That figure is now just under 50 per cent, so there has been pretty good growth. There is a long way to go, however.

If we consider the VisitScotland referrals to small businesses, for instance, and take the number of referrals, the average transactional value for a booking and the number of nights, that comes to £700 million of opportunity for businesses. More than 50 per cent of small businesses are cutting themselves out of that.

James Withers: One of the success stories that we would point to is exports, where the principle of collaborative working is translated into a change in how we operate and work. Other small countries with which we compare ourselves and that are successful in food and drink exports—for example, Ireland and New Zealand—have had dedicated food and drink expertise on the ground in key international markets. Scotland has not had that. The SDI network is phenomenal and SDI does a phenomenal job but, historically, it has consisted of a team of generalists. They have had to be experts in food and drink, oil and gas, tourism, life sciences and financial services, which is a pretty tough ask.

We wanted dedicated food and drink specialists, so we brought the industry together and sat down for a discussion. We were pretty ruthless in prioritising key markets, and we put funding together. The industry put money on the table, and it was matched by SDI. Scottish Government ministers also put money in. We recruited a team of what has now become 11 people in 11 cities around the world, who are opening things up.

John Mason: We have heard the suggestion that exporting is patchy. Some members of the committee went to Loch Lomond Brewery, which is very much driven by exports, but I do not think that every microbrewery or small brewery is driven by exports. Is there a lesson in there? You are making some general points, but what about specifics?

James Withers: Part of our activity has been driven by our need for greater ambition in exporting. Only a minority of our 890 food and drink manufacturers are exporting, but creating a resource in the market, identifying real opportunities and getting beyond the abstract of international market opportunity and instead bringing customers from Hong Kong, Dubai and New York into Scotland to meet people in companies have helped to get more companies thinking about exporting.

Very few of the craft breweries could fill a shipping container themselves or employ an export sales manager themselves, but they now do that collaboratively—groups of brewers are working collectively. It is a great offer to go to a hotel or bar chain in the far east and offer a portfolio of products. They can be pooled from a group of small companies here and consolidated, with single invoicing and a single export sales manager working on the companies' behalf and taking the products out to market. The challenge is that that might create more demand than we can meet, which is a longer-term issue.

The Convener: We will give the last word on this point to Willie Macleod, before moving on to questions from Andy Wightman.

Willie Macleod: This is probably small in the overall scheme of things, but it is nonetheless significant. If I may, I will return to the subject of the labour market and skills.

About four years ago, a group of hotels in Scotland including the Gleneagles hotel, the Torridon hotel, Cameron House hotel—which is now suffering from fire damage, sadly—the Principal Hotel Company and the Edinburgh-based Apex Hotels set up Apprenticeship in Hospitality, Scotland.

Those companies brought an intake of youngsters straight from school who wanted to follow a vocational training route, rather than an academic route through further and higher education. They follow a structured two-year apprenticeship, in which they can move between the participating hotels. They are given groundings in housekeeping, in food and beverage and in front-of-house work. They experience back-office functions such as marketing, and the other normal administrative functions.

That has been a highly successful venture over the past four years, which the companies are determined to continue. A week ago, I went to an event in Glasgow at which there was a handover from one group of apprentices to another, and I was very impressed by the confidence, the calibre and the capability of those youngsters, and by the fact that they see opportunity in our industry. That programme is a massive success story.

Andy Wightman: Could you say a little more about the tourism economy—particularly, the disruptive technologies such as Airbnb. What opportunities or challenges do they present? How do we deal with the fact that the impact of such tourism is, for which there is evidence, costing Scotland? One thinks of last summer on Skye: there is pretty good evidence that the infrastructure there is not capable of supporting the high-quality tourism offer that I am sure Scotland would like to provide. How do we plan better for investment? How can we deal with or take advantage of disruptive technologies?

Willie Macleod: Whether or not they are "disruptive" technologies is a matter of opinion, but I will pick two examples of what our industry has experienced over recent years. There are the online travel agents that we all increasingly use to book our holidays and hotel accommodation, whether we are travelling for leisure or for business purposes. In some respects we have a grudging partnership, but if one looks at it more objectively, there is a symbiotic relationship between hotel operators and online travel agents. Ten years ago we were probably not using them to any material extent; now we are very dependent on them.

There have been issues, but we are able to sell a great deal of inventory through those third-party sites. Correctly, they take a commission for delivering that service and delivering customers to us. Among the main problems that we have had—although it is decreasing—is that online travel agents have rate-parity clauses in their agreements with hotel companies, which means in effect that we cannot sell a room at a lower rate than the rate at which we offer it on the third-party site. The restrictions have eased quite considerably through negotiations between the larger hotel companies and the third-party sites that they use, and because of greater interest from competition authorities regarding the fairness of the contracts.

I was at a meeting with the Competition and Markets Authority in Edinburgh a couple of weeks ago. It is probably less concerned about the competitive issues between the businesses that are doing business that way than it is about ensuring that the online travel agents are dealing fairly with consumers by being absolutely transparent in how they offer products to them.

That is one major disruptor that our industry has dealt with, but it has had the side effect of making our businesses a lot sharper with their own booking engines, property management systems and websites to drive traffic directly to their own booking engines so that they are not paying commission. That has led to a lot of investment in new technology.

11:30

I will turn briefly to Airbnb and home-sharing sites. "Airbnb" is rapidly becoming the generic term for home sharing; other products and services are available. The industry is not unduly concerned about the competition that it offers; it is a new offer of accommodation—although that type of accommodation has always been available informally through informal bed and breakfast arrangements and flats being let during the festival in Edinburgh, for example.

We perceive that technology, innovation and entrepreneurialism are moving faster than the regulatory regime can move. Our view is that home sharing is probably not as well regulated or transparent as it could be. Perhaps the planning regime needs a bit of an overhaul in terms of use classification in order to level the playing field.

Malcolm Roughead: There are two issues there. One is about embracing technology and utilising it for the greater good. On the particular issue that has been raised, we can consider the examples of Amsterdam and Barcelona, where people have worked with the protagonists and come to a conclusion that is beneficial to the overall industry and has relieved some of the issues.

Andy Wightman also referred to over-tourism. We are not in the situation of somewhere such as Venice. In many ways, place can be victims of success. We have pinch points at certain times. Andy Wightman referred to Skye: we note the situation with the Fairy Pools and parking—albeit that the community, the local authority and Highlands and Islands Enterprise came up with a solution for that.

The north coast 500 is another great success. On the back of that industry-led initiative, communities are getting together to consider how to improve the infrastructure. It is sometimes easy to plan ahead, but we can be taken by surprise at just how fast things change—because that is the viral nature of the world that we live in—and how quickly success can come. For me, the point is to use the available data to plan ahead and invest as much as possible before things happen, and to act quickly and in an agile way when they do happen because, as sure as eggs are eggs, you will never get it 100 per cent right.

Marc Crothall: In the changing world of the traveller, there is much more experiential travel now, with people wanting to live or behave like a local, which has created the phenomenon of more people choosing to stay in self-catering accommodation.

On the domestic front, in the UK market, many households are a bit more challenged with their budgets and are opting for self-catering and doing their own thing. As far as managing that is concerned, Malcolm Roughead is absolutely right: when we get technology on the ground and we are able to communicate better and spread people around, that will eliminate some of the pressure points that we have experienced. It is a matter of getting people to see more of Scotland.

I was in Skye last week speaking at the destination conference there. A lot of really good work is being done by the industry organisation Skye Connect, together with Highlands and Islands Enterprise and VisitScotland, to deal with some of the lessons that people had to take on board last summer. We are a victim of our own success.

Cruise tourism is another area to consider. We have a huge volume of people coming ashore from cruise ships—possibly 1 million people this summer, if we include crew members. How do we ensure that that volume of people coming into our ports and harbours get a quality experience as they move around the various destinations where they disembark?

Andy Wightman: I will leave it there.

Colin Beattie: Scotland's economic strategy identifies six key growth sectors, which include the sectors that you all represent. From your perspective, how useful is it to have those designated growth sectors and the growth sector policy around them? How has that benefited you?

James Withers: Our view on the advantage of being identified as a growth sector is influenced by the fact that we have been identified as such a sector. I imagine that there are people in many sectors who would say that their sector should be a growth sector, but they are not included.

We examined the UK Government's industrial strategy when it first came out. The UK Government picked what sectors it saw as winners, such as the aviation and automotive sectors, but food and drink was not included. We felt that it was an oversight that we were not included as a growth sector.

In 2007, we got a clear steer from the Government and the enterprise agencies that our growth was static. The size of the prize was not clear, so the Government was going to back other horses unless we as an industry could get together, collaborate more and be clear about what the opportunities and priorities were. The biggest advantage of that was that it kicked our sector up the backside, to be honest, which meant that we worked much more collaboratively and closely and considered the long-term opportunities much more, rather than concentrating on some of our short-term challenges. In hindsight, that initial process of identifying growth sectors was a huge catalyst for our going on to work collectively.

We now have a real focus. My thoughts about the next phase of the process and of Scotland's economic opportunities are much more about how sectors work collectively and how we can build Scotland's business proposition and brand. Our future in food and drink is completely interlinked with the future of tourism. One in every five pounds that tourists spend when they visit Scotland is spent on food and drink. We want to sell products to exactly the same markets that we want to attract visitors from.

For the next phase, we should think about how we can get our key sectors to collaborate and work more closely. The process of identifying growth sectors was a huge catalyst for action for our industry, and the support that we have had from the public sector has been hugely valuable, because it has been willing to give us the space to write the strategy and has then aligned its activity behind it. That is a really good model—and, in my experience, it is quite unusual.

Colin Beattie: You are giving an optimistic view of the food and drink sector. However, figures for 2015-16 show that the number of jobs in that sector has actually gone down by something like 4,000, and the gross value added is down by 2.6 per cent. How does that equate with your optimism about the expansion of exports and all the rest of it?

James Withers: We have had real fluctuations over time. GVA has risen from about £3.8 billion or £3.9 billion up to around £5.2 billion—I think that you have the figures in front of you. There was a slight drop in 2016 compared with 2015.

We are now employing 120,000 people. Again, there are fluctuations from year to year. Together with Skills Development Scotland, we have identified 27,000 new roles that need filled between now and 2022.

There are fluctuations from year to year. Huge pressure was put on our pelagic sector when we had Russian import embargoes. There are various areas of volatility, particularly in global markets, that affect us from year to year, but our view is that the underlying long-term proposition looks good. Indeed, over the 10-year framework—referring back to the original question—the trajectory has been upward.

Willie Macleod: The designation of tourism as one of the key sectors of the Scottish economy has had a very significant impact, with the coming together of the public, private and voluntary sectors to support our industry, which we heard about earlier. We have also greatly benefited from the very clear support for tourism that the Government has given the industry.

My colleagues in London, and in Cardiff for that matter, will be looking enviously at the fact that tourism is regarded as a key sector in Scotland. In Westminster, tourism is not that well regarded—it probably should be—but, in Scotland, we benefit from the fact that it is well regarded. That has been very good for supporting and encouraging investment and for giving confidence to businesses.

Colin Beattie: Picking up on that point, in 2016, Scotland had 2.75 million overseas visitors. In the same period, Ireland had 10 million. That seems a bit of a disparity.

Malcolm Roughead: The Irish statistics take into account the whole of the UK. If you were to consider those coming from south of the border as being separate, the figures would not look so distorted. The domestic market in Ireland is actually very small, whereas we have a very large domestic market, which is why the percentage of UK visitors is so strong in Scottish tourism. It is not quite comparing apples with apples.

Colin Beattie: Just to be clear, the 2.75 million people that Scotland welcomes are external to the UK.

Malcolm Roughead: Absolutely.

Colin Beattie: Okay—that make sense.

I will touch on something that James Withers mentioned earlier. Do you feel that there is sufficient confidence and support in your individual sectors for goods and services to be exported? Are the companies focused on that and are they keen to get involved in international markets?

Willie Macleod: We are an unrecognised export sector. The fact that tourism, hotels and restaurants provide services to foreign visitors means that we are an unseen, unrecognised export sector. In fact, you have given me a wonderful entrée with your comparison with the Republic of Ireland. We are one of the only export sectors that charges our customers VAT. One of the reasons for the growth in numbers in the Republic of Ireland is that the Irish charge 9 per cent VAT on a hotel room, whereas in Scotland we charge 20 per cent. One of our major campaigns as an industry is to get parity of VAT treatment with our European competitors. We are one of only three countries in the EU that does not have a reduced rate of VAT on hotel and tourism services. Ours is about twice the average rate. The average rate in the EU is 10 per cent. The UK, Denmark and Slovenia are the only three countries that do not have a reduced rate of VAT on tourism services. That makes us uncompetitive in price terms with some of our close competitors.

Gareth Wynn: On the subject of exports, we have a strong story to tell, with about £12 billion of exports a year from our supply-chain companies. That is an area with significant upside potential for the future. There is a lot of expertise here in Scotland in subsea engineering, oilfield services and related disciplines, as well as some manufacturing expertise, and all of that is highly exportable. That is a key part of vision 2035, which the industry is developing. There could be up to £500 billion to be attained in the period between now and 2035, so there is a huge opportunity there. That comes both from diversification into other forms of energy—renewables in particular, obviously—and from taking oil expertise into other basins around the world.

Jamie Halcro Johnston: Willie Macleod mentioned VAT. There have been changes to income tax in Scotland—or there will be. There is also fuel duty for the oil and gas sector, and there are even proposed tourism taxes in certain areas where there is pressure or a need for infrastructure. Could you briefly outline the relationship between your sectors and tax increases and reductions?

Ewan MacDonald-Russell: I will go first on that, since I have been quiet for a while. For us it is all about the locus with our consumers. We see a particular impact on consumers who are on average and lower earnings, which is relevant when it comes to income tax. Consumer household disposable income is pretty flat at the moment anyway. Last year the consumer price index showed inflation, specifically food inflation, which we are tracking at about 2 per cent. That led to a big shift in spending patterns. We know that households are absolutely on the edge of their spending.

The broad point is that, ultimately, if there are increases in tax on the income of our consumers, they will have less money to spend in our shops. If we are honest, we would rather they were buying things from us instead of their money going directly on taxation, particularly in relation to the two groups of workers that I mentioned.

Willie Macleod: I echo that point. Regarding the differential rates of income tax in Scotland compared with the rest of the UK—the issue arises in relation to the military, too—I have recently spoken to the managing director of a large Scotland-based hotel company that operates throughout the UK, and they have some concern about the impact of the differential rates of income tax on bringing staff from England to positions in Scotland. They are thinking about how they can reward them appropriately when they relocate and how they encourage them to relocate.

11:45

Kezia Dugdale: Good morning. I am conscious that we have spent the last wee while listening to men talk about the economy. What are your sectors and industries doing to tackle gender inequality in order to drive Scotland's economic performance?

Marc Crothall: I am the only man in the organisation that I lead, which is good. We have a huge number of very successful women working in our industry. We spoke earlier about talking to people at colleges, and it is encouraging to see a majority of younger women coming into the industry or looking to come into it.

We now have a strong voice in Women in Tourism, which has established itself and is at the forefront of most of the conversations that we have. Our sector offers a huge and diverse range of employment. There is no reason why any of us would choose to shut out that opportunity or not create that variety. Some of our finest hotel managers in Scotland—our leading lights—are women. This year, we celebrated the first Women in Tourism awards dinner this year, which was attended by about 300 ladies. The Cabinet Secretary for Culture, Tourism and External Affairs, being a woman, was of course there to present the awards.

We are a career of choice for everybody. That is a very clear message that we put out.

Kezia Dugdale: That is clearly a comment about the representation of women in your sector, but I am asking more generally about the opportunities for women that are linked to Scotland's economic progress. Do you feel that you have peaked and that you have done everything that you can to help women access the labour market? What else would you like to do? It is the future that I am inviting colleagues to comment on.

Marc Crothall: We can always do more. We have a number of opportunities—they are in abundance—and it is a matter of highlighting those opportunities and making them visible to everybody.

The issue goes right back to the early stages of education. We need to ensure that the opportunities are spelled out to all genders, and that it is made clear that career opportunities exist and that it is not a stereotypical sector. Chefs come in all shapes and sizes, and there are great options there.

We will continue to fly the flag. Without the diverse workforce that we have, or without creating a diverse workforce, we will be on the back foot. As Willie Macleod pointed out, it is not just a Scottish challenge; it is a UK-wide and probably global challenge.

Willie Macleod: I go back to my anecdote about the Apprenticeship in Hospitality, Scotland event last week. I did not do a headcount, but I am pretty sure that the young women matched the young men one for one. In fact, the hotelier who is chair of Apprenticeship in Hospitality, Scotland, Rohaise Rose-Bristow, runs the Torridon hotel in Wester Ross jointly with her husband.

There is no barrier. I think that our industry has a very good track record of women rising to the top. I do not want to name names but, not terribly far from where we are sitting at the moment, there are hotel companies being run by very capable women.

Ewan MacDonald-Russell: The chief executive of the British Retail Consortium is female, so we are trying to lead the way on behalf of our industry.

Historically, it has been quite a challenge to get female progression in retail. An awful lot of female workers have taken on retail roles as a secondary job. Consequently, the priority for them has been flexibility rather than necessarily progression. We are trying to change that. The reality is that we lose a huge number of very talented people who do not want to do that.

Flexible job design is a huge part of that for the future. It is about encouraging people into more senior positions in a way that lets them balance other commitments, because that is an on-going challenge. We are making better progress on it. There is a lot to do, but we are absolutely committed to improving the siutation. However, it is a huge challenge.

Kezia Dugdale: It is an interesting comment to suggest that women have commitments that men do not have.

Ewan MacDonald-Russell: It is a general historical imbalance. I completely agree. It is a huge problem that, historically, more female employees in retail have had more care-giving responsibilities. That is probably a historical and slightly broader point than even we can address, but you are right. We certainly do not want that to happen; we want some of our very talented female colleagues to progress and we want to get them to go further.

Gareth Wynn: I will jump in for our industry, which is still not properly balanced, although it is getting better. The challenge comes relatively early in the education process. We touched on it a bit in the previous evidence session, but we need more early interventions in the education process to get more girls studying STEM subjects, so that the pool of talented people to choose from in the technical disciplines, which our industry needs, is bigger. There are good networks that are campaigning and trying to help us to improve the balance. Pretty much all our member companies are active in that space and are doing what they can, but we have a way to go.

As you probably know, our organisation, too, is led by a woman, and she is personally very active in helping to keep the focus on the issue so that we remove the barriers and ensure that there are flexible working arrangements.

In response to Kezia Dugdale’s point on that, flexible working arrangements need to apply just as much to the men as to the women. If the women are going to be able to take their place in the workplace, where children are involved or there are homes to be run, someone has to do that. That has to be shared, and that means that flexibility has to go to both genders.

Kezia Dugdale: I will perhaps cede my power to Gillian Martin to follow up on that.

The Convener: Gillian Martin is next to ask questions, so I will pass over to her now.

Gillian Martin: Kezia Dugdale maybe saw me scribbling away there.

The point about flexibility instead of progression is interesting. My questioning is about inclusive growth, and many of the people who have been before us talking about that have said that, in order to encourage inclusive growth and better economic performance, flexibility should apply to people who want to progress and not just to people in part-time work, for instance.

My question is on the links between business growth and inclusive growth. Is there a trade-off there, or do you feel that there is an opportunity in business growth? I am conscious that the hospitality and food and drink sectors have been and are criticised for offering precarious work. What are you doing to address the issue of precarious work and the gig economy?

Ewan MacDonald-Russell: The gig economy is probably much less relevant to us.

On the flexibility versus progression trade-off that you rightly highlight, that came from a report that we did a couple of years ago on the attitudes of workers. The feedback that we got suggested that some people wanted to make that trade-off. Just to be clear, I completely agree that we do not want that trade-off—it is the wrong thing to happen, and we do not want people to be in that position—but that was their priority.

On the point about inclusive growth and the economy, there is a huge value to that for the retail industry. Ultimately, if people are bringing home higher wages, that is likely to translate into higher consumer spending.

To nail down our perspective on this, we try to track the manner in which our members do their remuneration. They tend to use a total reward package, rather than just pay rates. Last year, the average total reward package was £9.34, which includes things such as holiday pay and pension contributions. Incidentally, the average wage across the UK is £8.36. There is also a pile of other non-financial benefits.

We absolutely get the point about wages, but they have been going up—they went up by 2.9 per cent in the industry last year. We certainly see that we need to pay workers more. We think that there are huge benefits for the broader economy if there is a greater translation into that.

James Withers: Our sense as an industry is that attitudes to issues around inclusive growth are changing fairly rapidly. I would draw a parallel with attitudes towards environmental performance. Fifteen years ago, say, the environmental strategy of a company was the responsibility of the corporate social responsibility department or the corporate affairs department. It was seen as something that the company had to do, as opposed to a core part of good business activity and business success. That has changed rapidly over the past 10 to 15 years. A few years ago, inclusive growth and wider commitments to the workforce were seen as an act of CSR and good citizenship. Some businesses perhaps still see them in that way, but they are increasingly being viewed as integral to business success.

In the food and drink industry, as in tourism and other industries, we may ask how to attract the future workforce, and the reality will have to involve a much broader set of commitments to that workforce. For us, that is about health and wellbeing, gender equality, lesbian, gay, bisexual and transgender rights, career progression and commitment to progression. Our sense is that, if we are going to attract people and fill the 27,000-job gap over the next five years, we will have to make a broader commitment.

We have not used the word “inclusive” for an industry strategy; we have used the word “responsible”. We have said that we want to be

“a world leader in responsible, profitable growth.”

We need to do a lot more thinking as a sector into what that actually means and how we translate it into practice. A huge part of it will involve having a broader set of commitments to our workforce beyond just having good pay, sensible contracts and appropriate terms.

Willie Macleod: As an industry, particularly as hotels operating 24/7, 365 days a year, we have to be flexible. If we have unduly rigid shift patterns, for example, and if we are not flexible and do not take into account people's family and other commitments, we probably cannot operate.

In recent years, businesses have become much more flexible in how they respond to the demands on both male and female employees outwith work. There is a higher incidence of job sharing. Obviously we operate over weekends and public holidays, so we need a degree of flexibility to bring the labour in when we need it. That is not just at service level; it applies to all roles in the organisation. We have to run our businesses 24/7, and we can do that only with flexibility and using innovative shift patterns.

For example, some restaurants are changing to a four-day or five-day operation or are moving away from being open all day to being open during the evening. In many respects, that is to respond to labour market issues, but it is also to respond to individuals' needs and give them a better work-life balance.

Gillian Martin: I get your point about having to work with demand and needing flexibility around people's work patterns, but might there be some instances of job security not being offered as a result of that, and might that lead to people not wanting to go into your industry because they see it as precarious?

Willie Macleod: That is a possibility. I guess that you are referring to zero-hours contracts and so on. I come back to the demands of our customers for the services that we deliver and the need for flexibility of labour in order to respond to customer demands.

Exclusivity clauses in zero-hours contracts were banned, and we supported that. Full-time working does not suit everybody. There are people who have two jobs and there are people who have varying demands on their time, and some flexibility of shift pattern will suit them. It also suits our businesses.

When I was running hotels back in the dark ages we did not have zero-hours contracts, but I had a little black book of casual staff because, when demand was variable and we were busy unexpectedly, I had to be able to call on casual staff to fill those gaps. That is not necessarily a replacement for career progression, but a contract like that or a part-time or seasonal contract can suit the individual who agrees to it.

Gareth Wynn: Much of the focus and discussion around the gig economy is about lower-paid workers, but a substantial number of people in our industry are working on a self-employed basis; they are very well paid, they do the work by choice and they make a very good living out of it.

I sound a note of caution. We have some concerns about the tightening of rules around people who are self-employed. The IR35 regulations, for example, will cause some pain for some of our members. I do not have all the details with me today, but I can follow up on them with you if you want more information. That other end of things is also important.

12:00

Gillian Martin: There are people who have been working in oil and gas on a contract basis for 30 years who have suddenly had a phone call saying that they are not being asked back. They have not had protection. I am speaking about the personal experience of people I know.

Gareth Wynn: I accept that that might well be the case. However, many thousands of people have chosen to be in that circumstance and have made a very good living out of doing so. I recognise that there are pros and cons to these things. If someone makes that choice, it is important for them to understand that they are effectively accepting some extra risk. I have been in a similar situation myself.

I recognise the point that you are making, but a substantial chunk of people are making good money out of that, and they do that work by choice.

Malcolm Roughead: To broaden things out slightly, one of our definitions of inclusive growth involves ensuring that everyone has access to a holiday and can get out and about and enjoy what Scotland has to offer.

We have been working with the industry on two areas in particular. One is accessible tourism, so that people with disabilities and so on are not excluded from the tourism industry. Quite apart from the fact that it is the right thing to do, there is an economic case for it. About £900 million of expenditure goes missing because people are not sure whether their particular infirmity can be catered for.

On the other side of that, in conjunction with the Family Holiday Association, we have been giving children from areas of social deprivation a break from the circumstances in which they live. It is important to remember the social good that tourism can do.

Gillian Martin: You have all mentioned recruitment, skills and training for the future. Would you say that inclusive growth is not just something that is nice to have, but is a priority for attracting people to your industry?

Malcolm Roughead: Absolutely.

Gillian Martin: You are all working towards that.

Malcolm Roughead: Yes.

Ewan MacDonald-Russell: Yes.

Marc Crothall: Attraction and retention of the workforce is hugely important. That comes at a cost for those who have to churn their workforce, particularly in rural areas.

Many hoteliers and operators offer premium pay so as to attract and engage the right people. They also need to ensure that staff get home and can have flexibility. Keeping them available is vitally important now—probably even more so than it has ever been.

On seasonality, if we could get more of the industry trading all year round so as to provide longer-term continuity, that would be good for us and would alleviate some of the pressure points. That is part of the wider marketing agenda and the approach that we are looking to take.

Gillian Martin: Some of the panellists at our meeting a couple of weeks ago mentioned that the industry in general is not doing enough by way of in-work training, and is relying quite a lot on universities and the rest of the education sector to pick that up. Are your industries providing enough in-work training to retain people and progress them?

Marc Crothall: About nine months ago, we conducted a confidence survey, which was completed by at least 500 businesses from all sectors of the industry. If my memory serves me correctly, as much as 85 per cent of them were committed to investing in training their people. That took us by surprise, but a recognition of the importance of retaining the workforce and investing in people is absolutely key.

I highlight the example that Willie Macleod gave of the apprentice programme being run by the hotels. I have yet to come across a colleague who would say that they do not train. I understand that Linda Johnston from Auchrannie was originally an invitee. That is a great example of a hotel organisation—on an island and in a community where it might be a struggle to attract a workforce—investing in its people.

Willie Macleod: There are about 3,000 hospitality and tourism apprentices in Scotland at the moment, and we could probably do with more. Apprenticeship in Hospitality, Scotland is just one example of a group of companies coming together in that way. We have some great examples of companies training young people and bringing them on, not necessarily on apprenticeships, but giving them on-the-job training and supporting them as they go through their career.

Ewan MacDonald-Russell: Our industry has historically taken on a lot of school leavers or entry-level workers, and we have trained them ourselves. That has tended to be the approach among larger retailers in particular. I will not bore you with the litany of chief execs who started by pushing supermarket trolleys.

The introduction of the apprenticeship levy a couple of years ago has meant a big change for our industry, especially given the way in which the levy has been transferred into Scotland. To be candid about it, my members are paying about £12 million to £15 million this year, and they will pay a similar or greater amount next year, but they have seen very little extra benefit from that spending. They were previously running apprenticeships or programmes, and they are still running many of those, but they are facing an additional burden and costs. It is important to reform and look again at the apprenticeship levy, particularly the flexible workplace development fund and the way in which the businesses paying into it can access things.

I have one Scottish member who will spend £300,000 or £400,000 on the levy this year. That is a Scottish business, and it will receive de facto no benefit from doing that. That is a huge challenge, but we want to do all these things—to train our workers and make them more productive.

Gillian Martin: Gareth Wynn made that point earlier. Oil and gas puts a tremendous amount of money into the UK Treasury. Would you like to see some of that money come back to Scotland in order to help you train the next generation of people working in energy—not just oil and gas—bearing in mind the diversification that you mentioned?

Gareth Wynn: The issue for us is UK-wide. Even during the downturn, the industry as a whole managed to keep up its commitment to apprentices and bring in new talent.

We have a similar concern about the apprenticeship levy. The bigger issue for our members is not so much the money that is available—they are happy to pay it—but they would like the mechanisms to be improved with respect to the training bodies that they find most useful, such as OPITO, for example, which does not qualify and is not a recognised provider. That gets in the way of our members getting something back for the money that they put in through the apprenticeship levy.

Gillian Martin: The apprenticeship levy aside, you do not see a need for more of the money that will come from oil and gas tax receipts to come back into protecting the industry for the future.

Gareth Wynn: Not specifically, no. That is the straightforward answer. However, that does not take away the fact that we need to do all the things that I mentioned in the previous evidence session, including the early interventions to increase the pool of STEM-qualified or STEM-educated young people whom we can encourage into the industry.

It is then significantly up to the industry to set out its stall and provide attractive jobs for people to come into. There is also the in-job training that you referred to a moment ago. There is as much onus on the industry to make itself attractive for young people who are coming through now as there is on Government to fund it, with the emphasis being in—

Gillian Martin: You do not want more funding for that.

Gareth Wynn: Of course we need funding. To be honest, I do not know the numbers here in Scotland well enough to say whether that is the right way to go, what specifically is needed and what the funding should be for, but I am happy to write to you afterwards if you like.

Gillian Martin: Okay—thank you.

The Convener: All members of the panel should feel free to write in to add to your evidence if there is a question that you have not been able to answer here today, or if you would like to put something further in writing.

Dean Lockhart: I wish to continue with the theme of the impact of policy on your sectors. We have heard quite a bit about the apprenticeship levy and how it might or might not be working. As we have heard in previous evidence sessions, economic development is not just about public sector intervention and picking winners; it is about creating an environment that is conducive to business development and overall economic development.

It would be good to get your views on the impact of recent policy developments on your sectors. I will throw out a couple of examples that might be relevant to you. Business rates, the large business supplement and excise duty on whisky might be relevant. There are also the fiscal incentives in the oil and gas sector and increasing income tax in Scotland—a tax differential in Scotland compared with the rest of the UK.

I open that up to any other policies that you think might have had either a positive impact or an adverse impact on your sector.

Willie Macleod: I will start off with business rates. We are still concerned about the manner in which hospitality and licensed businesses are valued for non-domestic rates. Although that issue has not been wholly recognised by the Barclay review, it has been recognised by the Cabinet Secretary for Finance and the Constitution in applying a cap on business rates payable in the previous financial year, the current financial year and next year. The issue for us is that the valuations that were reached in April 2017 stand until the next revaluation. We will continue to press the case for the cap being continued through to the next revaluation.

I cannot say too much about this at the moment, but we are in dialogue with specialist rating surveyors and with the Scottish Assessors Association about presenting evidence on the way in which our businesses are valued. We think it is flawed and arcane, and we really need to get to a more competitive basis for rating our businesses.

The large business supplement is a bit unfair to our larger businesses. A hotel with a rateable value of £51,000 or more is not a large business, yet it pays the supplement of 2.6p in the pound to meet the cost of the small business bonus scheme. During our submission to the Barclay review, we put forward the view that all businesses should pay something towards local services and that remains our view.

Ewan MacDonald-Russell: The Scottish Retail Consortium has said quite a lot about business rates over the past year and a half. I will try to summarise.

There are probably some very good things about it. The move in the budget to link this year’s rise to the CPI was positive; it saved our industry £5 million. We would like that to be a permanent arrangement, like the arrangements made by the UK Government.

Many aspects of the Barclay review were really good. We had called for the move to three-year revaluations, so we are supportive of that. The reduction to a one-year antecedent is just as important. That is good. I would be interested to know whether the Scottish Government is going to set that to match what the UK Government has done. I understand that the changes will take effect in 2021.

The large business supplement is a burden. It means that the overall rates bill for some Scottish shops will be higher than for comparable shops in England. That is unhelpful for when businesses are making decisions. The Barclay review group suggested that that should be brought back into parity. It will be good to get clarity at some point on when that will happen. That is something that we are very interested in.

On rates, we have a challenge overall in that business rates are becoming a bigger and bigger tax. As I said earlier, they affect a smaller and smaller number of properties. That will eventually impact on how much of a return you get, or it could lead to rates being levied on a higher number of properties. There is still a wider question about whether the actual metric is competitive enough.

I have mentioned personal taxation as a government intervention that could have a huge impact on our industry if people have more money.

This point has not been made elsewhere, but looming over the public policy environment for all our members is the question of what the final Brexit settlement will look like. The transition deal is obviously a good thing, but we need to have a tariff-free and friction-free relationship for consumers to maintain the benefits that they currently receive.

James Withers: From a food and drink perspective, the subject of business rates has caused real concern. For the seafood sector in the north-east, for instance, it is more to do with the sudden scale of the rise—it is hitting the sector pretty quickly, and that has caused concern.

I will not talk about excise duty on whisky, as the Scotch Whisky Association will have talked to you at length about that, I am sure, but I echo the SWA's views.

Those are the big headline tax issues, and there is also the apprenticeship levy. There are further smaller nitty-gritty issues on the ground, often at local authority level, which are also worth considering.

Concerns have been expressed by a number of food and drink companies about the rising costs of export health certificates. To use one example from correspondence that I have seen, Argyll and Bute Council has told some of its food and drink companies that the cost of an export health certificate, which every single batch of product needs in order to go abroad, is rising from £17 per certificate to £91. Some single deliveries will require three different certificates. One seafood business, a well-known exporter, has written to us. It has about 25 consignments per week, and the cost of that small administrative change will be about £100,000 per year.

We are trying to deal nationally with exporting and promoting exports, putting all the resource in market to build capability, but then there is a potential barrier because of a resource issue at local authority level and small little things—actually, it is not a little thing—such as administrative charges. A sudden hike such as that 400 per cent increase that I mentioned is a huge barrier to encouraging more export growth—or, frankly, to holding on to what we have.

12:15

Marc Crothall: Picking up on what Willie Macleod was saying earlier, and going back to the survey that we carried out on confidence and the costs of doing business, which are generally rising, a compound of costs continues to cause a lot of businesses hesitation about investing and innovating around their products.

It is a fast-changing world, and tourists' expectations are that much greater. Technology investment is necessary for many businesses that need to adapt their products. The uncertainty about where business rates might go is preventing some businesses from investing, and not just in their products—it is possibly restraining their investment in people.

Inconsistencies in planning on the part of certain authorities has been highlighted. It would be better and more efficient if there were much better consistency across Scotland to allow for confidence to invest in the asset—and, importantly, to remain competitive.

That brings us back to our competitiveness as a destination. It is not just about being price-competitive; it is about being competitive in the quality of the offer, in the people and in the product that we produce.

The Convener: Are there any further comments?

Malcolm Roughead: I have nothing to add.

Willie Macleod: If I may, convener.

The Convener: Certainly: a final word to you.

Willie Macleod: We are watching a number of policy issues as they develop. For example, the deposit return scheme on single-use drinks containers is a concern for the retail sector as well as for hospitality and licensed businesses. In fact, we are participating in workshops with Zero Waste Scotland, and there is more to unravel there, but there is concern about how such a scheme might operate.

There are good things in how we are addressing diet, nutrition and obesity in Scotland. Some of the proposals to regulate are going to be very difficult to deal with, monitor and enforce if they go through. We are participating in discussions with the Government and Food Standards Scotland on those issues.

The final thing is the vexatious issue of the possible introduction of a tourist tax. Although we welcome the Scottish Government's stated position on that, we are very concerned about the impact of an additional tax on our consumers that will make us even less price-competitive than we are. Last year the World Economic Forum produced a league table of the price-competitiveness of tourism destinations internationally, and the UK came 135th out of 136 countries. Adding costs to our consumers will make us less competitive. Let us not forget that price is a determinant on people's decisions, and our consumers in tourism are not without choices of destination.

The Convener: I thank all members of the panel for coming today.

12:18

Meeting continued in private until 12:38.

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