



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 28 April 2010

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Wednesday 28 April 2010

CONTENTS

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ECONOMY, ENERGY AND TOURISM COMMITTEE
14th Meeting 2010, Session 3

CONVENER

*Iain Smith (North East Fife) (LD)

DEPUTY CONVENER

*Rob Gibson (Highlands and Islands) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab)

*Gavin Brown (Lothians) (Con)

*Christopher Harvie (Mid Scotland and Fife) (SNP)

*Marilyn Livingstone (Kirkcaldy) (Lab)

*Lewis Macdonald (Aberdeen Central) (Lab)

*Stuart McMillan (West of Scotland) (SNP)

COMMITTEE SUBSTITUTES

Nigel Don (North East Scotland) (SNP)

Alex Johnstone (North East Scotland) (Con)

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

David Whitton (Strathkelvin and Bearsden) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

Andrew Edwards (Silberline)

Gordon Hay (Bio-Rad Laboratories)

Peter Hodgson (Dow Chemical)

Scott Johnstone (BioIndustry Association Scotland)

John McGlynn (Airlink)

Ray Mountford (INEOS)

Dr Deborah O'Neil (NovaBiotics Ltd)

Ken Richardson (Chemical Industries Association Scotland)

Philip Riddle (VisitScotland)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 5

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 28 April 2010

[The Convener *opened the meeting at 09:37*]

International Trade Inquiry

The Convener (Iain Smith): I welcome members to the 14th meeting in 2010 of the Economy, Energy and Tourism Committee. The first of our three agenda items is to continue our inquiry into public sector support for exporters, international trade and the attraction of inward investment. We have two witness panels this morning.

Our first witness is John McGlynn, the founder and chairman of the Airlink group of companies. I invite John to introduce himself and make some opening remarks, if he wishes. We will then have questions.

John McGlynn (Airlink): Thank you for inviting me along. I am delighted to be here. As is set out in the paper that I submitted to the committee, I founded the Airlink group at university and I have been involved in international business delegations for some time now. I have set out some points in my submission, which I would be more than happy to discuss further. I will also take any other questions that you may have.

The Convener: Your written submission deals quite a bit with the situation in Estonia and the Scotland House issue. Could you expand a bit on your experiences in Estonia, on your conclusions and on any recommendations that you might have for the committee on the way forward for such operations?

John McGlynn: I was introduced to the Estonian market in 2001, when the Baltic states were the hottest opportunity in Europe. Having been out to Estonia, I saw lots of opportunities not only in my sector but in many others.

There are language and cultural barriers. When a group of businesspeople got together on an informal trade mission, we decided that we needed someone on the ground—a local contact. It is easy for a huge company, which can headhunt somebody, open an office and incur the various expenses for what can often be an exploratory exercise. However, we identified a gap in the market. What was needed was someone pre the opening of an office—almost at the investigation stage—to help formulate whether there was a sound opportunity, whether one would

be wasting money, or whether scarce resources of cash investment could be utilised.

We did some brainstorming and consultation, and decided that companies want somebody almost like a project manager, who can be taken on hourly, daily or weekly. We phoned a few companies—one guy was a window manufacturer. We said to him, “Estonia’s biggest output is wood and wooden products. Would you be interested in investigating whether you could have the windows for your building company manufactured cheaper here and would you be interested in the project manager approach?” The answer from him, and various others, was yes.

Basically, I was the principal who underwrote the Scotland House project in Estonia, with assistance from some other businesses. It is not a profitable enterprise. To date, it has probably cost me about £20,000 personally. However, that is what sponsoring such a project means. If we believe in it, we have to do it.

The Estonian market is perhaps not as buoyant as it was in 2001 to 2007-08. It has been a very useful learning experience, however, to find that the structure that I have described worked very well. The current First Minister—in 2005, prior to his becoming First Minister—came over on a visit to Estonia to open the official office. We had Tavish Scott over, when he was deputy finance minister, and we had Helen Liddell over when she was Secretary of State for Scotland.

The impact of seeing politicians such as those on foreign soil is quite surreal. We had an event called Scotland week, which aimed to create awareness. If I was being crude, I would say that it was almost like a mini-tartan day in New York. We flew the Dumbarton pipe band over. Every day at 12 noon, the town centre of Tallinn came to an absolute standstill. All those people who did not know that there was a Scottish trade delegation in town certainly knew that when they watched the news bulletins, on the hour every hour. The cost of doing that was not significant, and the impact was off the scale—the impact of bringing the entire town centre to a standstill was just great. Ministers, even the Prime Minister of Estonia, came down to see what was happening, as did the Speaker of the Parliament. There was a real buzz; the feeling was that the Scots were in town—in the best possible sense, thankfully.

As a tactic, that was a very good use of investment to get the maximum impact. Over the years, hundreds of companies in Tallinn have visited the market and a lot of good deals have been done. It has worked well for both the Estonian Government and the Scottish Government. Another tartan week is happening in September this year. The idea is not confined to history—we still do it on an on-going basis.

The Convener: What type of support did you get for your project from Scottish Development International and the Scottish Executive? How easy was it to secure that support?

John McGlynn: Initially, there was no support whatever. I decided that we would not be critical of any of the agencies, but that we would simply get on and do our own thing as a really good pilot study. Following some meetings with SDI, it was heavily criticised in the press by other parties unconnected to us, who were considering the markets in Latvia and Lithuania more than Tallinn. They were not able to operate from an office in Germany. I gave evidence to the Enterprise and Culture Committee on that during the previous parliamentary session. As I said then, SDI eventually saw that having a contact in the Baltics would be a good thing.

To this day, SDI still makes a small contribution by buying some of the time of our project manager in Tallinn. The real problem is that any public agency or body has to be incredibly careful about how it spends any public money. As long as I am not bound by contract confidentiality in giving evidence, I can say that I believe that the contribution is something like £5,000. I can give you a categorical guarantee that the legal document that was produced for us to consider in that regard would have cost considerably more than that to produce. There is also all the time management to consider.

I would not like to seem critical—it is more of an observation that, sometimes, the cost of the support from the public sector can be grossly disproportionate to the actual support that is given. SDI has renewed the work of that project manager for some years now; we assume that it does so because it believes that it is good value for money. We have stringent audit processes on every pound that is spent. Clearly, SDI still sees some benefit in the Baltic markets.

09:45

The Convener: The evidence that we received last week from SDI is that it has not gone down the route of opening more Scotland Houses, because it believes that doing so would not necessarily be the best use of public money. It recognises the need to have a contact in the country, but not necessarily bricks and mortar. Do you accept that approach, or do you think that the Estonia project would suggest otherwise?

John McGlynn: I fully accept the sentiment that bricks and mortar are not needed. We no longer have bricks and mortar in Tallinn, which is fortunate in having lots of amazingly good hotels. When business people travel there, they tend to book a meeting room at one of the hotels or

commandeer an area of the lobby, which in effect becomes the office. People stack up meetings there back to back. We spent a lot of money on a bricks-and-mortar office in the old town of Tallinn; that was great for the photographs, but people did not use our services there.

If I have learned anything from the Tallinn experience that I can share with the committee, it is that bricks and mortar are not essential but having a good, solid contact point in every country is. If we are going to invest in a country, we must have a local on the ground day in, day out. We have adopted that model. We no longer have office costs in Tallinn, because a Scottish businessman who has a large company sponsored a desk for us in his office complex. I believe that that model should be considered, because we do not need bricks-and-mortar, gold-plated fancy offices; we need only a laptop, a mobile phone and somewhere to serve as a base. If someone is doing their job properly, they should be mobile anyway. The hot-desk principle is not only good value for money but most effective for all parties.

Rob Gibson (Highlands and Islands) (SNP): Good morning, John. The belief that it is good to get as many contacts as possible in other countries is obviously borne out by companies' increasing interest in exporting. There has been an upturn in that in the past five years, with more and more people doing it. The Parliament has discussed the issue of how best to make contacts. Indeed, the Enterprise and Culture Committee suggested in 2004 and in 2006 that ministerial leadership of trade missions and efforts abroad ought to be much better co-ordinated. However, a 2004 report showed that there had been slightly fewer ministerial visits abroad than in the previous year. You have suggested to us that, when ministers and members of the Scottish Parliament make foreign trips and are accompanied by Scottish companies, they play their part in fighting for Scottish business and give a focus. You have already illustrated that. Do you think that the Government and Parliament can do more to give such leadership at the moment?

John McGlynn: Yes. The most depressing thing for me in the past 12 months, apart from the general credit crunch issues, has been the attack on anyone who dares to travel. That is an outrageous slur on not just politicians, but public servants and people who work in quangos and other organisations, who genuinely want to make a difference. To suggest that someone should go on a one-week trade delegation and not have a night off to go for dinner with colleagues or visit a world-class monument is a disgrace. People do not work 24 hours a day, seven days a week, when they work at home. There seem to be attacks on anyone who travels, and that is very

damaging; I have raised that point with newspaper editors. I do not believe that the majority of foreign trips are junkets. There may be one or two that are, out of hundreds.

From personal experience, I know that when a minister, an MSP, a member of Parliament or a member of the European Parliament travels on a trade delegation, the impact magnifies by 10, as does the return on investment. The bottom line is that people on foreign soil want to meet politicians and senior executives of organisations. I would love to see this committee recommend to Parliament a change to the standing orders to the effect that when any member travels, whether they are a minister or not, the presumption should be that the best effort should be made to have an accompanying trade delegation. It may be a simple one-day trip, but ministers and members still have to have breakfast and lunch. With a bit of co-ordination, representatives of four or five companies could travel with a minister, and even such a small group would make a huge difference.

Rob Gibson: Back in 2006, the Enterprise and Culture Committee said in paragraph 150 of its report entitled “Business Growth—the next 10 years”, in a section on enhancing Scotland’s international outreach:

“The Committee also recommends that the Scottish Executive reviews its guidelines on the planning of ministerial visits overseas and, where possible in terms of itineraries, considers organising a parallel trade mission. In this respect, we welcome the recent moves in this direction by both the First Minister and the Deputy First Minister and we encourage more of the same.”

We do not seem to have moved on. Is it just the credit crunch and the recession that have prevented us from moving on, or do you see unwillingness officially to support foreign trade delegations?

John McGlynn: My experience has not been that there has been resistance. Indeed, anyone in any party to whom I have ever spoken has been very supportive of the idea of foreign trade delegations. It comes back to the machine of government and making things happen. Sometimes it is easier to do business abroad in today’s market, depending on the sector and whether one is exporting or importing. Somebody must be charged with responsibility.

The problem is that there is fragmentation in who deals with such matters. Scottish Enterprise has the account manager system, and SDI perhaps has a view on trade missions that is different from that which many of my colleagues and I have—that is, there is a single sector versus a multisector view. UK Trade and Investment has an input and there are various other bodies. Perhaps a Government agency is not the best organisation to make things happen and be

accountable. Perhaps something else—my suggestion would probably be business club Scotland—should be charged with that task.

Gavin Brown (Lothians) (Con): Before I ask a question, I should say for the record that John McGlynn and I studied together and that he is a good personal friend of mine.

John McGlynn: I do not know which one of us members will feel more sorry for.

Gavin Brown: We will leave that question open.

The convener asked you about Scotland House. You said that you thought that there was a gap in the market, so a Scotland House was opened in Estonia. Should there be more Scotland Houses of the non-bricks-and-mortar variety around the former Baltic states, elsewhere in Europe or further afield? Are there gaps that are obvious to you in which there ought to be such a model now?

John McGlynn: Perhaps we could put the term “Scotland House” to one side, as it is misleading in some ways. It suggests a bricks-and-mortar presence. We should definitely have a general support mechanism, ideally in every country in the world. According to the United Nations official list, there are 194 countries in the world. Our ambition, which may be deemed an ambitious, blue-sky ambition, should be to have a contact point in every single country.

I would like to touch on the globalscot network, as it is easier to answer your question in whole rather than in part. The globalscot network is probably one of the best initiatives that has ever been pulled together, but I confess that, until a year or perhaps six months ago, I did not know too much about it, although I was aware of its existence. That is possibly not the Government’s fault; it is probably my fault for not engaging and getting involved. However, somebody must co-ordinate things and join up the dots. They must co-ordinate those who organise such projects and those who could participate in them.

The answer to your question is that there must be more joined-up, co-ordinated support. However, let us consider what is on the table today. Various agencies do trade missions. I believe that there is a general acceptance by ministers and members that if they can add value, they would be happy to do so. The globalscot network has some A-list business contacts throughout the world, many of whom do not know what they can do to add value and to help. Some of those global Scots will have huge corporations that will have a desk and which might appoint a junior member of staff—perhaps a junior researcher in a huge company—as a part-time Scotland House officer, or in some other facilitator role. All that those people really want for that is a thank you—they do not want to be paid for it.

People are willing to give their time and a little of their company's resources to give something back. Such an initiative should not cost a huge sum of money. It is really a core donation role. It is about identifying who would like to give something back to Scotland and who is capable of providing a desk.

For example, I spoke to Jim McColl about the issue. He told me that he has various offices throughout the world, particularly in China, and that if someone picked up the telephone and asked him, he would be more than happy to provide a facilitation role at one of his offices. Given that bricks and mortar are probably the biggest cost, it is impressive that business figures are offering to do that. We could take that a step further so that there is a menu and someone who co-ordinates. Somebody has to be charged with co-ordinating ministers' and members' diaries with the diaries of people in the various business sectors.

The next thing is to drill down into the list of global Scots and consider who is willing to answer questions and do things. Most global Scots are willing to do that. We could then take a little step further and ask who has a spare desk in their office that could be used, or a spare meeting room. We could ask whether they could use any existing budget in what would almost be a public-private partnership. Whichever agency is charged with doing that might have a person in an office, but it does not have to be a bricks-and-mortar office that costs £100,000 a year.

So, that might be a different recipe that we could use. I like the phrase "the elastic pound". Even looking back, things have been tough but, looking forward, they will be even tougher for the public and private sectors. We must have a different approach and consider how to stretch budgets. If people are willing to give something back, surely we must grasp that opportunity and not let it pass by.

Gavin Brown: You talked about multisector trade missions. In the written evidence that we have received, some people have argued that multisector trade missions are preferable, but others have suggested that single-sector trade missions are a better approach. I suspect that the answer might be somewhere in between, but why do you say that multisector missions are better? What is the best way forward?

John McGlynn: I agree with your comment. In my submission, I stated that I do not suggest that my answer is the only correct one. There is of course a role for single-sector trade missions, but I suggest that that is a niche part of the market. For globalisation and internationalisation, you have to identify companies that have leaders with the right state of mind. It is not about saying that we can

take a huge company abroad; it is about considering how to get a small company to internationalise and become a medium-sized company, how to get a medium-sized company to be a large company and how we help large companies to be world class. When there are people with that mindset, I would hate to see a barrier that says, "You are not in one of the chosen few sectors, therefore we have nothing to offer you."

To be fair, I am not involved in any sector that would go on a single-sector trade mission, but one of my sectors is self-storage. Let us hypothetically assume that an agency launches a self-storage single-sector mission, although it could be any sector. We go to a reception on foreign soil and someone there is interested in partnering with someone in my sector. If everyone in the room is more or less selling the same service, the only thing to differentiate us is personal style or price. I have seen some ludicrous single-sector missions in which there have been one or two people in a room and a queue has formed to speak to them.

We should think about how people interact and network on such trips. Personally, 50 per cent of the benefit that I receive is from the physical 9 to 5 trade mission programme, and the other 50 per cent is from networking with delegates and people whom delegates meet. Much business that is done on trade missions cannot be recorded. I may bump into somebody who is a delegate on a trade mission and would like to meet someone to do a deal or make a pitch and I might make that introduction. That piece of business will have happened because two parties were on a given trade mission, but it will not have been recorded in the official figures. If I am in the self-storage industry and another delegate is in the self-storage industry, I will—to be brutal—not do anything to help that guy grow his business because that would be to the detriment of mine. I am not suggesting that there is one right answer but, in my experience, the concentration should be something in the region of 20 per cent single sector and 80 per cent multisector, given the wide variety of companies that are in the multisector area.

10:00

Ms Wendy Alexander (Paisley North) (Lab): John McGlynn's company is headquartered in my constituency and has been a contributor to my constituency Christmas calendar on past occasions. I think that that counts as a declaration of interest, John's personal political views notwithstanding.

Your submission is very interesting. One of our challenges is to offer some pointers to the organisations that are currently in the field. What

should we be doing with globalscot? Can you give us a couple of ideas there? How would you like to see the work of the Scottish Council for Development and Industry evolve, given that it is the main contact point for trade missions for small and medium-sized companies across the board? SDI is the recipient of between £20 million and £25 million in this area. How should its role evolve? In those three areas, can you expand on what you said in your very interesting written submission?

John McGlynn: I should also make the point that although I am currently an ambassador for business club Scotland, that is not my intention in being here today. I accepted that post only because I was involved in the thinking of business club Scotland and how it might evolve. I absolutely believed in the objectives of that organisation prior to being asked to be an ambassador for it. I thought it would be useful to make that clear.

I believe that business club Scotland is the most risk-free option that this Parliament has, because it has been modelled directly and very carefully on business club Australia. In business, we all like to do a pilot study before we make the core investment. Nobody likes to take risks and no one likes to lose money. We tend to look at something that has been very successful and see how we can replicate it. Sometimes we will take a business model that has worked in Australia or America, lift the blueprint and drop it into our own business. Business club Scotland has done that. Given the ethos of business club Scotland, it should be the lead agency. It really is a public-private partnership. I would not like to criticise agencies because I believe that it is parliaments and governments that set the guidelines on how public money is administered and spent. However, to be more flexible there has to be an external agency that is charged with leading the project.

The globalscot question is very interesting. The last time I checked the statistics, business club Scotland was up to something close to 2,000 members. It is remarkable that, in the space of a year to 15 months, the interest in business club Scotland has grown. The SCDI is actively involved in business club Scotland, so there is a natural link between learning from these very successful trade missions and how we can develop that. With regard to globalscot, there has to be a new recipe whereby all of this comes under the same umbrella. Business club Scotland is a fantastic brand and could be a world-leading brand. It could be the agency that co-ordinates with the Parliament in some way. For example, if the Minister for Enterprise, Energy and Tourism is going to Norway, business club Scotland may know of some energy companies that could benefit from being there. The minister's diary may be busy but he may have a 45-minute breakfast

slot and the business club could bring some companies along. That adds tremendous value.

The globalscot mix should, I feel, be part of the lead agency, which needs to be a non-direct-Government organisation. My proposal would be that business club Scotland should be charged with taking an umbrella role in co-ordinating matters. When trade missions or ministerial visits are being organised, business club Scotland should be told which ministers or members will take part and should be tasked with getting 10 companies from sectors that might have an interest in the trade mission to accompany them.

Business club Scotland should also be tasked with involving the globalscot network, which I feel should be integrated with business club Scotland. Having done its bit in Scotland by getting the 10 or 12 companies involved, business club Scotland should then look at what global Scots we have in, for example, Norway who could be called upon to facilitate the other end of the trade mission. Most people forget that every trade mission has two sides, both of which are equally important. I hate to sound flippant, but I think that that simple solution to the problem would actually be very effective.

The Scotland House element really just takes the globalscot network a stage further and should be developed in key markets. Really, I think that business club Scotland should be tasked with liaising with ministers and members on visits, choosing delegates to attend those visits and co-ordinating the other side. By doing that, we could get a magnification effect for success.

Christopher Harvie (Mid Scotland and Fife) (SNP): Perhaps I should also declare an interest, in that about 10 years ago I was made a global Scot, on the recommendation of Wendy Alexander. The globalscot network seemed to be a lot livelier in her day, although that perhaps just points to the incestuous nature of Scottish politics.

I want to ask first about your area of operation and then about the relationships between enterprise activity abroad and the nature of the industries that you represent. First, has Estonia greater similarities with Finland—which has long been part of the Nordic Council and was essentially part of Scandinavia—or with Lithuania, Latvia and Poland? I am asking in relation to matters such as entrepreneurial activity, reliability of contacts and so on.

John McGlynn: Estonia is uniquely placed in that it straddles both areas very nicely. Culturally and socially, Estonia is absolutely a Scandinavian country; it has more in common with Scandinavia. From a business point of view, Estonia is one of the most advanced countries in the world. It was one of the first countries to abolish cheques. I was

surprised by that on my first visit: I was asked why I would want a written piece of paper that needs to be processed and which involves a delay in payment. My reply was that they were missing the point, because that is the whole point of a cheque.

Estonia has electronic banking and is extremely advanced. People can pay for goods and services, including car parking, using their mobile telephones. Technology-wise, Estonia is way ahead. For some years, Estonia has had citizens entitlement cards, which are, in effect, identity cards that people can plug into their computers and which allow them to interact fully with all Government departments. Technologically, it is an amazing country. Perhaps as we get squeezed in future spending rounds, we could adopt some of the technology that Estonia has developed. Because it is a European Union nation, all that will have to have been approved in some way. We could learn a lot from Estonia's technological advances. From a business point of view, Estonia is absolutely ahead of the pack. It is also a very nice place socially and culturally.

Christopher Harvie: How many of those advantages would also be found in Lithuania and Latvia? We tend to class all three nations together as the Baltic countries, but I would like to know more about the divergences.

John McGlynn: This is a very sweeping statement but, in my experience, Estonia tends to be more advanced in business and technology thinking than Latvia, which tends to be slightly more advanced than Lithuania. That is just the general trend.

I will give a little snippet of information—forgive me if the figures are not entirely correct—from a trade mission to Lithuania that I was involved in some years ago, during which I met Colin Roberts, who was then British ambassador to Lithuania. He told me that he was having dinner with his French and German counterparts when he had just been given the post, and had mentioned that he was receiving a trade mission of, I think, seven people on one visit. His German counterpart said to him, “Yes, we’re having 24.” Colin Roberts thought that he meant 24 people, but he meant that 24 independent trade missions were going to Lithuania. That clarifies the scale: we sent seven individuals once and the Germans sent 24 trade missions. Perhaps geography makes it easier for Germany to do that, but there are other European nations whose internationalisation and thinking on how they make things happen are far in advance of ours.

Christopher Harvie: That is linked to the other point that I wanted to ask about. We can be assured that many of those German trade missions would be made up of small and medium-sized enterprises. They are the ball-bearings on

which German industry works. Does the non-SME sector in Scotland have the sort of success that it ought to have, proportionate to its level of capitalisation?

John McGlynn: To be honest, I am not familiar with the exact figures, but there seems to be a general rule that larger companies find it much easier to internationalise because they just create a budget, appoint the best people that money can buy and go and make it happen. I am a director of the Entrepreneurial Exchange and our mantra has always been, “Work hard, play hard and give something back.” Our general desire is to take a small company and help it to become a medium-sized company, to help the medium-sized company to become a large company and to help the large company to become a global company and a world leader.

We need a long-term strategy. The problem is that, if we task a Government agency directly, it will be under a lot of pressure to get results. I compare the situation to a public company versus a private company. A public company has to worry about its share price today, tomorrow and next week. Chief executives of public companies tend to have a two to three-year lifespan. I am tempted to use the comparison of an electoral cycle, which is four or five years. Few people will have the vision to consider longer-term planning.

Internationalisation is important for Scotland. The country has always led the world in internationalisation and foreign trade and I fear that we may be losing our ranking as the global leader in that area. We must think long term about that and we must ask how we get companies that are going through the business start-up network today to leave that network saying that they want to become global businesses. Not all of them will make it, but if people do not have that outlook and that vision, we can guarantee that it will never happen. More companies should aspire to internationalising themselves, but if we do not encourage people and give them initial support, that will never happen.

Christopher Harvie: Estonia is a sort of east European Hong Kong. Then again, it was, in a sense, a linguistic part of another east European Hong Kong—Finland. Finland had to go through a process of reinvention with the breakup of the Soviet Union. One of the crucial points that I noticed on my trips to Finland was the importance of the Finnish banks—it is some time ago, but they have kept up, there—which operated virtually as a foreign ministry in the days when Finland could not have a foreign policy because of the Kekkonen agreement with Russia. When the present Government took over in Scotland, I surmised that the Scottish banks would play a rather similar role. Spectacularly, they have not done so. Has the

malfunctioning of the banking system had any impact on Scotland's Baltic connections?

John McGlynn: No—I have to say that I have not noticed any direct impact, at all. The only issue that we may have in the future is that the Financial Services Authority—or whatever the new governing body is—might put restrictions on the shares of market sectors. Both the nationalised banks have large exposure to the property sector and, in Scotland, that may become an issue. I have certainly not noticed anything that would have an impact on international trade.

Christopher Harvie: Have your operations in the Baltic countries—Estonia in particular—been hit by the difficulties of the banks?

John McGlynn: They have been hit no more than have our operations elsewhere. The Scandinavian banks, which tend to be the major owners of the Estonian banks, have the same issues that every other European and, probably, global bank has, in that lending criteria and margins have changed. There is nothing that is peculiar to the Baltic market.

10:15

Christopher Harvie: The Scandinavian banks have a good reputation as narrow banks that know their stuff and do not try to become masters of the universe.

John McGlynn: I agree—although we should also consider the Canadian banks, which are one of the best examples of banking that I have found. I have been in Canada quite a lot recently. Canadian banks never gave mortgages of more than two thirds and were conservative in their lending. To a degree, they are saying, “Global crisis? Sorry. What’s happening?” They have not been affected much.

Christopher Harvie: Thank you.

The Convener: To return to Chris Harvie's point about SMEs, are the difficulties with internationalisation among SMEs more in the mindset of the businesses than in actual barriers to internationalisation? If so, what can we do about that?

John McGlynn: It is a bit of both. An SME might hear that doing business abroad can be a good thing, whether that is because it can buy goods and services more cheaply direct from source or because it can sell its products into a foreign market. However, those are daunting tasks, particularly where there are language barriers, which is the case in the majority of countries. To get on a plane, get off at the other end and be on your own and not know anyone is quite a frightening experience the first time you do it. There is a role for an agency to say, “You know

what? We as a country believe that this is what we should do. Here's how we're going to co-ordinate it, and here's the support.”

All the things that I am suggesting should happen are already happening, but I just do not think that they are happening in the most effective way that adds maximum value. The funding of trade missions is always an issue because the cycles are far too short. Why would a company put a huge amount of time and effort into exporting to, or buying from, China or India if it has no guarantee that the support mechanism will be in place next year? That is why long-term investment is needed. Such support is strategically important to companies in Scotland and should not just be funded from year to year.

I return to my point about the contacts that people make on trade missions. If there is ministerial or elected member support for a trade mission, that generates a reason for Chinese companies, for example, to come and talk to it rather than to the trade mission from France or Germany that does not have such support. The recipe has to be right. However, I also reiterate the point about longevity of funding. We cannot just do things on a year-to-year basis or we will get less commitment from companies.

Stuart McMillan (West of Scotland) (SNP): You said that long-term strategic planning is important, and you also make that point in your written submission. Is that the most important thing that the committee could recommend in the report that we will publish at the end of our inquiry?

John McGlynn: I return to the menu system that I am proposing. Longevity is the major issue, provided that we have got everything else right. The right product can be in place, but lack of longevity is the thing that deters companies from getting involved. A non-direct-Government body should be charged with doing the work. If BusinessClub Scotland Ltd, for example, was charged with the task, with the globalscot network and the Scotland House model added to the mix, would that be enough? It would not be enough if there was not also forward thinking and longevity. Three years should be the minimum commitment. I am conscious of parliamentary cycles, so there might be some difficulty about the decisions of one Parliament being binding on another, but a three-year rolling commitment would be extremely helpful. Companies might find that there is a trade mission to India or China, but will ask whether it is a one-off event or do business agencies and Government agencies believe that there is a long-term future in those markets. A three-year cycle would help to make people focus and think, “That place has been identified as a key growing market, so we should get involved.” People would know

that they would not be left on their own after the first year.

I have been on many trade missions with companies that are exporting for the first time and, to be frank, they have been terrified. I can almost see the terror on people's faces when they get off the plane. They think, "What do we do now?" There is so much to do, and they cannot just phone their personal assistant, their friends in business organisations or others. They really are out on a limb. That is why I suggest that businesspeople who are willing to go the extra mile in supporting colleagues should go on such trips. My experience is that the multisector mission has never failed—I have never been on one that was bad and did not work and on which people did not interact and gain extra value. People can go and do business, which is great, but where do they find the extra value that provides the magnification effect and the return on capital?

The mix of all those aspects must be right. No unique answer can be said to be the most important out of five points. Mr Gibson said that some recommendations that committees had made had been adopted, but I say with respect that cherry picking one or two points will not result in overwhelming success.

Stuart McMillan: We have discussed Scotland House. You talk about hot desking and not taking the bricks-and-mortar approach. In the likes of Estonia, which is a small country, having one contact person might well be sufficient. However, countries such as Germany or China are much larger. I will use Germany as the main example. Would you prefer to have one contact person allocated to each region in Germany, as opposed to trying to have one person cover the whole country, which would be extremely difficult?

John McGlynn: That idea is good. I do not suggest that the committee should recommend ripping up everything that we have done when a network exists. I am considering how we can add value.

A budget of £X might be available to grow a new market, but we must consider office infrastructure and all such costs. In Germany, four project managers could hot desk at donors' premises, for example. Members of the globalscot network or other people might say, "D'you know what? We have a spare office and we'd be more than happy to give something back by letting you use it." That thinking might go too far for some people, but a person's intellectual capital is what is in their mind.

I do not believe that a project manager role needs a fancy office, a nice reception and all those trappings. Many chief executive officers of companies whom I know have no office—they use hot desks in their premises, because they are out

and about and have a laptop and a mobile phone. In an ideal world, having meeting rooms and offices could be deemed to add value, but meeting rooms and other facilities can be obtained elsewhere.

On a trade mission, I do not want to go to any of the official office networks around the world. As we will stay in a hotel, it is far better for the project manager or the person who is to brief us to come to the hotel's meeting room, because travelling between meetings takes time. The arrangements work best if the project manager has a mobile phone and a laptop and can work in a mobile environment. If they are doing their job effectively, they should spend more time out of the office than in the office. Why pay for an office overhead that is not required?

On some occasions, an office is required. We could not have a hot-desk person in Beijing in China, because that would not be deemed to be correct. Once we understand custom and practice in China, such matters are important. Hot desking is not appropriate for every country, but why pay an overhead cost for a facility that we do not need, in most cases? To be frank, if somebody were willing to donate an office, I would take that and say, "Thanks very much. That was very kind of you."

Stuart McMillan: My final question is also about Scotland House. I firmly believe that Scotland will become an independent nation. Is the idea that Scotland House would not just be used for trade missions but could provide other ways of helping to promote Scotland elsewhere a benefit of bricks and mortar?

John McGlynn: My opinion on all things to do with overheads is that I want fewer of them. I encourage the committee to adopt a maximum-coverage, minimum-overheads approach. At some point in the future, if other activities were to be performed, it may or may not be appropriate to have a physical office presence, but currently it is more important to have good project managers on the ground. Some of those people would probably not cost the Parliament a penny.

I am quite convinced that if we talk frankly and openly to some of the global Scots, we will find that they will volunteer to do the work. I will give you an example. I had genuine reason to go and visit the Cook Islands on business. Nobody believes me, so I will not bore you with the details, but I promise you that I can prove that it was a genuine business trip to try to buy the domain name that I have been trying to buy for three years. When I got there, I spoke to the chap with whom I was dealing—in one of his beach villas—and he told me about the manganese deposits around the Cook Islands, which were about to be announced. There are billions of dollars' worth of

manganese, but it is 2km down, so you need deep-water experience to retrieve it.

Being proactive, the first thing that I did was send an e-mail to the minister to say that he might want to brief someone that huge manganese deposits were about to be announced and that a Scottish company could take advantage of that. That message was passed on to SDI, which I think has progressed the inquiry. That is a little example of having someone on the ground with a bit of local knowledge. If that could be fed back into the network, we would have a competitive advantage in securing potentially billions of dollars of international business.

I told the chap to whom I was speaking that that was an amazing discovery and asked whether he was aware of other opportunities, because I was not familiar with the topography and mineral deposits on the islands. He said that of course there were. I asked whether he would be willing to be a kind of ambassador for Scotland. I think that his family tree goes back to one of the people who were involved in Captain Cook's travels. He was more than willing to be an ambassador for Scotland because he believes that he is of Scottish descent. There are a huge number of people around the world who would be more than happy to do that at no cost. If you have somebody who can say that they have been appointed by the Government to look into things but are not in the Government, you will maximise people's interest and enthusiasm.

I would not suggest for a second that the committee could realistically recommend that we open an office in the Cook Islands, but we could have somebody there as Scotland's man or woman in the islands, who would say that if they saw an opportunity, they would feed it into a network. That network and information would be critical. How we dress it up, what we call those people and how we accommodate them with offices and hot desks are details that whoever is charged with the work will probably get right. Budgets are tight and no one will spend money unnecessarily.

My experience in the Cook Islands is just a little example of a potentially billion-dollar deal on the other side of the world in which we could have an advantage, because we have the information network. If you multiply that to 194 countries and then add in all the other regions, a network of 250 people is the maximum that would be needed. Global Scots have more than that and BusinessClub Scotland has more than that. You could open up those networks' networks. It is really about co-ordination. All the things that you need to maximise the success of the project are there; no new money is required and projects and budgets are in place. It is just a different recipe. I

predict confidently that you would see an exponential return if things were co-ordinated just a little bit differently.

Lewis Macdonald (Aberdeen Central) (Lab): I have a simple question on the Baltic market. We have heard from other witnesses how important Scotland's educational reputation is in markets such as China and India. In your experience, does that apply in eastern Europe? Do we make as much of it there as we should?

John McGlynn: Yes—it applies there. Reid Kerr College was ahead of the game in that regard; it was out in the Baltic states with us very early on. It is fair to say that Sandy, who co-ordinated that for Reid Kerr College, mopped up all the opportunities to the exclusion of others. Motherwell College also came out there and, although I cannot remember their names, I am sure that a college from Dundee and a college from the Aberdeen area also came out.

Estonia's biggest advantage is that it is a tiny country with a small market, so it is easy to do a pilot study there. Its biggest disadvantage is also that it is a tiny country with a small market, so it is easy to max out on an opportunity.

Christopher Harvie made the point that Estonia, Latvia and Lithuania are always bolted together as the Baltic states, but they have a population the same as that of Scotland. An industry sector might want to have a dominant position in the market, but it would be a tough gig to be the dominant supplier of something in Scotland. However, if you went to the Baltic states and said, "We're going to do Estonia first, then Latvia, then Lithuania," and did it in three chunks, that would be easier. That is where you get scaleability. It could be said that the disadvantage with the Baltic states is their size, but the point that I am making is that many companies in Scotland could really benefit from serving a market of 1.4 million people in Estonia and the same again in Latvia and Lithuania. If they do it step by step, it is almost like the starting guide to exporting.

There is great affinity with Scotland in some of the regions of Poland. Work does not have to be done country by country; it could be regional within larger countries such as Poland or Germany.

It sounds very clichéd, but the big advantage that Scots have when they travel is that they are genuinely welcomed the world over. Whenever I travel to any country, they say, "Oh, you're from Scotland. That's great." There is a natural affinity with Scotland, which is very helpful, and we should make more of it.

The Convener: That concludes our questions. Thank you very much for coming along and for your very helpful contribution to our inquiry. We will take a short break while we change panels.

10:31

Meeting suspended.

10:36

On resuming—

The Convener: I apologise for the slight delay. We have been having technical problems with the broadcasting system. I hope that everyone has a functioning mike. The mikes will come on automatically, but it would be helpful if you would check that the red light is on before you start speaking, so that we can ensure that your words are properly recorded for posterity.

I welcome our second panel of witnesses this morning, who are representatives of the chemical and life sciences industries, which are important in respect of our export trade, inward investment and the potential for industries that are based here to expand abroad. We are interested to hear what you have to say. I ask you all briefly to introduce yourselves. If you wish to make opening remarks, feel free to do so.

Peter Hodgson (Dow Chemical): Good morning. I am the site leader for the Dow plastic additives plant in Grangemouth. As you may know, Dow is either the biggest or second-biggest chemical company in the world. Our plant supports our plastics additives business, which is a global exporter from Scotland to not quite 194 countries, but to a significant number of those. Our role is to support that global business.

Ray Mountford (INEOS): I am the commercial manager at the INEOS petrochemical plant at Grangemouth. Our sister company, the refining company, is also at Grangemouth. We make a large amount of base chemicals, as well as refining and transporting products out of Grangemouth. It is a global market.

Ken Richardson (Chemical Industries Association Scotland): I am the Scottish adviser to the Chemical Industries Association. The three chemical companies that are represented today are members of the association. I wanted to bring them along so that you could hear directly from them.

Andrew Edwards (Silberline): I am the global marketing director for Silberline inks products. Silberline is a United Kingdom company that is owned by a US company. We manufacture aluminium pigments, which go into the general coatings industry worldwide, so we export everywhere.

Dr Deborah O'Neil (NovaBiotics Ltd): I am from NovaBiotics, which is a clinical stage drug discovery and development biotechnology company that is based in Aberdeen.

Scott Johnstone (BioIndustry Association Scotland): I represent the BioIndustry Association here in Scotland. As Ken Richardson did, we have brought two of our members—Gordon and Debs—along to represent the industry. Throughout the UK, we represent about 300 members ranging from emerging companies and one-man and two-man SMEs to some of the larger players, such as Wyeth, which is now Pfizer, up in Aberdeen.

Gordon Hay (Bio-Rad Laboratories): I am the general manager of Bio-Rad Laboratories Europe Ltd. We are a manufacturing company in Perth. We manufacture kits for testing newborns. We manufacture about 7 million test kits a year, more than 99 per cent of which are exported.

The Convener: Thank you for those opening remarks. We had some discussion earlier about the role of Scottish Development International and other agencies in undertaking trade missions and whether trade missions should be sector specific or more general. Do you have any views on that? You should feel free to answer any of our questions but you are not obliged to answer every question.

Gordon Hay: I have been on both multisector and single-sector trade missions and, unlike John McGlynn, I found them both very good. In the life sciences, we are perhaps less competitive with each other because we are all working in different sectors within the life sciences. I would not differentiate between the two types of mission.

Ken Richardson: The bulk of the chemical companies that are based in Scotland are multinationals and the supply chain tends to be fairly well defined in terms of both suppliers and customers. Trade missions are of less use to the larger companies, as they already have international contacts and customers. Ray Mountford may want to pick up on that.

Ray Mountford: I support that. INEOS has 17 companies around the globe and we already have our contacts. Our refining products are sold globally. Our European products—including ethylene, propylene, benzene—are sold throughout Europe, and some are sold in America. We have the contacts there, so trade missions are not our number 1 priority.

Ken Richardson: However, for some of the small and medium-sized enterprises that are just starting out in the chemicals sector, such as small spin-off businesses in the life sciences and biotech, there is value in having mixed trade missions. The chemicals sector supports and underpins a lot of the other manufacturing sectors and is about the biggest exporter, depending on which quarter you look at. The sectors are all interlinked—we serve into automotives, food and drink, the life sciences and a range of different

sectors. So, if we are having trade missions for emerging businesses, it is important that they are cross-sectoral missions.

Scott Johnstone: Sector-specific trade missions are important for the life sciences. In the Scottish company base, we do not really compete among ourselves. John McGlynn mentioned how other people can help a business through their contacts. Being in an area among focused individuals who come to see us—for example, from the Indian biotechnology sector and Indian pharma-companies—is vital to our success. I have been on a number of well-attended trade missions. If they were made multisectoral, they could become too large and we would not get to meet everybody.

The Convener: Several different organisations are involved in the trade missions, including SDI, SCDI and UKTI. Are too many bodies involved? Is it too confusing? Does everybody know what is going on, or is there not enough co-ordination? Are you satisfied with the way in which trade missions are organised?

Ken Richardson: I have not been involved in trade missions; I am passing on what I have been told by a colleague who has been involved. There is sometimes a certain amount of confusion when there is both a Scottish presence and a United Kingdom presence. There is the potential for people who come along from the companies that have manufacturing or research interests in both Scotland and the UK to get a little bit confused. The focus that some of the organisations, including SDI, provide is good and we have had good feedback on that from companies, so I am not knocking what they do; I am just saying that we must be careful. We have had reports that English companies from a manufacturing area that have been present have sometimes been a bit surprised that Scottish companies from that area are present as well.

Scott Johnstone: It is confusing. I have been on a UKTI trade mission this year, and a company with which I am involved has been on an SDI trade mission to Japan. However, for smaller companies, it is great to have the choice and they will use whatever they believe will best promote them. Taking one of those away would be taking away a tool that our members have. We are all global companies—when a company starts in the biotech sector, it is a global company and such trade missions are critical to its survival. Therefore, the more that such companies have to choose from, the better.

10:45

Rob Gibson: We heard evidence from previous witnesses that representatives of Scotland in the

business club Scotland initiative and global Scots are important contact points and, indeed, potential organisations without any costs. Do any of your companies have a view of how you would play into the network to promote Scottish business abroad?

Dr O'Neil: Absolutely. We have had good experience with members of the globalscot network coming to Scotland and taking back what we have. Particularly in the life science sector, there are a lot of fantastic global Scots in industry all over the world. It is good to have a chance to have them come and see four, five or six companies in a couple of days and take what we have here back with them. From that, we have made some fantastic contacts and made potential links into very big pharmaceutical companies.

We also go to key industry events. Next week, we are off to the BIO international convention in Chicago and have already set up meetings with global Scots there. It works for us as an emerging biotech company.

Gordon Hay: I went on a mission to China a couple of years ago and visited the international peace hospital. I was surprised to meet a global Scot—a Dr Cheng—who had been trained in Edinburgh. She was very helpful. It was excellent.

Rob Gibson: I am trying to build up a picture here. It is clearly different for companies that are rooted in Scotland and for international companies such as INEOS. What role do big, international companies, such as INEOS, have in helping to promote Scottish business?

Ray Mountford: That is a good question. One of my remits is to attract people to Scotland and to the Grangemouth site. I do not have a lot of experience of going around the globe.

Currently, we attract people to Scotland through SDI and Scottish Enterprise. I have no contacts beyond those. SDI is an excellent link, and the coming together of Scottish Enterprise and SDI has helped. Scottish Enterprise helps us locally but SDI has the outward links to people who are considering coming to Scotland.

Rob Gibson: That is an important part of it; thank you.

To follow on from Deborah O'Neil's remarks, it is clear that the universities are closely involved through the biotech industries and so on. Is that a network in the world that adds to our global reach?

Dr O'Neil: Absolutely. My own experience is of the University of Aberdeen, but other universities send annual academic missions to India and other key areas. With links through the Scottish universities life sciences alliance—SULSA—across Scotland, the universities are really punching above their weight, promoting the

recognised academic excellence, and taking it out there internationally.

Ken Richardson: From the chemical sector's perspective, the coming together of the different university departments in Scotland under the heading of Scotchem has made a huge difference—there is a lot of excellence in Scotland. The universities have a degree of presence when they operate as Scotchem compared with when they operate as individual university chemistry departments. It is important for them to get recognition.

Scott Johnstone: There was an SDI mission to Japan in January, led by Professor Sir Ian Wilmot. For some of our members' companies to be alongside someone who is the world leader in his field and to be associated with a Scottish university means that, when people come to the meetings, they feel that they are coming to see not only the world's leading scientist in the field, but the world's leading companies. It is fantastic to have such a springboard.

Lewis Macdonald: I know the life science sector well because of its significant presence in my constituency. I know the chemicals sector less well, and the balance between existing and new technologies has a different character. How important is it for the life science sector to have a level of expertise in the public agencies with which it works? Does the level of expertise exist and is it readily accessible? As industry leaders and innovators, how far can you complement or feed in directly to that expertise?

Dr O'Neil: It definitely exists, and I can give an example. The head of the Scottish Enterprise life science team, who will be with us next week at the BIO international conference as part of the SDI contingent for our mini mission, has set up meetings that we would not otherwise have been able to have. We can work with her and her team, which is great. The partnership and the expertise, both in Scottish Enterprise and SDI, certainly exist.

Scott Johnstone: I agree that the level of expertise in life sciences and biotech is essential. Most of our members are quite small and cannot be on a plane all the time to visit all the different markets, but we can be on first-name terms with the individuals—for example, Vince is the SDI guy in Japan. When chasing up companies and contacts that need hand holding like that—India is another country in which it will take a lot of work to secure deals—having the expertise and someone who knows not only the company but the science is key.

Gordon Hay: Prior to a visit to India, SDI gave me a fantastic report on every VIP in Mumbai and New Delhi. It also gave me a list of the people who wanted to see me out there and asked me to tick

the boxes. I ticked the boxes thinking that we would get half of them, but everyone said yes, so I was in Mumbai with 14 appointments in one day. SDI laid on a car for me, with a driver who took me around every hospital—I paid for the visit, but it was very well organised and SDI was very helpful.

Lewis Macdonald: So the on-the-ground support exists. Is there also an understanding of the marketplace? For example, NovaBiotics is doing world-leading work, and that must be true for many other Scottish companies in the field. How far can you rely on the public sector to understand what the marketplace is and who you need to meet to maximise the market opportunities in different parts of the world?

Dr O'Neil: Again, I have an example from experience this year. The person who heads up the SDI office in California is obviously there because of his expertise in life science, and the office's San Jose base makes sense because of the life science cluster in California. We were not aware, but the office flagged it up, that there were key manufacturers of the compounds that we develop who we should see, and back in January it set up two visits that we would otherwise have missed. It has expertise not just in the sector but in the specific markets that we operate in. It identified some very good links for us.

Scott Johnstone: Having the step between the offices of the high commissioners and ambassadors, who clearly do not have the understanding of the science or the companies, and an agency such as Scottish Development International, with people on the ground who have a background in the area, is essential to moving deals forward.

Lewis Macdonald: So there is a combination—SDI brings in the expertise but the basic structure provided by the embassy is important from a logistical point of view.

Scott Johnstone: It is good and it brings in a high quality of companies.

Lewis Macdonald: The chemical industry is clearly in a different place and, I guess, deals more with established technologies and markets. How important are the things that we have heard from the life science companies? For example, how important is an understanding in the public agencies of what the industry sells and does?

Ken Richardson: I will give a lead-in to the answer and Ray Mountford, Peter Hodgson and Andrew Edwards may pick it up. The key thing for us is that in the chemicals sector, the marketplace is very competitive. Some of it is in existing technology, but aspects such as plant efficiency are always developing. The competitiveness element is very important to us, and any advantage that we can get in Scotland makes a

huge difference to whether we can retain, develop and attract further investment or whether other locations are chosen over us.

Ray Mountford spoke briefly about trying to attract other companies. Perhaps he might wish to speak about the work of INEOS itself, and about some of his work with SDI and Scottish Enterprise.

Ray Mountford: The attraction, retention and growth of jobs in Scotland is critical. The industrial base at Grangemouth offers an ideal location for that. We work very closely with our contacts at Scottish Enterprise and SDI, looking at all the possibilities, from someone who wants to come and just use a shed at our facility for blasting and painting structures to someone who wants to bring in green technology—it might be that we have established technology now, but we are always trying to improve it. People bring and develop their plant on our site and look for help in doing so—as everyone does. We have to attract such people here, because plenty of others would like them to go elsewhere.

One company—which has to remain nameless for now—has decided not to bother proceeding with the substantial grant aid that it could obtain, because it feels that the process is too bureaucratic. The grants are fantastic, but the system is indeed a little bit bureaucratic. It can take three months before being told, “Yes, okay, we will support you.” That three months can be critical.

Lewis Macdonald: Are you referring to regional selective assistance?

Ray Mountford: Yes. If a company makes a commitment before that yes comes through, the bureaucracy will say that there is no point in providing the support, because the company is coming anyway. Also, any amount that is spent before the yes to the grant comes through is not covered. It might only be a small amount for feasibility-type work, but some companies are put off by that, especially by the timing. It is those little things that the committee should be examining.

Ken Richardson: The message from a number of companies is that RSA really makes a difference. However, it is not the simplest of things to operate and there is a bureaucracy associated with it. For a large company, investment decisions often require things to move pretty quickly.

Peter Hodgson has some international experience that he might wish to mention.

Peter Hodgson: We are trying to sustain our business here in Scotland. The key thing is for us to ensure that the infrastructure here is invested in. It is important to have transport links down the east and west coasts to the container ports. Better still would be to have a better container system out

of Scotland. Indeed, 90 per cent of our material is exported, of which about 50 per cent goes to North America. We do not have a direct link from here to North America.

It is not just a matter of physical infrastructure; it is also about having the people infrastructure. We have a big difficulty these days recruiting what Scotland used to be famous for: technicians. Wherever we used to work in the world, we would find Scottish engineers and technicians. It is the opposite now, with Australian technicians supporting our operation, because we cannot find Scottish technicians. We need help from members and the Economy, Energy and Tourism Committee to direct the funds that create, sustain and improve the infrastructure in respect of both transport and people.

Andrew Edwards: I echo what Peter Hodgson and Ray Mountford have said. It is the same for us: 90 per cent of our product is exported, the majority of it to Europe, as we have manufacturing sites in Asia and the US. Infrastructure is key. It is a matter of being able to get the product out of the UK cheaply. At the moment, the majority of our material gets shipped down to Hull and put on containers there. Our particular concerns relate to the Forth road crossing and getting material into Europe.

Ken Richardson: Sometimes the chemical sector hides its light under a bushel, but it accounts for £2.2 billion of exports. The three companies that are represented here are all saying that a significant amount of what they make gets exported. The industry is of major added value to the Scottish and UK economy.

Issues around people and infrastructure have been discussed. There might be money available to spend to help the sector, and RSA does work, but it needs improved. If the key infrastructure can be addressed, that will benefit any business's ability to get product to market as cheaply as possible.

11:00

The Convener: Are you aware of any other European countries or regions where RSA operates in a more bureaucratic or less bureaucratic way? In other words, do you know of anywhere else where these decisions are taken more quickly or where there is flexibility to allow the grant to be processed while other decisions are being made?

Peter Hodgson: No. We usually rely on our local management for that. In this country, I have to talk with Scottish Enterprise to prepare the groundwork so that we can get assistance easily. When I built plants in China and Mexico, I always felt that people were chasing us a lot more and

showing us what we could get instead of our having to ask for it.

The Convener: The committee is trying to identify best practice, wherever it is in the world, to inform our recommendations.

Scott Johnstone: I cannot name it, but one of our members, whose headquarters are based in another European country, has found that it gets a lot more leverage there than it can get in Scotland. As I say, though, I cannot give the name of the company in public.

The Convener: I will speak to you later.

Scott Johnstone: I am sure that I will give you the name.

Ray Mountford: I echo Ken Richardson's point that, as the pot is not limitless, the question is where the aid that is available is best spent. As we keep saying, we need to think hard about infrastructure. Many people ask how many jobs will be created, but we need to take a step back and think about the number of jobs that might be created if we were to build the infrastructure. In that light, we might well make a different decision.

In Saudi Arabia, they provide plots where you can simply hook your plant into existing utilities and infrastructure. I am not saying that we should do that in Grangemouth, but if we are going to attract business, we need to be able to say, "We have the infrastructure; we can give you your utilities; and we have good links to Europe and the world." Most of our liquids are sent out of the country from our jetty at Finnart on the west coast, although we also send a substantial amount from Grangemouth. Some of our plastics go through Grangemouth, but we are considering going elsewhere because getting plastic from Scotland to Europe is two and a half times more expensive than getting it from England to Europe.

Gavin Brown: On RSA, which has been dealt with in a number of questions, the Chemical Industries Association's submission says:

"Our members have reported that"

RSA

"is an excellent mechanism to attract and support investment, but we would advocate greater simplicity and flexibility".

Mr Richardson has already touched on that point. At the end of these evidence sessions, the committee will produce a report, and the more specific our recommendations are, the more effective the report will be in securing any kind of change. Do you have any specific ideas regarding "greater simplicity and flexibility" that we might be able to recommend in our report?

Ray Mountford: I will make the first attempt at responding, and Peter Hodgson might join in afterwards.

INEOS has successfully obtained a significant RSA grant to modify one of its ethylene crackers to convert higher hydrocarbons into ethylene, which will help given the decline in the amount of ethane in the North Sea. The process of completing the form and finding the right people to talk to was not difficult; however, as the world turns, projects change. We will probably have to make slight changes to what we have to do and it will be difficult to explain that we need to spend the money in a slightly different way, even though the outcome will be the same. We will have to go through another loop to ensure that the money is spent in the right way—and quite rightly so—but surely if the outcome is the same it should not really matter if the project changes slightly.

Peter Hodgson: We had exactly the same experience. We had a grant for a certain project that we did not go ahead with. We are now applying for another regional selective assistance grant, but it will take us three months to get the same amount of money and basically the same outcome.

Ken Richardson: We are reporting success. RSA has made a difference in places. There is Phoenix Chemicals's move into the old Annan site, and there have been issues to do with the restructuring of GlaxoSmithKline in Irvine. Both restructurings have been supported by RSA, which has secured those important sites. There are other examples, too.

Like any grant system, the RSA system needs to be looked at from the customer's point of view from time to time. Sometimes systems are built up, safeguards and other things are put in place, and layers of bureaucracy build up around them over a period of time. I encourage the committee to suggest streamlining and reconsidering the process. Are there ways in which the comments that INEOS and Rohm and Haas—I mean Dow Chemical, which took over Rohm and Haas—have made can be addressed? Potential projects are sometimes lost because it becomes just a bit too difficult to fit things within timeframes. In the chemicals sector in particular, many companies are owned and have their headquarters overseas; that is simply the nature of multinationals. Flexibility and the ability to respond quickly to opportunities are critical in seizing investment opportunities.

Gavin Brown: The submission from the BioIndustry Association Scotland is pretty positive about SDI and Scottish Enterprise, but it mentions one area in which there is room for improvement: the retention of companies that are located here. Can Scott Johnstone expand on that point a bit?

Scott Johnstone: Yes. That question touches on RSA. I know what has happened with Phoenix Chemicals, which is excellent, but we do not want to get into a discussion about who gives the biggest grants and how to secure mobile research and development jobs. Other things will bring companies to Scotland. There are mechanisms other than research and development funding. Smaller and emerging companies benefit greatly from research and development grants and other fiscal mechanisms, but I do not think that things move forward as companies increase in size or are bought and there is a footprint, as we have in Aberdeen with Wyeth and now Pfizer. We must ensure that research and development grants are fit for purpose not just for small companies, but for bigger companies. We are discussing with the Scottish Government how they can be improved, slipstreamed and awarded more quickly. A small company may need more due diligence done on whether it will survive a year or two, but perhaps the bigger companies do not have to go through the same due diligence.

Stuart McMillan: I would like to ask questions about the written submissions. My first question is to the Chemical Industries Association Scotland, whose submission states:

“On trade issues, our members believe that they are best placed to determine their own export promotion priorities.”

Will Ken Richardson provide a bit more information about that, please?

Ken Richardson: That takes us back to the point that I made about many of the companies already being multinational organisations. There is a limited number of potential suppliers of certain products, and economies of scale and location make a difference. Those companies are often already very much aware of whom they can buy from and sell to. Let us take INEOS's selling as an example. The plastics that are made at its Grangemouth site are not the plastics for end use that you and I would recognise; rather, they take the form of pellets or powder, which a downstream organisation will convert into useful products. The number of such organisations is limited, so the INEOS business team is very much aware of the customers and who it needs to chase. There might be opportunities for new markets from time to time but, generally speaking, companies are pretty much aware of the potential customers.

Stuart McMillan: In paragraph 7 of your written evidence, in answer to question 4 in the committee's call for evidence, you state that your members

“advocate a UK-wide approach to attracting inward investment”.

A point was made earlier about potential confusion if too many bodies are involved. I have been

investigating how other countries and regions deal with the issue. In America, Kentucky has its own kind of world trade centre, which is a non-profit organisation that helps companies import and export. Indiana has the Indiana Economic Development Corporation. Those are just two examples from America. In Germany, Nordrhein-Westfalen has a similar body and there is Invest in Bavaria. So states or regions in other countries have bodies that do that kind of work. We could compare that to what goes on in Scotland and the UK. Is there potential confusion in trying to import from and export to Germany or America using the various routes there?

Ken Richardson: The confusion often occurs not so much between Scotland and the UK, but within the regions in the UK. The Chemical Industries Association, which is the trade association for the industry throughout the UK, seeks to get the regional groupings to work together. The north-east, north-west and Humberside regions, and others, all have a presence.

You referred to the United States and Germany. In the chemical industry, the US market is bigger than any other in the world and is still a long way bigger than many of the emerging markets in places such as China and India. The country and the value of the market are of a huge scale, so the regional focus there is not surprising. Germany has a massive chemical business—it is the biggest chemical market in the European market. So the regional focus in those areas is understandable.

We are not saying that we should not have a Scottish focus; we are saying that we need to be careful not to create problems by creating confusion among people. We need to be clear about how we work together and where we can leverage the value of Scotland. We have heard examples from the biotech sector, in which there is a strong leverage to be worked, and we should use that. In other situations, there is perhaps not the same requirement. That was what the comments in our written submission were aiming at.

Stuart McMillan: My next questions are for Dr O'Neil. I want to focus on the final two bullet points in her written submission. The second-last one says that the funding culture in the private sector is

“completely at odds with the strength of the sector and focused on other sectors.”

Will you provide more background information on that?

Dr O'Neil: The point goes back in part to Scott Johnstone's comment about the need to retain companies in Scotland once they reach a certain

size, perhaps even beyond the size at which grants are key. It is vital that we can get venture capital or angel money, so it is frustrating that that culture does not seem to exist in Scotland, even though the industry punches above its weight UK-wide. It is the opposite problem from the one that Cambridge has as another centre of excellence in biotech. Organisations in Cambridge find it hard to recruit or retain staff, but easy to raise funds. The situation is completely the opposite for us in that the expertise, the technology and the staff are here, but the VC community does not really play a part. Scottish Equity Partners was one of the last big VC players that we had, but it has now in effect bowed out of life science investments.

It is probably more frustrating in Aberdeen, as there is a significant amount of wealth and a strong entrepreneurial culture there but people recognise and understand only the energy sector and its business model. We are disadvantaged, as the biotech industry is seen as a bit newer and is not a model with which people are comfortable just yet. That is a hurdle that all life science companies face at a certain stage.

11:15

Stuart McMillan: In your final bullet point, you highlight the fact that the quality of life in Scotland is

“a major selling point when attracting people”.

We have already heard that some Australian people are working at INEOS and Dow. Both Scotland and the UK are promoted but, unfortunately, some political parties take an anti-immigration stance. Some media organisations also go down that route, even if they do not promote whole-heartedly the views of the political parties concerned. Is that having or, if it continues, will it have a negative effect on efforts to encourage people to come to Scotland to set up home here?

Dr O’Neil: I do not think that it will have a negative impact on the life science sector, because there is always an influx of the very skilled individuals whom we recruit. Unfortunately, that has to balance the brain drain that is still happening, with people leaving Scotland and the UK. The stance to which you refer is not an issue in our sector, because the best individuals for the job are already in the country, as part of our academic base—they may have studied here—or already working in the industry in the private sector.

Stuart McMillan: My next set of questions is directed to Mr Johnstone. The final sentence of paragraph 5 of your submission states:

“Scotland needs to look at economic powers to ensure that this moves forward in the short term.”

Could you explain that statement in more detail?

Scott Johnstone: The BIA at national level is looking at the issue a great deal. A couple of proposals that we are considering and lobbying for are the R and D tax credit—I am not sure whether you are familiar with that—the patent box and consortium relief, which would allow a larger company to work with a smaller company on a research project and recycle its tax. It is more difficult to implement those changes and to get those powers at national level. For the patent box, we are looking at a level of 10 per cent for the UK, but other countries are considering setting one of 6 per cent, which would immediately put us at a disadvantage. The need for a level playing field across Europe has been highlighted. If Scotland had fiscal power in the area, it could consider the benefit, risk and reward of going for a level of 5 per cent. Making such a change would not be a great loss to the tax pot but would give Scotland a far greater presence globally.

Stuart McMillan: My final question concerns paragraph 6 of your submission, in which you state:

“Scotland can now boast one of the most sophisticated business angel communities in the world.”

Is that a result of the fact that, as you say in the previous sentence,

“Scotland lacks a major venture capitalist”,

or are there other aspects to the issue?

Scott Johnstone: Debs O’Neil pointed out that we had a venture capitalist, which has now left. The business angel community has stepped up to the plate. Like the globalscot network, but locally, it consists of a bunch of individuals who want to help Scotland and are reinvesting in Scotland in exciting sectors such as life science.

Stuart McMillan: I have a final comment to Gordon Hay. It was refreshing to find that his written submission was positive about what is already in the public sector. It is all too common for everyone in Scotland, both in public and private life, continually to knock what is available and to downplay the facilities and services that are in existence. Of course, we are here to look at how things can be improved, but his comments were very helpful.

Gordon Hay: Thank you.

Lewis Macdonald: May I come back on the issue of finance and the biotech industries? The presentation refers to SDI doing more to promote our business angel community internationally in order to attract similar investment from elsewhere. I would be interested to hear more about that. Dr O’Neil made the point that the spin-outs in Scotland would be better networked strategically

rather than simply geographically. Clearly these things go together because innovation and funding must be linked. I would be interested to understand that a little more clearly.

Scott Johnstone: With regard to international business angels, there are some key leaders in the business angel field in life science that invest in our early-stage companies. There are Archangel Informal Investment and TRI Cap. Aurora Private Equity, which is in Aberdeen, has dabbled. It is said that if Scotland was looked at globally in the angel sector, it would have the 11th biggest angel investor community in the world, but I would not like to be quoted on that statistic. You would have to ask LINC Scotland about that. Having people such as Nelson Gray, who was last year's European business angel of the year, going abroad and talking up Scotland as a place to come and invest is a wonderful support. One of the issues arising from not having venture capitalists is that we do not have that investment leadership coming into companies such as NovaBiotics and saying, "We are the cornerstone investment in Scotland and we are leading on this." If we had that, we would then get other global investors from the United States, Japan and elsewhere coming in to syndicate such a deal. What we are seeing in Scotland is the potential to do that, but with the business angel syndicates. That is a lead that could be taken.

Lewis Macdonald: Is that for SDI to sell, or is it for SDI to enable the angel biotech community to sell?

Scott Johnstone: I think SDI should be enabling the angel community because these guys can pretty much go out and do what is required. SDI understands our companies. In the same way, it can understand the mechanics of how the syndicates work in Scotland. SDI should get the angel community out and get them centre stage, as the cornerstone investors.

Dr O'Neil: On the spin-out question, the easy route is to have one centre where several spin-outs can come together geographically. However, wherever there is a cluster it is key that the infrastructure is there for the spin-outs to develop. Last week, we were delighted about the news in Aberdeen that we are to have a second incubator unit, which is great. In every major town or city, where the universities are, where we have already started to attract big pharmaceutical players and where we have support from the clinical services, the NHS and the clinical research organisations, there need to be the mini-clusters that then form part of the Scottish super-cluster. We must make sure there is local infrastructure to support that, which then fans out into a wider countryside network.

Lewis Macdonald: Is that a Scottish Enterprise matter? Should the public agencies or the Scottish Government support that through the enterprise networks primarily?

Dr O'Neil: Absolutely. The mix of having the local support from Scottish Enterprise, which knows the strengths of the local sectors, and the wider national support that we get from the life science team and so on is key to looking overall at how that super-cluster fits.

The Convener: The public sector is likely to have reducing moneys in future years to support international trade and investment. Is it reasonable to ask that relatively established sectors with fairly large companies operating mainly in established markets are left to look after themselves while the public sector concentrates more on emerging markets in Brazil, Russia, India and China—the BRIC countries—and on small and medium-sized enterprises, which may not have the same resources?

Ken Richardson: It is said that it takes about 10 times as much effort to chase a new customer as to retain an existing one. It is the same with businesses. The chemical sector is of massive value to the Scottish economy. It would be wrong to say, "Leave it to itself." It can do its own thing on trade and so on in certain areas, but other areas in the sector need support and encouragement, and existing know-how. I have heard companies say that people in the Scottish Enterprise network have been of good value to their organisations and have helped them. RSA works very well in certain areas in ensuring that we remain competitive, because there are areas that could be improved. We want to encourage, support and develop smaller and spin-off companies, and other sectors, but we should not ignore the existing base, because it supports the rest of the economy. That is the message from the chemical sector: We support the rest of the economy. The point is not just the value of our manufacturing exports; it is that other sectors would have difficulty without it.

Scott Johnstone: In the chemical industry, Phoenix Chemicals is a good example of an up and coming company. I know Ian Low of that company very well, so I know that the company is in the process of becoming a member of the BIA. The company has seen the feed-through of some of the earlier-stage work. Many of our companies are small-molecule companies using chemicals that must be manufactured. If we could do that in Scotland, ideally for Scottish use—that is, get them into the NHS, which would be a whole separate inquiry altogether—and have local feed-through, we would attract money and get businesses growing. However, the issue is leveraging larger players such as Pfizer, Phoenix

or INEOS to be able to come in and work together—that is what we would look for.

The Convener: My final question is on the lack of venture funding in Scotland. Is the way in which the public sector uses available funding other than RSA grants, such as the co-investment fund and equity funding, sufficient? If not, could such funding be used more imaginatively to leverage in more venture funding?

Scott Johnstone: Dr O'Neil referred to Scottish Equity Partners, which was originally part of Scottish Enterprise as Scottish development finance. It grew to a position where the guys who led it decided, "This is a good business. We should spin it out." They spun it out on the basis that they would look after the Scottish community by leading investments and bringing investments in, but that did not happen. A big hole was left because they did not fill the investment space; they were seen as the Scottish venture capitalist, but they did not invest in Scottish companies and nobody else came in. They almost had a monopoly, because they had so much contact with their investments through Scottish Enterprise. I believe that Scottish Enterprise and the Scottish Investment Bank would be wise to have a look at that model, see what worked and think about how they could retain something like that, with the Scottish Investment Bank acting as lead investor.

Gordon Hay: When I was involved in the management buyout from Axis-Shield in Dundee 12 years ago, the two investors were SEP and 3i; the latter has left Scotland and SEP is putting its money elsewhere. The business angels have been filling the gap left by those two.

11:30

The Convener: I apologise to Chris Harvie. I did not realise that he wanted to ask a question.

Christopher Harvie: I want to ask INEOS and Dow what relationships they have with technical education in the Falkirk and Grangemouth area to help with the supply of a skilled workforce to their establishments there.

Peter Hodgson: We have operated an apprenticeship scheme for a number of years. It would be easier if we could draw from a pool of people rather than having to make individual decisions about how many people we want. In some years we might want two and in others we might want six, and we have to make that decision four years in advance. It would be better if there was a pool of people—we would be prepared to provide part of the funding—that could supply us with groups of technical people as we need them.

Christopher Harvie: Does INEOS share that view?

Ray Mountford: INEOS works closely with Falkirk College. We have our own modern apprenticeship scheme with the college. It employs the apprentices, but we fund them. Hopefully, we will find work for those people and they will fill the gap that is beginning to open up in the technician population. Our people are one of our strengths. People come to Scotland because we have the chemicals base, the utilities and the waste treatment, but we also have good, skilful engineers, managers and technicians. The technician population is waning slightly, but our modern apprenticeship scheme with Falkirk College is trying to fill that gap.

We also work with the college and Heriot-Watt University on our engineer of the future scheme, which is based on a German model. Rather than people just going to university and getting degrees, we bring them on to our sites to enable them to get experience there. They get practical knowledge of what we will want when they come out as engineers at the other end. If we are to attract inward investment in future, we will need skilful people. If there is limited funding, we need to consider how we will maintain the skills base.

Christopher Harvie: How many people do you recruit each year?

Ray Mountford: The figure for apprentice technicians can be 16 to 20.

Peter Hodgson: For us, the number is between nought and 3. It is difficult to predict because our operation is not as big as INEOS's.

Ken Richardson: Other companies in the industry are in a similar position to Dow. Syngenta has looked at technician recruitment as it has developed its site, whereas the KemFine site has shrunk a little, although it still needs some new people.

It is important to note the unique partnership between INEOS, Heriot-Watt University and Forth Valley College—it is no longer Falkirk College since the merger with Clackmannan College. A lot of work has been developed between those three bodies and they are willing to share it with others. With a little financial support, we can build on that. As Peter Hodgson said, there are ways in which we can look to make skilled people more available and accessible, rather than having a long lead time. At present, a company might decide that it needs someone but, by the time the person is qualified four years later, the company can be in a different market position.

Just before the recent economic crisis, most companies in the industry were looking to bring in technicians. In a short period of time, we found ourselves in a significant crisis. It is probably the worst economic position that many of the companies have been in. Things are beginning to

pick up a little, but we are by no means out of the woods. In some cases, we are still very much at the bottom of the cycle, but the companies still have to try to look ahead. We should try to smooth out the process, using and building on the good work that has already been done.

Christopher Harvie: I will indicate where I am coming from. As a professor I was a civil servant of the Government of Baden-Württemberg for nearly 30 years and I know the minister who is responsible for research and the universities there. They produce 10,000 technicians a year, compared with the 2,000 in Scotland. Theoretically, their training is funded 50 per cent by the Land and 50 per cent by the industry, although in practical terms it is funded 25 per cent by the Land and 75 per cent by the industry because it trains people up in its own academies, which are funded by Daimler-Benz, Bosch and so on. In comparison, Scotland is at a disadvantage in providing the pool of people that you mentioned.

That seems to be common to the basic chemical works of the big multinationals and the Scottish university spin-offs whose work reaches an advanced level of innovation. At one level, the difference between such companies looks like the difference between steel manufacturers and watchmakers—the technologies are different—but, on the other hand, the need for skilled workers who will enable a laboratory breakthrough to be transferred to the production line is common to both. That seems to be something that we are weak on.

I have two questions. Can we replicate the structures that exist in Germany with organisations such as the Steinbeis Foundation, which supplies a co-ordinated feed of research personnel and research funding for the advanced element? Here, financing could come from angels and venture capital, but in Germany it comes from the Land bank, the Sparkassen and the Rhenish system of industrial finance. Ideally, what structure would you look for from the standpoint of the large concerns and the frontier concerns?

The Convener: We might be drifting away from internationalisation, but please feel free to comment.

Ken Richardson: I was involved in training for many years. The company that I worked for was one of the first to introduce competence-based training and an apprenticeship scheme.

There is no doubt that it is necessary to create a critical mass. That is what we are talking about. The success of the offshore sector has been hugely positive for Scotland, but it has had a bit of a negative effect on other industries because it just soaks up a lot of the skill resource. Many of the technicians we have lost have gone into the

latest developments in the offshore sector. Our companies work away to keep their stock of technicians ticking over, then they suddenly lose another batch. It is a question of having a critical mass.

I do not know enough about the German system to be able to comment in detail, but I know that we have the makings of something with Forth Valley College, Heriot-Watt University and a number of companies. There are already upstream and downstream links into a range of sectors. I am sure that the core competences in the biotech and life science sectors are very similar to those in the chemical sector, so there must be some scope for action. It takes courage and vision, but we have an example on which to build.

Christopher Harvie: My question is for the big boys. You have talked about infrastructural improvement, which would mean building roads or container terminals, for example, but that is a notoriously ambiguous issue, because if it is easy to take products out, it is also easy to bring them in. We could open ourselves up to even more low-cost competition in that way.

If one was aiming to achieve a laboratory-to-production-line shift, would it make sense to invest in bringing back people from the offshore industry? That is a logical idea, given that so many of the people in that industry are on relatively short-term contracts in places such as the gulf and Indonesia. They could be brought back into that area of skilled engineering. In the longer term, if we want to build up the frontier industries, would that not be a better investment than investing in a new motorway or a new bridge, which might make it easier for producers elsewhere to provide us with low-cost heavy chemicals and so on?

Peter Hodgson: There were about five questions there. The industry here has already won the battle for low-cost production. My company has. I led a project three years ago that was given as a kind of a mission statement, "Find a way of shutting the plant down at Grangemouth and sourcing it in the rest of the world." Fortunately, I was unsuccessful and that was mainly because the infrastructure from the refinery supported our plant in Grangemouth. Now, we are going further to develop and optimise our low-cost position, which is why we are looking for infrastructure.

On bringing people back from Indonesia to work in the chemical industry in Grangemouth, a lot of the time, they have gone there because they earn twice the salary. We do not want to bring people back and pay them two and half times the salary because that would make us uncompetitive. It is a matter of supply and demand. We just need a bigger supply of people who would be in good,

worthwhile jobs to sustain our industry. We need sustenance.

Ray Mountford: Infrastructure is not only about motorways but about local pipelines and local tankage. We share some of that with Dow. It uses our infrastructure to import some of its material rather than build its own tanks and cause more congestion on the jetties.

We have a pipeline that goes from our site across to the west coast. It is one-way but we might want, for the resilience of transport fuels, to be able to bring it the other way. We all remember—perhaps not all of us, but I do—that we had a strike two years ago. We have to consider how we can supply those fuels in future. We could bring that pipeline back the other way, but that infrastructure needs investment. The big question is whether we would like to spend our money there or somewhere else.

On whether we can bring people back from the rigs to work on our site, I echo Peter Hodgson's point: we cannot do it if we have to pay them the amount of money that they get on the rigs.

Christopher Harvie: Some of the major innovations made in North Sea oil in the 1970s and 1980s came from combining practical experience in the North Sea with theoretical and experimental innovations—for instance, positioning. We were able to do that from Scotland. I wonder how many people around the table even know about that, but it enabled bodies to remain absolutely static in the sea through a combination of satellites, thrusters and computers. That is a combination of the practical and theoretical that was developed offshore. Today, it seems to me to be common for companies to onshore that quality of entrepreneurialism and technical competence.

I wrote the history of North Sea oil, so I know what I am talking about.

The Convener: That concludes the evidence-taking session. I thank the witnesses for coming along and for their helpful contributions to our inquiry. I am sure that we will take into our final report a number of useful lessons from what they have said.

We will suspend the meeting for a few minutes while we change witnesses.

11:43

Meeting suspended.

11:48

On resuming—

Budget Strategy 2011-12

The Convener: The next item is a resumption of our inquiry into the budget strategy 2011-12. I welcome Philip Riddle, who is well known to the committee as the chief executive of VisitScotland. I invite you to make some opening remarks, after which we will ask questions.

Philip Riddle (VisitScotland): Good morning. Thank you very much for this opportunity to address the committee. Such discussion is always useful for us, so I am pleased to be here. My only opening remark is to ask everybody to think of a hill or a loch and try to make the transition from chemicals to tourism. I was present for the last 15 minutes of the previous panel, which was fascinating, and it got me thinking about chemical issues. Now, we must get back to tourism and the beauty of Scotland. I hope that you can all make that transition. I am happy to take members' questions.

The Convener: The research briefing that we received from you on the current level of tourism compared with the 50 per cent growth target that was set in "Scottish Tourism: The Next Decade—A Tourism Framework for Change" suggests that, rather than going in the right direction, we were going in the wrong direction even before the recession. Between 2005 and 2008, the total spend went down from £4,214 million to £4,047 million, and it declined again last year because of the impact of the recession. Indeed, the number of trips declined over that period, too. Given that, even before the recession kicked in, we were struggling to move in the right direction, how confident are you that the industry can recover and move towards that growth target?

Philip Riddle: Your observation is correct. It goes without saying that we are not on a trajectory to achieve 50 per cent growth, although the figures hide some recent good news. We have always seen 50 per cent growth as an ambition; it has never been a target that has been fully formulated into an operating plan with all the aspects laid out of who will do what to achieve it. I still believe in that ambition. I still believe that there is significant potential for the industry to grow, but we are undoubtedly not on target to achieve a 50 per cent growth in value by 2015, which was originally how it was articulated. There are many things that we can do about that, and I will mention some recent developments that give us hope for the future as a basis for the necessary step change.

In the past year, we have not seen massive growth, but we have seen some growth against a background of global decline. The value of global tourism went down by 4 per cent in 2009, which is significant because it is the first time in about 15 years that it has not grown. The value of tourism in

northern Europe went down by 8 per cent and the value of international tourism in Ireland—which is often regarded as one of our competitors—went down by 19 per cent in 2009. Against that background, our visitor numbers and the value of tourism in Scotland went up, albeit by only 1 per cent, which is very good news.

What went right? Looking back at last year, how did we turn the position around from a poor 2008 to a reasonably good 2009 in the prevailing economic environment? Undoubtedly, we were assisted by the weak pound—the exchange rate is important. People are increasingly looking for value, rather than cheapness, and the exchange rate helped us. We were also helped by the propensity for people, in a nervous economic climate, to stay closer to home and take what has been called a staycation. The year of homecoming also helped us. In a difficult year, it was a great focus in bringing the industry together. In addition, the flexibility that we and the industry showed in our marketing, shifting to new target markets and adapting offers against a background of good-quality products, was beneficial.

There are good signs, but I do not deny the underlying message that we are not on a trajectory to achieve 50 per cent growth.

The Convener: Your corporate plan, an advance copy of which you have kindly given the committee, highlights the fact that the discounting and promotions that have played a role in maintaining occupancy levels over the past year in particular are not sustainable and that input costs are likely to rise. What action can be taken on that? A specific area of concern is the fact that many tourism businesses face significant increases in their business rates, which is an input cost that will impact on their businesses. Has VisitScotland assessed the likely impact of that on tourism businesses?

Philip Riddle: We have not specifically assessed the impact of business rates, although we know that it is significant. I have received a lot of information from businesses about how business rates affect them. It is an input cost that, as you say, cannot be recovered, and there is pressure for rates to go down.

On the other side of the equation, the only way out of this is to provide value, although that is easier for me to say than for the industry to deliver. There is a difference between price and value, and I believe that creating more value in the Scottish visitor experience will enable us to keep business rates higher. If we get into a competition to provide a commodity type of experience—a commodity holiday—there will be a continuous downward spiral and we will be sunk, as we just cannot compete. Even without recent increases, our base-load costs tend to be higher than those

of many destinations. Therefore, we must promote Scotland as being not the cheapest destination in the world, but offering more value.

Value can often be delivered without increased cost. Value is about the welcome, the skills that we show in treating visitors and the variety that we offer—the joined-up offer that we give. We invite people to our country and we can show them that there is so much to do here, a lot of which costs nothing. Our museums and art galleries are absolutely fantastic and most of them are free. We have the right to roam on our hills and mountains, so we can see and appreciate them. It is about joining that up in the value proposition, as the marketers would say, to convince people to keep the prices up.

The Convener: Our hotels are having to discount their room rates heavily. They want to invest in the product and the staff, but if they face big increases in cost, the only thing that they can do is either reduce their investment or their staffing levels, which will reduce the quality of the product. Are we in danger of getting into that sort of vicious circle if things do not change soon?

Philip Riddle: You are right that there is a danger, but we are not there yet and there is an opportunity not to get there. As you know, VisitScotland's remit is not particularly to do with skills and training, but I see encouraging signs. We are looking at an initiative this year—this goes beyond VisitScotland—to see how we can incentivise businesses in tourism to take in more school leavers and graduates, because we expect quite a high number of them to come into the employment market this year. We must not let it become a route of cheap labour, but if we can bring people into the industry to experience it and get some flavour of it, perhaps with some Government incentive, that is one way of energising the industry and preventing the cycle that you described.

Rob Gibson: Good morning—it is still morning by three minutes, although it feels like the afternoon already.

I want to pick up a point raised in the previous evidence session, which was about the ability to sell Scotland abroad being aided by a global network of Scots. The image of Scotland is a great player in developing that business. How do we use that to encourage people here to do the same job for Scotland? You talked about tourism not moving down the ladder to being a cheap employment area. How do people feel about the business that they are selling?

Philip Riddle: I will concentrate on the domestic angle of your question first. This is not just about tourism, but the population of Scotland. We quite

rightly believe that we have more than 5 million ambassadors for Scotland.

Tourism promotion has been a bit remiss in ignoring the Scottish market. We have taken Scotland for granted and put all our effort into England and overseas. We have changed that. Homecoming was a very good example of mobilising people in Scotland. This is partly affected by exchange rates and the staycation, but more and more people are interested in coming to Scotland on holiday.

For the first time, we have set up a Scotland product unit—a marketing unit—that is focused just on selling Scotland in Scotland. Our visitor information centre network is there to provide information to visitors, but we are now using it to take bookings from Scots taking holidays in Scotland. That is a new thing. Generally, we are seeing a greater interest in holidaying in Scotland, which is the first step. Scots generally love the country, but often do not get out and investigate it. Their love of the country is founded on myth and lore and talking about it in a bar in Renfrew. We are seeing more of them wanting to get out and experience it. That is how to win people over.

I went to see my opposite number in Switzerland last year. I was very interested to find that more than 50 per cent of the bed nights in Swiss tourism are from Swiss people—I always assumed that the tourists there were mostly Germans. He said that that was their greatest asset, because the Swiss are the most demanding consumers he knows and they set high standards. If Scots who love the country go out and offer constructive and positive criticism, we will mobilise people. If we mobilise people here, we will believe in what we offer and in the welcome that we give to visitors. If our own people do not believe in that, that is a bad start.

12:00

We all know that there is a big opportunity to mobilise Scots around the world. I am not sure that we have ever quite got our arms around how to do it, but we are getting better. Homecoming was good at doing that, as we mobilised the diaspora. There was a lot of interest and a lot of people were spreading the word about Scotland. That was not just for last year—it will continue.

The future has to be about using the internet more than anything else. Resources are difficult. It would be good to be out talking face to face with the diaspora, and we are getting better at joining up the efforts. For example, VisitScotland does things jointly with SDI and the Government. That is always good, but we must sharpen up our global presence on the internet and allow people who are interested in Scotland to engage with us more

through online communities. We are treating that as a priority.

Rob Gibson: I have to follow that up. It is interesting, because I am thinking about some Russian investigations that are going on about coming to Scotland. The language issue is important in relation to the internet. How well are we geared up to sell our messages in different languages?

Philip Riddle: How long is a piece of string? We are good and we have multilingual sites. VisitScotland has several Russian and Chinese employees. We are probably the most multilingual and multinational organisation in the country and are probably one of the best in the UK. Is that enough? That comes back to my original comment: is it ever enough? We can always do more to empathise with our visitors by having their language at our fingertips. The only good news is that when people come to Britain their expectations about language ability are generally not high.

Rob Gibson: I was thinking about selling Scotland as a tourist destination, but the point is that you are making that effort.

Your business plan refers to how you measure success and to

“developing new KPI reporting tools”

and so on. I presume that that might help us to measure more accurately who is coming here. Is that a big investment or is it something that can be achieved fairly cheaply? We are talking about budget savings. Can you put it in perspective? Is it a tool, a means to help you, that comes at a reasonable price or is it expensive?

Philip Riddle: What we are looking at is not expensive, but I am not sure that it is the tool that you are necessarily looking for for the analysis of visitors.

We want a much greater focus on the generation of economic impact. We hope to have in place, within a couple of years, an aggregation of economic impact that means that for everything that we do throughout the organisation, whether it is the provision of information through a visitor information centre, delivery of quality assurance or marketing into Russia, we should be able to at least estimate the consequential additionality in the economy and put a number on it. We should be able to come to one number for the organisation. We have never done that before; it will give us a fantastic focus and it will help us to ask, overall, whether we are getting better or worse.

We will have a single number that sums up the efforts of the organisation, aggregated all the way down. The dissection of that number is where it

could get more expensive. It is relatively easy to get the building bricks—although it is more difficult than anything that we have done before—and it is not massively expensive. To dissect that, however, and to say who is coming from where, for how long and why they are coming is still expensive and difficult. We are looking at a new visitor survey that will help us and at better analytics. We are looking at all sorts of things on the internet side, which we may come on to. Better analytics on the internet side will also help us to track what is going on more cheaply.

The Convener: I want to follow up on one specific point. How do you avoid double counting when you are looking at the value added by campaign A and campaign B? How do you ensure that you do not count the same figures twice?

Philip Riddle: Usually, we do that by introducing a coefficient that is an estimate, because double counting undoubtedly happens. For example, we have not done it before so we are very keen to measure the impact of giving people information through a visitor information centre because we want to understand the economics. We may get information that says that somebody received information about a hotel from a visitor information centre and then booked into it, but they may also have looked at the website. The chances are that they have done that, because people get information from several sources: they may get information from the visitor information centre and the website, and they may also have been sent a brochure in the post.

We have to make a call on that, because we get three numbers for additionality. If we ask the person how they learned about the hotel, they may have had information from all three sources but choose to tell us about only one or two. We recognise that risk, so we have to make an assessment through the surveys and say, for example, that the visitor information centres have generated £20 million and the brochures £30 million but that each must be discounted by 10 per cent. That is a coefficient that we have to learn and take into account.

Lewis Macdonald: I want first to pick up on the point that the convener raised on the impact of business rates rises on the hotel sector and, specifically, the Scottish Government's decision not to introduce transitional relief. I asked John Swinney in the Parliament a couple of weeks ago whether he consulted business organisations before reaching that decision. Did he consult VisitScotland, given the significance of the decision for the hotel sector?

Philip Riddle: We have had the opportunity to give feedback—

Lewis Macdonald: After the event or beforehand?

Philip Riddle: After the event.

Lewis Macdonald: And have you taken that opportunity?

Philip Riddle: Yes.

Lewis Macdonald: Did that feedback reflect representations that have been made to you by hotel businesses that you deal with, or issues raised by members of the board and staff?

Philip Riddle: The most comprehensive aspect has been feedback from the hotel industry. Obviously, there has been other discussion of the issue, but some quantitative information on the effects has been given to us.

Lewis Macdonald: Is that quantitative information that you can or will put into the public domain at some point?

Philip Riddle: I would have to have the permission of the businesses to do that. I would have no problem, but I would have to find out from the businesses involved.

Lewis Macdonald: I understand that. From my point of view as a constituency member, I am confident—in the worst sense—that every hotel in my constituency has been ill affected by the decision. Have you had any representations from hotels anywhere in Scotland that the decision not to have transitional relief was the right one?

Philip Riddle: We have had one or two.

Lewis Macdonald: But the overwhelming majority would say that the decision has had a negative impact on the sector.

Philip Riddle: Yes, that has been the view.

Lewis Macdonald: Am I right that you made the representations to Mr Swinney when the opportunity was offered after the decision was made?

Philip Riddle: Just to be precise, I believe that we made them through Mr Mather.

Lewis Macdonald: That is helpful. It is interesting in itself, but it is also interesting in the context of the bigger picture. Clearly, in the public spending climate that we are looking at, you will look to private investors and businesses to take on some of the initiatives that need to be taken to grow the sector. Is there a lesson for us about the relationship between the private sector and Government and about joining up Government?

Philip Riddle: The Government has been very good with tourism—that has been true for many years. It has had a good open-door policy and has invited businesses to make representations and

give information. I do not think that that relationship has changed over one issue, and there is still a constructive dialogue between businesses and the Government. There will always be one or two things that not everybody agrees on, but in the main I do not think that the relationship has changed. We are still well placed for constructive working.

Lewis Macdonald: As you will know, one of the issues in the past around growing the tourism sector in the Aberdeen area was the lack of hotel beds, especially the lack of higher-quality accommodation in the city. That has been changing over recent months, which is good news. Is that a picture that you recognise more widely across Scotland? Are private businesses investing in the sort of infrastructure that we need in order to grow the tourism sector?

Philip Riddle: Relative to the economic environment, investment in the sector has held up quite well, and there have been quite a few new developments. Judging from our quality assurance system, the number of bed spaces under the QA scheme has gone up over the past few years. There have been some great iconic developments, such as the hotel Missoni in Edinburgh, and at Blythswood Square in Glasgow. There are also golf resorts. There has been some good investment.

The missing link is that we need to build on individual spots of investment and ensure that we have clusters of investment, so that where we have new accommodation we have new activities that are linked to new catering, new restaurants and so on. Overall, the level of investment has been quite good.

Lewis Macdonald: I guess that the decisions that a private investor makes about whether to put money into establishing a new hotel, or converting or expanding an existing business, will depend on an equation based on whether they are able to access funding and on the ability of the market to provide growth—in other words, whether they can attract the numbers that they require. Given that the level of spend in the domestic tourism sector is on a fairly consistent downward trend, are you concerned about any potential imbalance between the trend of spending by visitors to Scotland and the challenge of investing the money that is required to enable further growth?

Philip Riddle: There is indeed an issue there. Returning to the convener's earlier comments, I am reasonably comfortable about new investment, but there is an issue around investment in refurbishment and expansion, which relates to bed rates. As people look for more value, bed rates go down, value is more difficult for hoteliers to achieve and there is a great temptation to put off the redecoration, the new carpeting, the extension,

the conservatory or the refurbished restaurant. Even if there is a little bit of money available, people might think, "Now is not the time."

In this industry, without continuous investment it is possible to lose the fabric of the product quite quickly. That is where we need to encourage and help people to put money back into their businesses continually. That is difficult if the bed rates are going down, however.

Lewis Macdonald: What you have just described chimes with the experience of hotels in Aberdeen, where very good turnover in 2008 has been followed by relatively low turnover in more recent months. New bed space is coming in now, and there is concern among existing hoteliers about the impact of that. Is there a role for VisitScotland or for the enterprise networks in supporting the investment decisions that people must make if they are to maintain their position in the market?

Philip Riddle: I believe that there is. That brings us to a topic that we have discussed before: the investment plan and the development bank. I am a strong believer in this—there is something very good here. The convener joined us when we had discussions with our Austrian counterparts last year. We have now formulated what should be done and what the possibilities are. We very much need the industry to engage in that, and we have now put what we have come up with back to the industry. A revision of the tourism framework for change, the industry strategy, is now under way, and there is a leadership group involved in that.

We have done as much as we can in the public sector. We have now put it to people in the industry, asking them how they think that the strategy could work. We all feel what is going on out there, but we need a bit of organisation, structure and dimension around the idea. Someone needs to show us the scale of the issue and say what is really needed. We do not have that. The industry must come to us now and tell us exactly what it needs.

12:15

Lewis Macdonald: Have you had a positive response?

Philip Riddle: We have had a positive response, but we have not yet got the information that will let us move forward.

The Convener: As far as I can see, there is nothing in your corporate plan about the tourism bank. Do you have an indicative timeline of when you hope to make progress, or when someone will come back to VisitScotland with an indication of what is required?

Philip Riddle: I hope that it will be within the next three months. It is now out of our hands. The response will not come to VisitScotland; it will go to the public sector partnership as represented by the strategic forum. The idea was taken into the strategic forum working group and went from there out to the industry.

The Convener: Rob Gibson has a supplementary question about one of Lewis Macdonald's points.

Rob Gibson: Would it be a good idea for smaller businesses and other types of business to subsidise hotels in a transitional rates relief scheme?

Philip Riddle: I have difficulty commenting on that. I am not sure why some businesses should subsidise others. That is beyond my understanding of how businesses would fare in the current environment.

Rob Gibson: Have you had follow-up from the smaller tourism businesses, like bed and breakfasts, for which the small business bonus could kick in and give them the kind of support that such businesses have not had in any other part of the United Kingdom?

Philip Riddle: I have not surveyed that. As you can imagine, when information is sent to us, it is about what is not working and not often about things that might be going well.

Rob Gibson: There is an indication that bed nights in hotels have held up quite well in the past year. Do you expect that to continue? Will we see hotels closing down?

Philip Riddle: Undoubtedly, we expect last year's trends to run on through. I do not know whether we will talk about the most recent developments, but the flight disruption was a setback. If that were to be repeated, it could be difficult, but the underlying trends—the weaker pound, the staycation, the flexibility of businesses—are still there. Visitor numbers should hold up.

We have talked about whether we can make sure that the visit rate stays up, and that will be more difficult. The environment is getting very competitive. A lot of support is being given to tourism in other countries. However, for this year, I am confident that we will achieve more or less the same as we did last year. We will not see a step change, nor will we see a decline. I cannot guarantee that there will not be hotel closures. The environment is difficult for all sorts of reasons, and there are bound to be business changes.

Rob Gibson: Thank you.

Gavin Brown: What is the effect on VisitScotland's finances of VisitScotland.com?

Roughly how much do you spend on VisitScotland.com per year, and how much income do you get from it per year?

Philip Riddle: Since we took over VisitScotland.com, it has all been good news. In the past year, VisitScotland.com paid back £500,000 to VisitScotland, so we have got it into a position of financial stability. In fact, it is more than that. Using the same criteria that were in place when it was a public-private venture, VisitScotland.com is putting money back into the coffers.

Our aspiration is for that to continue. Obviously we are not in the business of seeking to maximise profit but, at the very minimum, we see VisitScotland.com paying for itself for the foreseeable future.

Gavin Brown: The table on page 45 of your most recent corporate plan "VisitScotland Corporate Plan 2010/2013: Maximising the Economic Benefit of Tourism to Scotland", shows that you have two broad income streams for your expected income this year and next, the first of which is described as "Commercial and Stakeholder", and the other as "Scottish Government Funding". From the "Commercial and Stakeholder" stream, you anticipate getting £19.2 million in 2010-11 and £19 million in 2011-12. First, what is that stream made up of? Secondly, are you confident that those figures will be reached, given potential downturn dangers and so on?

Philip Riddle: We have made conservative estimates to allow for the downturn. Commercial and stakeholder income includes money from local authorities under service agreements, money from businesses for marketing opportunities and for our quality assurance scheme, European grant money from schemes that we are involved in and some money for partnerships. There is quite a wide range. All those areas, for reasons that we have touched on already, are under pressure. The public sector side and local authority funding are under pressure, and businesses' ability to buy marketing opportunities is under pressure. That pressure has existed for a couple of years now, but we have done quite well in estimating and managing it, although it has been a managed decline. Overall, as you will see from the numbers, we anticipate that our expenditure will go down by £7.5 million this year, of which £1.2 million will be a reduction in commercial sector income. Our aspiration is to try to get it growing, but we estimate conservatively that that will not happen this year or next year.

Gavin Brown: So, the commercial and stakeholder income is a conservative estimate. For "Scottish Government Funding", the table shows £43.6 million for this financial year and

£43.2 million for 2011-12. Has the Scottish Government indicated whether the £43.2 million figure is likely, or whether there is a danger that the sum will drop below that? Where does the £43.2 million figure come from?

Philip Riddle: That amount is the indication that we have had. We have not had a grant letter yet, but that indication came from our sponsor unit in the Government. There has been no suggestion that the figure is questionable. Obviously, until it is confirmed, there must be a bit of a question about it, but nothing leads us to believe that there is significant doubt about it.

Stuart McMillan: We had an evidence session earlier for our trade inquiry. A witness in the first panel made a suggestion about trade missions, which was that whenever an MSP, a minister, an MP or whoever goes elsewhere for an inquiry or whatever, the visit should tie in with trade missions. Would VisitScotland support that and participate in such activity in order to aid the promotion and selling of Scotland?

Philip Riddle: We certainly see opportunities for crossover activity. It is important to think about who we are trying to reach in the target market and what they want, rather than about what we want. In general, mainstream trade missions do not reach the same people whom we try to reach. That can be seen in tartan week, which is a very mixed and effective Scottish event at which we can share a buzz about Scotland that we can create, then go off and do the different and more specific market-centred activities. We hope to do something similar in India this year around the handover for the Commonwealth games, when there will be trade missions and tourism missions that will, to a degree, work independently, and then come together to make a Scottish impact.

Stuart McMillan: Is there already a budget in VisitScotland to allow that type of activity to increase, if VisitScotland wants to undertake more of it in conjunction with politicians?

Philip Riddle: It all comes down to prioritisation. Overall, we see the undoubted value of retaining a commitment to emerging and long-haul overseas markets, which are primarily the markets in which joint efforts produce a great bang for the buck. However, there will be difficult decisions for us. If, in the short term, we centre on UK tourism and the recent flight disruptions have a more fundamental impact, there will be more pressure for us to put in more resource closer to home. We must be flexible and we must consider such matters.

At the risk of repeating myself, I make the point that, fundamentally, we should have a spread of investment: we will not put all our eggs in one basket. We will retain a presence in China, India, Canada and other parts of North America, and we

will retain interest in reaching other long-haul markets, even if that is done through VisitBritain. It would be folly not to do that. However, in the short term, the pendulum will swing towards our concentrating on western Europe and the UK, just because market forces indicate that that will produce the greatest bang for the buck.

Stuart McMillan: On page 18 of your corporate plan you highlight your values, the third of which is integrity. You say that that involves

“not over-promising and enforcing quality levels”.

The point about “not over-promising” is interesting. Can you provide us with more information about what you mean?

Philip Riddle: The comment relates to our role, which is interesting. We are a marketing organisation that has no control over the product that it sells. We have a link, through our quality assurance scheme, but we must be careful. Our marketing is tailored to what consumers are seeking—what the market wants—but we must be extremely careful not to market according to what the customer wants when we may not be able to deliver that. We must always have a reality check. In the main, there is not a big problem, because what we have to sell in Scotland is fantastic—we have great variety and quality. However, the worst possible thing is for visitors to come to this country and say, “I saw those adverts, which were fantastic, but where is it? I can’t see it here.” We do not have that problem, but everyone in VisitScotland must remain mindful of the need to ensure that what we deliver in marketing can be backed up in reality.

Stuart McMillan: My next question follows a question that Gavin Brown put to you. It is no secret that the UK’s national debt is in a horrendous state and that, over the next five or 10 years, we will receive some savage cuts—even worse than Thatcher’s cuts of the early 1980s, some would say. What work is VisitScotland undertaking to deal with the situation that may affect the organisation over the next few years?

Philip Riddle: The first element is what is euphemistically called the efficiency programme. In the main, that is about prioritisation. We have been very successful. Over the past three or four years, we have exceeded all targets for efficiencies. This year, we are on target for another £800,000 of continuing reductions in costs. Over the period, we have achieved reductions of about £3.8 million, which is well ahead of our target of £2.8 million.

We have achieved reductions in different areas. For example, we have found the central Government procurement initiative enormously helpful and have managed to cut our procurement costs significantly. We have also done a lot of

work on rationalising our property, not so much through closures as through sharing property. We have done good work on that with South Ayrshire Council and we have moved to shared offices with Highlands and Islands Enterprise in Inverness. We also now share several visitor information centres with Caledonian MacBrayne. Our putting those things together has been effective and we will continue to do that.

12:30

Although deeper cuts may well come, that is how we will manage the current outlook. As I said, we face reductions of something like £7.5 million, although part of that will be for the year of homecoming. We can manage that through the initiatives that I have outlined; it is a question of prioritisation. Efficiency might also mean cutting hours. In Edinburgh and Glasgow, we have cut the opening hours of our visitor information centres. Certain periods represent a lower economic value, so they are a lower priority and we cut them.

Deeper cuts will require more radical solutions, in which respect we have been considering options. We have not developed them particularly far yet, as all our funding indications are confidently on the line, as I said to Gavin Brown, and we have not yet been told that there is any need for that. Nevertheless, there are options. One of the best options for us is to increase our revenue generation and see whether we can become more self-sustaining.

On the original point, I think that the industry has potential and is one of the industries that will help Scotland to grow. I am optimistic that we are entering a period in which tourism will become more important, that there will be more opportunities, and that VisitScotland could position itself to take more support funding in some way or other from the private sector environment in which we work. We have not looked into that in great detail, but that is where we will go after we have exhausted the efficiency savings that we are currently making.

Stuart McMillan: Thank you.

Ms Alexander: I am glad that we have touched on the public spending environment. You will be aware of the paper that was published by Andrew Goudie last week, which suggests that we are looking at 3 per cent real-terms reductions for the coming four financial years. Were anything like that to transpire, incremental efficiency savings would be likely to fit the bill. In that context, what current or new activities must be protected? The story of Scottish tourism over the past four years has been one of steady progress in international markets and some underperformance in domestic markets.

The committee has invested a lot of time in thinking about the future direction of Scottish tourism. Some initiatives have come to fruition and some are still in development. I seek guidance from you not on how you will make efficiency savings of 3 per cent year on year for the next four years, but on what current or mooted new activities will be essential in growing our market share. In the context of our consideration of the budget at stage 1, that information would be helpful to the committee.

Philip Riddle: I do not want to risk suggesting what might not be a high priority or that we would welcome cuts anywhere. Nevertheless, our *raison d'être* is marketing Scotland and everything in Scotland—that is essential for Scotland. Tourism is a competitive business on a national basis, and having national brand identity and national marketing is essential. It is not essential in every area of business, but for tourism that is how consumers make decisions and it is how our world works. We need national marketing. Beyond that, our key activities are events; it is crucial that we draw international events to Scotland and foster the events industry here.

More questions could be asked about our quality assurance. I believe that the quality assurance in this country is fantastic. It is world class; in fact, it could be the best in the world. I have never seen better. Nowadays, however, there is more peer review and I think that there has been slightly less effort in that respect. We are already adapting, but we could adapt even more.

Our biggest cost is probably in information provision, which is also a sensitive issue because it is integral to Scotland. Although an information network throughout the country might not give as big a bang for the buck as other provision, many people see it as being crucial to supporting the industry. However, the hard facts and figures show that it is expensive and, if we were really under pressure, we would keep the brand, themed and product marketing, move everything mostly online and reduce the physical presence across the country. I stress that we are not aiming to do that, but that is where we would go if we were under real pressure.

Ms Alexander: That is very helpful.

Christopher Harvie: You mentioned that Swiss citizens account for 50 per cent of bed nights in Swiss tourism. What is the comparable statistic in Scotland?

Philip Riddle: It is 40 per cent. I think that the figure for Switzerland was actually 55, but I will not split hairs. It was higher than I had expected.

Christopher Harvie: I found that interesting, because I lived very close to Switzerland and spent quite a lot of weekends in the country with

my family—I always enjoyed my visits enormously. The attraction of Switzerland for the middle-aged family—parents with teenage children and so on—has been the enormous and subtle variety of things on offer, coupled with the awareness, for example, that the weather is not always perfect and that the side of the mountain where you are can get very dark at certain times of the day.

Someone in the late 19th century described Switzerland as a railway system in search of a country, but it has made an enormous success of that feature. In the 1980s and 1990s, I would go down to the Engadin valley, where at the time three trains a day went over the Pontresina pass into Italy. These days, there are roughly 600 tourists on each of the 10 trains a day that now go over the pass. When we contrast that with the west Highland railway, the scenery along which is judged as perhaps the best in the world, let alone in western Europe, one has the enormous feeling of a chance lost. Although we have that kind of material, the passengers who use the west Highland railway would not fill six Glasgow buses.

I have met Mr Renggli, the Swiss consul general, and I wonder whether, given the enormous expansion in cruise liners and the possibility of integrating our internal transportation links—including centres such as Perth, Wemyss Bay, Gleneagles with its large and very derelict station, and Stirling—it would be worth while pursuing a partnership with the Swiss to see whether they could do what I have no doubt Deutsche Bahn will do with the Welsh railway system now that it has taken it over. In other words, can we develop transportation as an all-weather means of opening up an extremely attractive country? I do not think that we can do that on our own; we need people who understand something about a kind of engineering that, alas, we can no longer do. How does that project grab you? Is it a lunatic idea or do you think that there is something at the end of that rainbow?

The Convener: I think that we are getting into a bit of danger here. One politician has already talked about overpromising; now another one is talking about lunatic ideas.

Philip Riddle: What Mr Harvie suggests is perhaps a bit beyond my remit. However, on my recent trip to Switzerland, I found the Swiss to be very open to co-operation. They are not sufficiently complacent or confident to think that they have all the answers, which was quite refreshing, and they are also quite interested in learning from us.

Although the high level of technical efficiency in Switzerland is well known, the Swiss are not quite so good at using other elements of their culture and history for tourism. There is, therefore, fertile ground for exchanges with the Swiss. Whether

that could extend to transport is interesting, but I could not comment on that.

Christopher Harvie: Within 20 years, we might well face the \$300 barrel of oil, and that will feed its way back into our potential. In those circumstances, a Victorian transportation system has a lot to be said for it as a unique national environment.

Philip Riddle: For better or worse, recent developments mean that there will undoubtedly be a renewed emphasis on rail travel. We talk to the rail companies about the situation regularly to ensure that we jointly seize the opportunities that exist.

The Convener: I want to pick up a couple of other points from your draft corporate plan. On page 21, you talk about building on the success of 2009-10 and refer to the homecoming creating “worldwide interest” and being expected

“to bring in at least £44 million extra spend”.

You then say that

“the 2009 Winter White campaign ... generated £63.5m additional income”.

If that campaign, which cost about £1.5 million, could generate so much additional income, why were our ambitions for the homecoming so limited?

Philip Riddle: In a general sense, that illustrates one of the issues that we will face as we try to put numbers on everything that we do. The numbers are important, as they help our prioritisation, but we must always go beyond the individual numbers. Some things that we do will produce lower rates of return. The homecoming’s objectives were much wider than just the economic impact. It was undoubtedly the highlight campaign, and I am confident that we will get more than £44 million in added value to the economy from it. It was measured purely incrementally according to the number of people who came to the events from outside Scotland, which was not exactly the same way in which the winter white campaign was measured. In addition, the other achievements in engaging the diaspora and building pride in Scotland must be taken into account in measuring the homecoming’s success. These things work off each other, too, and we do some things because they cross over into something else. Part of the knock-on success of a campaign such as the winter white campaign was having a great events programme in the country that was not specifically linked to a campaign but which was an added attraction. The two campaigns probably compare pretty well against each other.

The Convener: You talked earlier about your current marketing strategy being more focused on

the internal UK market and western Europe. However, your draft corporate plan refers to developing new markets in China, India and Russia, where I assume that partnership with VisitBritain will be crucial. When I was in China in October, I met the VisitBritain representation there and was surprised that, in a country of China's size, only two people were working for VisitBritain. Does that surprise you? Should we work with VisitBritain to expand our UK presence in some of the emerging markets, perhaps not for immediate benefit but to develop those markets in the long term?

Philip Riddle: Again, it is wish against reality. VisitBritain's budget has gone down below ours—not that I am suggesting that we consider it as a parallel. It has had to cut back its overseas representation considerably. We now work more effectively with VisitBritain than we used to, but with a reduced presence. We would all be delighted to build up the overseas presence, whether jointly or individually. VisitBritain now has a good model, in that it recognises that it is representing not Britain but a collection of brands that make up Britain. That is healthy. If it could build up its overseas presence with better funding from Westminster and we could feed into that, that would be great.

12:45

Coming back to the earlier discussions around prioritisation, we would love to have overseas representation, but it is relatively low down the list. The economic impact of the money that could be spent on having people overseas does not stack up against the economic impact of the money that could be spent on winter white or even homecoming. It would be nice to do it if we could, though.

The Convener: Earlier, you mentioned the income that you receive from other stakeholders, key among which are local authorities, in terms of the partnership agreements. However, many local authorities are working on destination partnerships—Edinburgh is the classic example. Does the fact that local authorities' funding is likely to be constricted during the coming years mean that there is a danger that they will divert money that currently comes to VisitScotland into their own destination partnership arrangements, to the detriment of the overall tourism budget?

Philip Riddle: That is undoubtedly a danger. The fact that we have managed to retain income from local authorities at reasonably high levels is testament to the fact that we are not working on that in a rushed way. However, we can see the situation that you describe happening with smaller amounts of money in various areas.

The challenge for us is twofold. First, we must ensure that any money that is going into local initiatives is still linked to what we do, so that we get the biggest overall impact. I think that we are doing quite well in that regard. Secondly, we must refine the measures around economic impact, which we discussed earlier. We have to ensure that we are persuasive with local authorities and businesses. We are confident that what we do produces the best bang for the buck, but we do not always get that message across. We have spent quite a lot of time producing information about the returns that people get from investment with us. I believe that the more open and transparent we are, the more evident it will be that any money that is available should be converged into one effort.

The Convener: That concludes our questions. I thank Philip Riddle for his presence today—no doubt we will see him again in the not-too-distant future.

12:47

Meeting suspended.

12:48

On resuming—

Annual Report

The Convener: Item 3 concerns consideration of the committee's annual report for 2009-10, which the standing orders require us to produce.

Members have before them the draft report. Does anyone have any comments?

Gavin Brown: I have spotted one or two typos.

The Convener: You can bring those to the attention of the clerks after the meeting.

I am not sure about the wording of paragraph 11, on petitions. I do not think that the sentence

"no petitions were considered by the Committee"

reflects what happened. The reality is that no petitions were referred to the committee. That is probably a better way of phrasing it.

With that change, do we agree to the annual report?

Members *indicated agreement.*

The Convener: We next meet on 12 May, when we will take evidence from the Cabinet Secretary for Finance and Sustainable Growth on the budget strategy. That will be followed by the joint seminar with the Scottish Trades Union Congress.

Meeting closed at 12:49.

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