



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 9 June 2010

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**Wednesday 9 June 2010**

**CONTENTS**

	<b>Col.</b>
<b>INTERNATIONAL TRADE INQUIRY</b> .....	3729
<b>SUBORDINATE LEGISLATION</b> .....	3788
Arbitral Appointments Referee (Scotland) Order 2010 (SSI 2010/196) .....	3788

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**ECONOMY, ENERGY AND TOURISM COMMITTEE**

**19<sup>th</sup> 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:**

Frank Boyland (Scottish Development International)

Susan Haird (UK Trade and Investment)

David Smith (Scottish Development International)

**CLERK TO THE COMMITTEE**

Stephen Imrie

**LOCATION**

Committee Room 5



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 9 June 2010*

[The Convener opened the meeting at 09:33]

### International Trade Inquiry

**The Convener (Iain Smith):** I welcome members to the 19<sup>th</sup> meeting of the Economy, Energy and Tourism Committee in 2010. The main item on today's agenda is our international trade inquiry, for which we have two panels of witnesses. I welcome Susan Haird, the deputy chief executive of UK Trade and Investment. UKTI is an important body that works throughout the United Kingdom to support companies that trade internationally, and to attract inward investment to the UK. It will be valuable for us to hear how it supports Scottish companies and Scotland in that regard, and how it works with Scottish Development International. I invite Susan to say a few words by way of introduction, after which we will ask questions.

**Susan Haird (UK Trade and Investment):** Thank you very much for giving me the opportunity to appear before you this morning. UK Trade and Investment is the Government body that helps UK-based companies to internationalise and that helps to attract inward investment into the UK. We have staff in our headquarters operations in London and Glasgow, and we have front-line staff in the English regions. We also have staff in 162 locations in 96 markets around the world, and those 96 countries represent 98 per cent of the world's gross domestic product.

Trade and investment are matters of devolved responsibility, but we work closely with our colleagues in Scottish Development International. Almost all of our trade services are open to Scottish companies, the only exceptions being those that are delivered on the ground in the English regions by our international trade advisers. The geography means that it simply would not be feasible for us to offer those services to Scottish companies. In their cases, similar services are offered by Scottish Development International, through its front-line staff.

I will give a few examples of where UKTI and SDI have worked closely for the benefit of Scottish companies. We have recently had joint stands at the Bio Expo Japan exhibition and at CeBIT Australia, and we are working together on an upcoming UK financial services week at the Expo 2010 in Shanghai. We are using the Shanghai

expo and the UK pavilion to promote UK companies to Chinese and world companies. UKTI also holds a series of outreach events throughout the UK, and a recent Asia task force event took place at Murrayfield. In addition, we have fiscal stimulus specialists whose task is to identify opportunities arising from the fiscal stimulus programmes that have been put in place in the major G20 countries, and those fiscal stimulus experts have run a number of seminars in Scotland that have been designed to bring the opportunities that they have identified to the attention of Scottish companies.

The final area that I will mention is inward investment. We work closely with SDI to promote the UK and Scotland as inward investment destinations. SDI has staff overseas in a number of markets and we work closely with SDI overseas as well as in the UK to bring opportunities into the UK. In some overseas markets, such as Mumbai, our staff and SDI staff are co-located. I hope that that gives you a flavour of the co-operation in which we engage on the ground so that Scottish companies can access our services and we can work together for the benefit of Scotland.

We also work closely with SDI at the policy level. We have an annual summit with the devolved Administrations at chief executive level and we work closely through fora such as the international business development forum to ensure that our policies are co-ordinated to the benefit of companies throughout the UK.

Thank you for allowing me the opportunity to speak. I am now happy to answer your questions.

**The Convener:** Thank you for those opening remarks.

We have heard the criticism that UKTI seems to be too focused on London and the south-east and does not spread itself sufficiently to other regions. We have heard that criticism not just from Scotland but from other regions, in the course of our inquiry. Do you think that that is a valid criticism, given that the 2008-09 figures for inward investment suggest that nearly seven times as many foreign direct investment projects were attracted to London as were attracted to Scotland?

**Susan Haird:** It will not surprise you to hear that I do not think that that is a valid criticism. I will deal first with the inward investment part of your question. The primary purpose of UKTI and our partners in the regional development agencies and the devolved administrations is to ensure that we win the investment for the UK and that it does not go to a competitor country overseas. We work closely to co-ordinate all leads and to ensure that the inward investor comes to the UK. It is then for the inward investor to identify, from the various offers that are put to it by the regions and the

devolved administrations, where in the UK it is most sensible for it to go. It is really as simple as that.

**The Convener:** We have heard the particular criticism that, when an inward trade mission comes to the UK, even in a specialist area such as the life sciences, it often does not go where the expertise is—it tends to land in Heathrow and stay in the south-east even if the life sciences expertise is in Scotland or in the south-west. We have heard that criticism from different regions at different times.

**Susan Haird:** I concede that there is criticism. London is the capital city—it is a big magnet and the transport links are very good. Nevertheless, Scotland does very well on the inward investment front. My colleagues from SDI, who are sitting in the public gallery behind me, will be able to give you figures for the number of investments that are made in Scotland. Scotland is a very big recipient of inward investment.

You referred to trade. We have an international trade director in each English region who is co-located with the regional development agency. The directors work up international trade strategies for their regions and we have front-line staff in the nine English regions whose task is to help companies in their region to internationalise. The service that we offer our customers on the trade side is spread well throughout the UK.

**The Convener:** I will approach the question from a slightly different angle. The Prime Minister, David Cameron, has said that his Government will seek to redraw the UK's business map by breathing

"economic life into the towns and cities outside the M25."

How will UKTI play its part in that? How will it measure the success of its efforts to attract inward investment to the UK in that respect?

**Susan Haird:** It is early days to see how the Government's policy of reducing regional disparities will pan out, but we could use several measures, including budget redistribution, if that were ministers' wish. So far, no decision has been made on how the wish to reduce regional disparities will have an impact on inward investment activity.

**The Convener:** How evenly are your staff spread among the UK regions? How many staff are in London and the south-east?

**Susan Haird:** We have distributed our regional resource in accordance with the economy's needs. The spread is not too dissimilar among the English regions. We are staffed to service customer demand, which is based on the number of companies.

#### **Rob Gibson (Highlands and Islands) (SNP):**

Most countries are pressing the same major areas—including tourism, financial services, life sciences and energy—for development and investment. Energy is particularly important to Scotland in relation to the export of expertise and machinery and the import of partners. As we found when we were in Düsseldorf last week, large German companies and utilities could be useful partners. Will you break down your understanding of how UKTI has responded on exports and on inward investment in energy?

**Susan Haird:** We have a team in Glasgow that handles the energy sector. We market the energy sector internationally as the business partner of choice. The purpose of that marketing strategy is to encourage inward investment in the energy sector in the UK and to create an umbrella for promoting the UK energy sector's expertise under which companies can trade and prosper. That marketing strategy was worked up in collaboration with SDI and—critically—in consultation with business. Our intention is that we, our delivery partners and businesses will use the strategy as a framework for promoting their excellence.

UKTI places much focus on low-carbon technology, which is cross-sectoral, because the market is huge and growing massively internationally and because we want to build such work in the UK through inward investment. The low-carbon marketing strategy is designed to promote the UK's strengths and to encourage companies from overseas to invest. That is a key sector.

In common with SDI, UKTI has a strong sector focus. We have identified several sectors that have the potential to add value to the UK economy by growing internationally and to which we feel that we in UKTI can add value by having a national strategy. Energy and low-carbon technology are key sectors in that regard, as are financial services, which form another important sector for the Scottish economy. Life sciences, information and communications technology and the creative industries are other such sectors.

**Rob Gibson:** Our discussion started with energy. Will you give us a flavour of recent activity in which UKTI has been involved to make connections with potential inward investors in the energy sector?

09:45

**Susan Haird:** It is not appropriate that I talk about particular projects, but I can say that the energy sector is a key focus for inward investment activity.

**Rob Gibson:** Many of the brains in the energy sector and in low-carbon development are small

firms that would wish to be involved in partnerships. You say that the bulk of your work is related to small and medium-sized enterprises. How does that figure in how you help small firms either to make partnerships abroad or to go abroad and sell their products?

**Susan Haird:** As you know, some 90 per cent of our customers are SMEs, which reflects the proportion of SMEs in the economy. We work with small companies, primarily through the English regions—at least in the first instance—first of all to build the capacity for them to export. We then take them on a journey internationally. That journey might well include exhibiting at trade fairs overseas and major energy exhibitions, such as the big one that recently took place in Houston, and going on missions. We bring together the major UK players, including those in the energy sector, and supply chain companies, including SMEs, to encourage them to get together to bid for business overseas.

**Rob Gibson:** Given the comment in your submission that 38 per cent of your clients are in production and 59 per cent are in service firms, do you think that it is easier to export services than it is to export products?

**Susan Haird:** I do not think that it is easier. I think that the proportion of our clients reflects the current proportion of manufacturing companies in the economy. I think that the answer to the question is that the service sector is bigger. As far as we are concerned, we will help any company that comes to us. I would not say that one kind of exporting was more difficult or easier than the other; the figure reflects the distribution in the economy.

**Rob Gibson:** Given that the thrust from the incoming UK Government and, indeed, those of the previous one and the Scottish Government, has been that production and manufacturing will get greater attention, and that our opportunities in low carbon, for example, will involve a lot of production and manufacturing, will UKTI emphasise that area more? We need to know that that opportunity exists in order to maximise the benefit to companies in both producing and exporting.

**Susan Haird:** We already have a strong focus on the manufacturing sector. I will give a couple of examples. As I am sure you know, we do a great deal in the defence sector. Responsibility for defence exports came across from the Ministry of Defence a couple of years ago. We now have the defence and security organisation within UKTI. Both those sectors are very strongly focused on manufacturing. Advanced engineering generally is another sector that we promote very strongly. There is also a marketing strategy for that: in fact, the team is based in Glasgow. I think that there

will be an even stronger focus on those sectors, given the new Government's policy, but UKTI has always done a great deal for manufacturing, both proactively through initiatives such as the advanced engineering marketing strategy, and through reactively responding to the needs of all our customers when they come to us.

The outreach events that we hold around the country, such as the Asia task force events that I mentioned in my opening statement—one of which took place at Murrayfield—are open to companies from all sectors. One of the aims of taking them round the country as a roadshow is to get them to the areas of the country where manufacturing is strong.

**Gavin Brown (Lothians) (Con):** The annex on page 23 of the written submission that you gave to the committee in advance has a list of investment project successes in Scotland since 1985. Are the successes on that list ones that you deem to be down to UKTI, or is it a list of every investment project that has come to Scotland in those years?

**Susan Haird:** I am afraid that I will have to leave that for my colleagues from SDI to answer. Exactly as you say, there are two sorts of project: one is a project in which there is a carefully defined level of involved success and the other is a project that has come into the UK not necessarily with our help. I am sorry, but I am simply not aware of what the figures are.

**Gavin Brown:** Sure. If you or SDI are reporting successes, are they generally reported jointly so that they are reported as successes for Scotland or do you and SDI keep separate records of the ones that you think are your own successes? My fear is that there might be a danger of double counting if both organisations count the same project as a success.

**Susan Haird:** I do not think that we are double counting, but UKTI reports results for the whole UK and we make it clear that SDI is involved in any Scottish projects. There is no suggestion of our trying to take credit for SDI's work.

**Gavin Brown:** No—I was not suggesting that. I just wanted to be clear that, as far as you are concerned, there is sufficient delineation to avoid the danger of double counting.

I have a couple more specific questions on your submission. On page 21, you refer to the export marketing research scheme, the export communications review and a British Airways initiative. On the face of it, those three projects are quite disappointing: you say that there was no take-up of the ECR; 800 complimentary business-class BA tickets were offered but only 386 were taken up; and the total value of EMRS research projects was about £12,000. Does UKTI know why

the take-up on those schemes was as low as it was? Do you have a feel for that?

**Susan Haird:** No, I do not have a feel for why the take-up is so low in Scotland. The EMRS and the ECR are both actually successful schemes. Our measurement of the impact of our activities gives them high success rates in achieving impact for customers. They are both provided for us by our delivery partner, the British Chambers of Commerce. We, the BCC and SDI market the availability of those services to Scottish companies. The low take-up is unfortunate and we hope that Scottish companies will be more inclined to take them up. You might like to discuss with my colleagues from SDI ways in which their front-line staff could be encouraged to promote those products more.

We did an allocation that gave Scotland 800 of the complimentary seats that British Airways kindly made available to customers. The take-up is low and disappointing. We hope that it will be higher in any future scheme. Again, you might like to discuss with SDI what more it can do to ensure that the take-up is higher in Scotland.

**Gavin Brown:** We will get a chance to put those questions later. Does UKTI think that anything ought to be done differently in any of the three schemes? Was the low take-up due to lack of awareness among businesses or was it simply a case of the wrong product at the wrong time? Is there anything that can be done?

**Susan Haird:** I do not think that it was a case of the wrong product because, as I said to you, the first two are assessed as having high impact. There may be a lack of awareness among companies and perhaps that could be remedied by the trade advisers in Scotland making their customers more aware of the schemes.

Neither we nor SDI want to push particular products at customers because our trade support is designed to give the customer a tailor-made service. Our trade advisers have a toolkit that includes a range of products that they can give customers as they see fit. If the adviser does not consider something to be particularly necessary, it is not part of their remit to recommend it. We put the customer first in everything that we do.

**Gavin Brown:** UKTI is given money directly from the Government for the services that it provides. However, your submission suggests that you also have a revenue stream from businesses outside of Government funding. Will you expand a little bit on that revenue stream?

**Susan Haird:** Are you referring to the money that we raise through charging our customers?

**Gavin Brown:** Yes.

**Susan Haird:** We charge through a product called OMIS—the overseas market introduction service—which is basically a mechanism for charging our customers for anything that they want that we can provide for them. We raise just over £5 million from charging. The service that we offer is heavily subsidised.

The work that is done through the OMIS system is carried out by our 96 posts overseas. We and the customer will agree a work plan for whatever the customer wants. They might want a piece of market research, or advice on how to overcome market-access barriers. They might want to arrange a programme for a visit, with introductions to key people in the overseas market. They might want help with a product launch. Anything they want will be worked up into a work plan. There is a range of charging bands, according to the number of hours that are taken to conduct the research.

Sometimes, the piece of work is well defined and is to be done within a specified period. Sometimes, it is a more strategic or draw-down service, as we call it. A company that is looking to access an overseas market—to set up a supermarket chain, for instance—might wish to commission work from us over six months or a year. They might not know exactly what it will involve, so they will draw down hours against it.

If your question partly relates to why we charge, it is because we believe that it is a real test of the value of our service. It drives up quality because we and the customer are clear about what the customer expects. It also deters frivolous inquiries. It helps us to allocate resources to where customers are seriously interested in the markets in question.

**Lewis Macdonald (Aberdeen Central) (Lab):** I will start on a factual matter. You said that you have headquarters or posts in London and Glasgow. In response to previous questions, you have described some of the services that are based in Glasgow. What is done from Glasgow by way of UK headquarters functions?

**Susan Haird:** Glasgow provides some of the sector teams; I have mentioned advanced engineering and the energy sector. Our trade show access programme is run there. That programme helps us to support companies exhibiting at trade fairs overseas. Our inquiry service is also run there. It is our first point of contact for customers wanting to access us via the telephone. That is the range of activities that are carried out in Glasgow.

**Lewis Macdonald:** Are those all activities for which Glasgow has the headquarters function and offers the relevant services for companies across the UK in the sectors concerned?

**Susan Haird:** Yes.



**Lewis Macdonald:** That is helpful. It is apparent from your written evidence that you view UKTI's relationship with SDI as a partnership. SDI is performing similar functions to those that you provide in the English regions when it comes to customer-facing functions at local level. SDI also operates as an equal partner with you in overseas markets and in overseas locations. Does that describe the relationship fairly?

**Susan Haird:** Yes, that is right. We view it as an equal partnership. Trade and investment are devolved responsibilities, and SDI has staff throughout Scotland performing very similar functions to those that are performed by our international trade advisers in the English regions. SDI has staff in Scotland working on foreign direct investment, just as we do in our headquarters operation in London.

SDI, like UKTI, has staff in a number of important inward investment destinations overseas. We work closely with SDI, and there are guidelines governing how we work together. Basically, they involve making sure that the project comes to the UK, first and foremost, and that the best proposition is put before the customer.

There is a great deal of common access to the electronic information that we both hold in relation to inward investment, which both organisations can use to give the customer the best possible range of information. It is very much an equal partnership.

**Lewis Macdonald:** Excellent. I was interested to note that you have undertaken a comprehensive joint review, along with SDI, its Welsh counterparts and the regional development agencies in England, into how the partnership is working and how it is perceived by customers—both overseas customers looking to invest here and, presumably, UK customers looking to trade abroad. Could you expand on that?

I think that the comment in your submission that “the research found no evidence that potential investors thought the arrangements particularly confusing or duplicative”

is important to our inquiry. As we have taken evidence around Scotland, we have found that some companies deal with UKTI, some with SDI and some with both agencies. It would be interesting to hear what you discovered about people's perceptions in your survey.

10:00

**Susan Haird:** I think that our reasons for undertaking the survey are obvious. Prima facie, one could think that the presence in overseas markets of a range of regional development agencies, devolved Administrations and UKTI

could result in a number of people turning up at the doors of potential inward investors to the UK with competing offers, which might cause confusion. However, that does not happen. The consultants who undertook the project for us did a great deal of research into perceptions and did not find evidence of confusion.

The consultants suggested that there is scope for even better joined-up working, which is what we have been seeking to put in place, I think with success. There are guidelines for how we operate overseas. There is an umbrella marketing operation for the UK in general, which seeks to promote the UK as a springboard for global growth—I am sure that members are familiar with it. Within the overall umbrella, individual devolved Administrations and regional development agencies share leads and are involved in joint business planning and discussion about where to focus efforts. In many cases, regions of the UK have different strengths and weaknesses and want to target a slightly different range of companies.

In practice, the arrangements work well. The presence overseas of staff from the devolved Administrations and the RDAs gives a degree of regional and local knowledge that helps in deepening our proposition to potential inward investors.

**Lewis Macdonald:** That is helpful. In relation to ICT, you said in your submission:

*“In support of Scottish companies UKTI and SDI have traditionally worked closely together, but the recent move by Scottish Enterprise to deliver their international services on a regional basis has resulted in challenges in disseminating information.”*

Can you elaborate on that?

**Susan Haird:** I can and I should apologise. I discussed the paragraph this morning with David Smith and it is based on a misunderstanding—I do not know how it arose. There has always been a regional spread by sector in Scotland, and the approach works well.

**Lewis Macdonald:** The paragraph struck me as odd and I was keen to find out more, but you have explained it.

You mentioned that promotion of the financial services sector has been transferred to a new agency—again—that has the remit of promoting UK financial services overseas. Will you talk about Scottish input or engagement in that regard?

**Susan Haird:** The first sector strategy that UKTI developed under its 2006 strategy “Prosperity in a Changing World” was for the financial services sector. We worked closely with the devolved Administrations, business in the City and a range of City institutions to develop a financial services

marketing strategy. The responsibility for that marketing strategy has passed to TheCityUK, which will promote the whole of the UK as a financial services centre.

Given the attraction of London and, through London, the rest of the UK, in particular Edinburgh, which of course has a strong financial services sector, the approach works well. We are a big magnet for inward investment in the sector. The UK financial and professional services week at the forthcoming Shanghai expo is a great example of joined-up working between UKTI and SDI to promote the benefits of the UK to a big Chinese and potentially world audience.

**Lewis Macdonald:** You mentioned host2host, which is an initiative in relation to the Olympic games. The Commonwealth games will come to Glasgow in 2014. What business opportunities is UKTI promoting in connection with the games?

**Susan Haird:** We have been keen to use London 2012 as a magnet to attract inward investment into the UK—not just into London—and to use the theme of the UK as a sporting nation to promote our trading companies internationally. We have signed a series of host2host agreements—that is the term we use—with other countries that are hosting the Olympic games, and we are seeking to help UK-based companies to win business in those countries. For example, a number of sporting events are coming up in Rio, including Rio 2016, which is the next Olympics after London 2012. We are trying to use the host2host agreement there. In Sochi, which is hosting the winter Olympics in 2014, we are trying to use the link that we established through host2host to secure business for British companies. We take a range of sporting missions out to those countries. We did the same thing in Vancouver for the 2010 winter Olympics—we held a range of events during the Olympics. We are starting that now with Brazil, and we have begun the process with Sochi. Our approach is designed to maximise the magic of London 2012 for the benefit of UK companies and the UK as an inward investment destination. We are pleased with the way in which that is going.

**Stuart McMillan (West of Scotland) (SNP):** If a business from overseas is thinking about coming to Scotland to set up a new organisation and contacts SDI directly, would SDI pass that on to UKTI to progress or would SDI deal with the inquiry? I ask because your written evidence says that UKTI leads

“on attracting high quality investment to the UK”.

**Susan Haird:** UKTI takes the overall lead for inward investment. There is a lot of lead sharing, but we would not try to give someone else that lead—it would be for SDI to pursue. However, if

SDI felt that the investment was not going to come to Scotland because the customer was thinking about the west midlands or France, we would expect that lead to be passed on to the west midlands. We work together to share leads in order to maximise the benefit for the UK, but we do not have a beggar my neighbour policy of taking away leads from those who are pursuing them perfectly appropriately with companies that want to come to Scotland.

**Stuart McMillan:** If a business came to UKTI and said that it was thinking about setting up in the UK, where would you recommend?

**Susan Haird:** We would look at what sort of company it was, we would discuss with it whether it had any preconceptions or thoughts about the UK, and we would share that lead with the regions and discuss who wished to make a proposition. It is by no means uncommon for several parts of England and one of the devolved Administrations to make propositions, and for the inward investor to choose which place most fits its needs. We do not try to steer investors to particular parts of the UK, but we do give them impartial information about sectoral strengths, for example, if we think that it would be helpful.

**Stuart McMillan:** On the offer of free flights, BA had some financial issues before and during the strike. Is there any possibility that the free flights will be removed or renegotiated so that fewer opportunities are available to businesses?

**Susan Haird:** It is a matter for BA and us to negotiate what it does in future. It made us an offer, which we have been working through, and a number of seats are still to be allocated.

**Stuart McMillan:** Does the BA offer have any cost implications for UKTI?

**Susan Haird:** No.

**Stuart McMillan:** BA offers the flights free of charge.

**Susan Haird:** Yes.

**Stuart McMillan:** There is no charge whatever.

**Susan Haird:** No—and it was a very generous offer that was very much welcomed by our customers.

**Stuart McMillan:** My next question is about the number of foreign-owned firms in the UK. A comparison with our European Union partners is quite striking, to say the least, and it shows that Scotland and the UK have a healthy attitude to inward investment; I am sure that everyone around the table welcomes that. Is there a perception that investing in other EU nations is challenging? Is there a perception that particular EU nations have a protectionist agenda that does not exist in Scotland and the UK?

**Susan Haird:** The UK is very open to international business, and it has been for a long time. That is reflected in the UK's greater success in attracting inward investment. We are the world's second biggest inward investment destination after the US, and we are the number 1 inward investment destination in Europe, as you know.

No doubt some countries are perceived as more protectionist, but the UK has such fundamental strengths that I would like us to take the view that it is the positive things that bring companies into the UK. We are well placed as a springboard for global growth and we have a good regulatory environment. The UK is a great place to start and grow a business. We have a skilled labour force, strong financial services underpinning strong international connections, and the English language is a big draw. The UK's fundamental strengths speak for themselves, and we use them to market the UK as a big inward investment destination.

**Stuart McMillan:** We are just out of a recession, but we are by no means secure, and there will be challenges ahead for a number of months and potentially years. Your submission states:

"Other European countries have only recently recognised the benefits of inward investment".

With potentially more competition in the coming years, do you foresee any reduction in the number of inward investment opportunities in Scotland and the UK?

**Susan Haird:** There is no doubt that there is more competition. We are trying to counter it by the way in which we market the UK, by which I mean specifically marketing its strengths. When I spoke about the UK's strengths, I did not mention the strong research and development base, but we put a lot of effort into using its strength to attract inward investment. We have a number of R and D specialists whose task it is to understand the detailed strengths of the UK's universities and research institutes, and to match them with the needs of inward investors. Our specialists work closely with SDI and Scottish universities. Scotland has been successful in attracting R and D-intensive inward investment into the UK, as have England, Wales and Northern Ireland.

We need to be ever smarter about how we market the UK's strengths. We need to watch what the competition is doing—and it is trying ever harder. We will shortly be launching a marketing campaign called go UK in a number of key inward investment destinations. Again, that is designed to attract inward investment to the UK by focusing specifically on the UK's strengths. We have also sought to counter some of the negative stories

around the UK's financial services sector and the global recession.

We are now coming out of a serious recession and inward investment and exports have a key role to play in our economic recovery and in ensuring sustainable growth. UKTI and our partner organisations in the devolved Administrations are determined to ensure that our companies are best placed to take advantage of the global opportunities, and that we continue to attract inward investment.

On the trade side, there are opportunities in countries that, despite the recession, have been growing strongly and are returning to even stronger growth rates. For example, the emerging markets of Asia, China and India have very high growth rates, as do countries such as Brazil. We have moved resource into those emerging markets and are doing quite a lot of outreach events—I mentioned the Asia task force as an example. Our aim is to encourage companies to diversify into new export markets. Last year, we ran a big campaign called take it to the world, which encouraged companies to export. Our economic evaluation work shows that companies that export are more resilient in a recession and that more of our companies are thinking of diversifying into new markets, so we are determined to take advantage of that to help to grow the UK's export capacity.

10:15

**Stuart McMillan:** You mentioned the financial services sector and the additional work that has gone into that due to what has happened in the banking sector in the UK. The committee conducted an inquiry into the banking and financial services sector, and a number of witnesses made the point that we should not beat ourselves up about what happened in the banking sector because problems happened elsewhere as well, not only in Scotland and the UK. What is your impression of what people further afield think about the banking and financial services sector in Scotland and the UK? Do they think that the whole sector is in a right mess or do they think, "There are problems there, but there have been problems in a number of countries"?

**Susan Haird:** The feedback that we have had from research that we have done is that the UK's reputation has not suffered significantly as a result of the financial crisis. The problem is regarded as a global problem, and the previous Government took action quickly to stabilise the banking sector, so the crisis has not done the damage to our reputation that one might have feared.

**Stuart McMillan:** So we really should not beat ourselves up.

**Susan Haird:** No, we should not.

**The Convener:** I have a question on how you measure success in foreign direct investment. In your submission, you refer to four different measures: financial stock, project stock, financial flows and project flows. How do you determine which of those is the most significant? For example, you say:

“Project Stock measures record the number of foreign owned companies”,

so something like the Kraft takeover of Cadbury would be an increase in the amount of project stock, but I would not necessarily say that that was a success for the UK's economy. How do you measure which projects are good for the economy? What are UKTI's key criteria for those four different measures?

**Susan Haird:** Let me explain how we are targeted. Our target is to achieve 525 inward investment successes a year. Those must be successes in which we have had a significant degree of involvement, which is tightly defined. The target is further subdivided into the number of high-quality, good-quality and RDA priority successes, and high quality is further defined. We put most of our focus on attracting inward investment of a very high quality. That might mean a European headquarters, might be to do with the scale of the plant or might be to do with the operation's R and D intensity. In fact, it is a mixture of a number of things. We have done research that shows that when inward investment is technology bringing as opposed to technology seeking, it is, unsurprisingly, much more beneficial to the UK economy.

We have specific ways of targeting the type of investment projects into which we wish to put most effort, and the target is basically the number of projects.

**The Convener:** Do you include takeovers as part of that?

**Susan Haird:** Takeovers are not normally included as part of that. We do not exist to sell UK companies, but it is appropriate for us to give a measure of help to certain acquisitions. Most of the 525 projects are new investments.

**The Convener:** That is a helpful clarification.

**Christopher Harvie (Mid Scotland and Fife) (SNP):** I have questions about specific Scottish products and their placement abroad, which are based on our interviews with manufacturers in Scotland. However, first I want to consider the inward investment scene more closely. As you noted in your submission, inward investment has been fluctuating like mad in recent years.

For 28 years, I taught regional studies in Baden-Württemberg, which is probably the main manufacturing region in Europe. In that region, between 1980 and 2000, manufacturing's share of GDP fell from 38 per cent to 30 per cent, but it has risen again to 35 per cent—I am talking about very high-tech manufacturing. In Britain, manufacturing accounted for 30 per cent of GDP in 1980 and now accounts for about 12.8 per cent. The former Prime Minister made strong comments about the nature of manufacturing as the great multiplier of investment. In 1989, he wrote:

“We must manufacture or die”.

At the time, the manufacturing sector was rather more than double its current size.

In 1986, when I was doing a television programme for the BBC, I asked the Government of Baden-Württemberg where the investment had come from that had enabled such a remarkable retooling of industry, and I was told that it had nearly all come from Britain. It was the result of Mrs Thatcher liberating foreign investment by British firms in 1979, at a time when, as you will remember, the exchange rate was almost DM5 to the pound and it was advantageous for people to invest in Germany. We did not take over German firms; the investment was nearly all equity investment—investment in stocks.

The Kraft takeover has been mentioned. There has been much inward investment in Britain through mergers and acquisitions, which I think the *Financial Times* would tell you are great for the City, but which perhaps are not so great for the industries themselves, after the leverage and the debt and so on have been subtracted. Is your view of mergers and acquisitions positive?

**Susan Haird:** That is not really my field. Very few of the projects that we are helping are mergers and acquisitions. We are not here to sell UK companies. The market dictates how mergers and acquisitions are conducted, and in a number of cases acquisitions are beneficial to the UK economy, because they enable companies to survive that would not otherwise be able to.

Your broader point was about the level of manufacturing in the UK economy. That has reduced, but we are still the world's sixth biggest manufacturing nation. You do not need me to tell you that as economies grow they tend to go more into the services sector and manufacturing becomes a smaller proportion of GDP.

**Christopher Harvie:** Our collecting of statistics is not good, and it is difficult to work out at the manufacturing-services interface which services are in essence manufacturing oriented and which are just hamburger flipping—the statistics come in a great lump, at about 77 per cent, and we are not clever at making distinctions.

At a time when we must shift drastically towards manufacturing, particularly in relation to renewables—the committee has been discussing projects such as the huge array outside the Firth of Forth and the Dogger Bank array—we are penalised by the legacy that means that we produce only a fifth of the trained technologists that an industrial region on the continent would produce. That is because most of the training that those people get is in the works, despite those regions having good technical colleges. Daimler-Benz has its academies and that sort of thing. We have a weakness. Can the Department of Trade and Industry do anything to establish criteria for takeovers or for investment that stress the need to produce qualified personnel?

**Susan Haird:** Are you talking about applying conditions to takeovers that stipulated that the company would have to train people?

**Christopher Harvie:** Yes. They should have to be mindful of the general criterion that they should be able to maintain, if not to research and advance, complex technologies. Such technologies are not just a one-off, as we have seen with Deepwater Horizon. It was a great British invention, because we pioneered deepwater drilling by positioning at sea, but no one built into that how to cope if it went wrong. That might mean that we will say ta-ta to BP, which will result in another interesting piece of inward investment. I would expect the DTI to be forewarned about that level of what I see as prudential investment.

**Susan Haird:** The Department for Business, Innovation and Skills is the department to which questions about developing the skills base of the UK economy should be addressed, but I do not think that it would envisage that degree of intervention with individual companies in respect of placing requirements on them. However, BIS works closely with business to identify the skills that are needed and it works with the universities to see how skills gaps can be closed.

**Christopher Harvie:** One last point about that general area is that UKTI's submission places great stress on the success, in international terms, of BAE Systems, although I do not think that that success would bring a smile to the lips of my old friend Robin Cook, were he still around; he placed great stress on what he called the moral element of trade policy.

BAE has been rather too much in the headlines for the wrong sort of reasons, but it has the position, in terms of competition, that as a defence contractor it is subject to forms of state protection and those are recognised.

**Susan Haird:** Sorry, can you say the last bit again?

**Christopher Harvie:** As a defence contractor, BAE has a certain privileged position when it comes to international competition for contracts.

**Susan Haird:** I will make a general comment first, if I may. As a former director for export control and non-proliferation at the DTI, I had the privilege of appearing before the House of Commons Quadripartite Committee with the late Robin Cook and I well remember the ethical foreign policy that he wished to implement. Let me make it clear that export control exists in the UK precisely to ensure that the right things go to the right people and the wrong things do not go to the wrong people; it is a very strict and appropriate level of control. BAE Systems is a very successful British company and a major exporter. It works closely—as do other defence companies—with the defence and security organisation, which, as you know, is part of UKTI, but I do not believe that it holds any privileged position. It has access to the same form of Government support as any other defence contractor.

**Christopher Harvie:** This minor point came up in discussions with the First Minister when he took over. The prospect of ordering a fisheries patrol vessel came up and, because it is a civilian vessel, it would have had to go out to competitive tender and be built in Poland. On the other hand, if we had had a gun on the fisheries protection vessel, it would have become a defence vessel and could have been tendered for without being open to European competition—it could have gone to a British shipyard. At the moment, the only shipyards in Scotland that are building ships are defence contractors.

10:30

**Susan Haird:** Many defence contracts are subject to open tender.

**Christopher Harvie:** I refer to the famous defence of BAE launched by Sir Edward Goldsmith when withdrawing the prosecution of BAE on the ground that interests of state ought to come before the matter of justice. I think that that was at the end of 2006.

**Susan Haird:** I do not wish to comment.

**Christopher Harvie:** I will return to the committee's particular interests. When we interviewed small Scottish firms, it was evident to us that they are successful in winning contracts in the most unexpected places. They told us that a motive for that was that they could build a business up more rapidly by exporting, particularly in retail and foodstuffs, than they could by selling to the domestic market. The reason for that was that if they sold to the domestic market, they would be selling largely to supermarkets, whose interests are to maximise their profits, as opposed to those

of the suppliers. On the other hand, if they exported abroad they were much more likely to be able to bargain on their own terms. Has that motive reared itself much in your dealings with small businesses?

**Susan Haird:** I start with some general comments about the benefits of exporting that are pertinent to your question. Exporting is undoubtedly good for companies. It makes them more resilient, including during a recession, for the obvious reasons, one of which is that they are diversifying into broader markets. When companies start to export they experience a 34 per cent boost to their productivity. That is a huge boost. Why does that happen? We believe that it is because of their exposure to new ideas. When companies export, they do more research and development. Almost 10 per cent of the companies that UKTI helps—2,000 out of 23,600—tell us that they do more R and D as a result of working with us. It is almost a free spin-off from exporting. It comes from exposure to new ideas, greater competition, and economies of scale—spreading the cost of innovation over a broader sales base. We know that innovative companies benefit most from working with UKTI. There is no doubt that exporting is good for companies—60 per cent of productivity growth in the UK comes from exporters. That is much higher than the proportion of exporters in the economy generally.

The motives for exporting vary between companies. They can be to do with increasing the sales base, increasing profits, or the dynamics of how they negotiate, in the way that you are describing. What is not in doubt is that exporting in general is very good for companies. Occasionally, like our colleagues in SDI, we come across companies that we think are not export ready and we tell them so. It is no kindness to encourage a company to export if it is not ready or to try to make it go to markets that it is not ready for. In general, though, exporting is extremely good for companies and for the productivity and competitiveness of the UK. That is why, as I said earlier, we are determined in UKTI—as are my colleagues in SDI—to ensure that we help to drive an economic recovery through growth by helping more companies to export.

**Christopher Harvie:** In Scotland, we have a lot of what I would call cultural industries, which tend to be most involved with incoming trade—tourists to the festivals and the book fests and so on. Such enterprises are often quite small. We do not have any major publishers—the days of Bartholomew, Chambers and Collins are gone, because of takeovers. When Rupert Murdoch took over Collins in Glasgow, he instantly awarded a million-pound contract to Jeffrey Archer, which was almost symbolic of the nature of the culture. I have

been involved in companies in the sector that find it difficult to sell in Britain, because they are in the same position as the food companies that sell to supermarkets. We have only a few outlets, which are the big bookshops—I almost said book sheds—such as Waterstone's and, until last year, Borders. It is as if firms are dealing with a near-monopoly buyer, who can impose terms that make it difficult for small firms to survive.

The same thing applies to the distribution of films. Scotland has a lively film industry but, as with the salmon spawning, only one or two films survive to reach maturity and the rest just vanish. Many people are involved in that. If it were not for the state sector, and in particular the BBC, they would not get anywhere.

We want there to be a fair field of competition for cultural enterprises, rather than the current oligopoly of purchasers. We also want our enterprises to be promoted abroad. Many people come to Scotland, but the actual working of cultural enterprise is limited in this country. Are there things that UKTI can do to help secure the sector?

**Susan Haird:** I think that it is really for SDI to help small companies in Scotland to internationalise and encourage them to use our services. In that way one can very much encourage entrepreneurial companies to grow and prosper. Your question raises issues that are much broader than just trade and investment.

**Ms Wendy Alexander (Paisley North) (Lab):** We had months to consider the manifestos of parties that might form the next UK Government and we now have a Government that has made it clear that it does not envisage a significant role for RDAs and thinks that they should be abolished or significantly retrenched. UKTI has thought about that scenario. What impact would the retrenchment or abolition of RDAs have on your work and on how you work with SDI?

**Susan Haird:** As you said, it is not yet clear whether there will be retrenchment or abolition. We do not know which functions will be devolved to a more local level and which functions will be brought up to national level. The picture is not clear.

We have been doing some thinking since before the election. We are determined to work with the RDAs to ensure that, whatever happens, delivery to our customers—foreign direct investors and trade customers in the English regions—is protected from dislocation.

I do not think that there will be an impact on our relationship with SDI or the other devolved Administrations. We work with the English regions and the devolved Administrations in partnership, and the partnership with SDI will continue. I assure

you that we are giving thought to how we might cope with different scenarios and ensure a seamless service to our customers.

**Ms Alexander:** In your submission you mentioned the global entrepreneur programme. Does the programme operate in Scotland? Can you tell us about projects that it has helped to bring to Scotland?

**Susan Haird:** The programme operates in Scotland. You need to ask my SDI colleagues for details of projects that have come here. The aim of the scheme is to attract entrepreneurs from overseas to the UK. It has been successful.

**Ms Alexander:** In the helpful section on sectors in your submission, you said that advanced engineering accounts for exports worth £131 billion, whereas the figure for the energy and low-carbon sector is about £20 billion, which is significantly less. You said:

“our aim is to position the UK as a leader in low carbon solutions and the destination of choice for low carbon trade and investment.”

What are your thoughts on UKTI's strategy? What do we need to do to go from £20 billion to anything like the £130 billion that advanced engineering contributes and for Britain to lead in that fast-growing sector? The committee looked at the low-carbon sector during its energy inquiry, and we maintain a close interest in it. What are your thoughts about how we can quickly grow Britain's position in such a fast-growing sector?

**Susan Haird:** First, the sector is relatively new compared to many, and it is extremely fast-growing in the context of the climate change agenda and internationally. A number of countries can almost leapfrog development, because countries that industrialised relatively late do not have so much of a conventional legacy and can go straight for newer, low-carbon friendly solutions.

Internationalisation is part of the key to achieving a strong low-carbon sector in the UK, and UKTI has made it a priority. We have launched a low-carbon marketing strategy to market the UK as an inward investment destination for low-carbon companies and as an international partner of choice. In other words, we have sought to create the umbrella that I described that would allow British companies to trade internationally. That material is for us, our partners and companies to use.

Low carbon straddles a range of sectors. For example, supermarkets can operate in a low-carbon way, and that is important to many of the UK's leading international supermarkets. Low carbon is also a leading concept in building design, and British architects and construction companies are strong on that. Low-carbon solutions can underpin manufacturing, energy and

so on. A broad range of companies can benefit and we are seeking to work with those companies.

Also, and perhaps more particularly, we have targeted some countries where we think that low carbon could mean big business for our companies and be a big source of inward investment. We have projects in China to create sustainable cities, promoting the low-carbon theme. We are considering doing something similar in other countries such as India. We also have low-carbon missions to countries; there is one coming up to Latin America.

We are trying to mainstream the low-carbon theme into a broad range of our operations. As well as working specifically on low-carbon issues, we are trying to get everyone to think low carbon in the same way that we are trying to get everyone to think Olympics. We are building the UK's unique selling points into our mainstream activities.

**Ms Alexander:** Let us leave you with one message, which is to say that the issue of how to put in place a supply chain to meet the demands of a low-carbon economy—particularly in the energy sector, given Scotland's strengths in energy and in renewables—has been the basis of an emerging and strong cross-party consensus in the Parliament. The one policy steer that we can leave with you, as the chief executive of UKTI, is that there is a strong policy commitment across the political spectrum in Scotland in this area, and we recognise the need to do more. It is inconceivable that SDI will not be asked to do all that is possible in this area. Working closely with UKTI is obviously part of that.

I have a final question, but on a different topic. I imagine that Rob Gibson's question is on the same theme.

**Susan Haird:** I will respond briefly to the point about the supply chain. We feel that we have been successful in building supply chains in the energy sector, and we want to do that in the low-carbon area as well. We have global value chain specialists working in markets such as China, India, Japan and the US to look at opportunities in global value chains and bring them to the attention of British companies. We take that issue very seriously.

**Rob Gibson:** You talked about a mission to South America for low-carbon companies. Are any Scottish firms involved in that mission?

**Susan Haird:** I am not sure. Shall I write to you?

**Rob Gibson:** That would be useful, yes.

10:45

**Ms Alexander:** My final question strikes a less upbeat note. I invite you to be candid with us. When we consider inward investment projects in the UK in the period 2004 to 2009, we find that Scotland's share of projects has slipped badly and that we have been overtaken by Wales, England and Northern Ireland. Will you hazard a guess as to why that has happened?

We will hear from SDI, but Scotland's comparative position does not feature in your evidence or in SDI's evidence. Scotland's performance in relation to total projects—I accept that that is not the only measure—has slipped significantly during the past five years. As the committee tries to chart a way forward, we seek insights into why that has happened.

**Susan Haird:** I do not want to hazard guesses—they would be guesses. During the period that you identified we have witnessed a shift in the nature of not just inward investment projects in which UKTI is involved but inward investment projects in general. There have been fewer big greenfield sites of a manufacturing nature and there has been a shift to smaller, high-value inward investment. Inward investment projects now often start very small and then grow. For example, when Research In Motion, which produces BlackBerrys, came to the UK, its operation involved a small number of people, whereas it now involves several hundred people.

What you described might have something to do with the nature of projects. It might just be that Scotland has not kept up with growth for some reason.

**Ms Alexander:** I invited you to hazard a guess, but it might be helpful if you conducted a little analysis and perhaps wrote to us. The standard SDI response is, "Ah well, lots of projects that involve one or two-person offices are going to the centre of London", but that does not explain why Scotland has been overtaken by Northern Ireland, Wales and England.

I am not making a political point. The period from 2004 to 2009 spans Administrations of different hues. However, it is important that we try to get a handle on what is happening. If the body that has the overarching UK-wide responsibility offered an explanation for the trend, it would help the committee to produce a report that has analytical weight and substance.

**Susan Haird:** Thank you for the invitation to write. Let me work with SDI to provide a response to you.

**Ms Alexander:** We are looking for the overall UK-wide perspective.

**Susan Haird:** Yes, absolutely, but I will want input from SDI.

**Ms Alexander:** Sure.

**Marilyn Livingstone (Kirkcaldy) (Lab):** In its submission, UKTI said that it

"works alongside targeted overseas companies to persuade them to undertake, or increase their levels of R&D in the UK by linking them in to world-class sources of R&D expertise in the UK".

Who are the partners in Scotland? How does the system work?

**Susan Haird:** I referred to the scheme a little while ago. We have a number of R and D specialists in UKTI, whose task is to understand in depth where the leading R and D experts are in the UK and then proactively to match expertise with the potential needs of inward investors.

Our R and D specialists are very conscious of the strengths of Scottish universities and research institutions and held one of their quarterly meetings in Scotland recently. They match expertise in Scottish institutions with inward investors in the UK who want to expand their operations here by doing R and D, or they use the R and D proposition as part of a package, to attract a company to invest in Scotland because of the strengths of a local university. That is how the scheme works in practice.

**The Convener:** I want to ask about the structure and organisation of UKTI. Whereas SDI is a stand-alone, arms-length agency, which is jointly owned by Highlands and Islands Enterprise and Scottish Enterprise, UKTI is a Government department, although I suppose that it is jointly owned by the Foreign and Commonwealth Office and BIS. What are the advantages and disadvantages of being a Government department as opposed to a stand-alone agency?

**Susan Haird:** An advantage of having two parent departments is that it gives us parentage from a major economic department. Our staff are drawn from the two parent departments. Overseas, most staff are from the Foreign Office—they are either UK-based diplomats or locally engaged staff employed by the Foreign Office. In the UK headquarters operation, staff are mainly drawn from BIS and therefore have experience of working with business. There is some crossover, as some BIS staff are overseas and some Foreign Office staff are in headquarters, but the majority are Foreign Office overseas and BIS staff at home.

The exception is the English regions, where the staff primarily work for our delivery partners, because delivery in the regions is contracted out to organisations such as chambers of commerce or business link, but a small regional team, which



is headed by an international trade director, who is a member of our staff, leads the development of a regional international trade strategy and oversees the delivery.

I should also say, to complete the picture of our staffing, that we have working for us under contract a wide range of business specialists: sector champions, the R and D champions that I described, fiscal stimulus specialists and the global value chain specialists. We also have staff on secondment in the headquarters operation, so we draw heavily from business for our staffing.

I hope that that makes it clear that access to our two parent departments for staffing purposes and, indeed, for the overall policy framework—foreign policy and economic policy—is very beneficial to us. We also benefit greatly from working closely with ministers, because a key part of what we do is organising programmes for ministers who are visiting overseas, and ensuring that our ministers receive incoming overseas dignitaries—in both cases to promote the interests of UK-based companies and to attract inward investment into the UK. Access to ministers and working closely with ministers is also a great plus for us.

The next point is that we work closely with other parts of the Foreign Office overseas. That is very important in, for example, trade policy and working to open up markets. Given the broad liberalisation agenda in a number of emerging markets, it is important to work closely with the rest of the Foreign Office in the overseas market. It is also important to us to have access to part of the ambassador's or high commissioner's time. UKTI pays for a proportion of ambassadorial or high commissioner time overseas, which reflects the fact that they work for us. They are the ones who would typically go in to lobby for particular contracts or for market access barriers to be broken down. They are also the ones who would give our major companies briefings on the political and economic situation in a market, which might affect their business there.

For a number of reasons as far as we are concerned, being part of two Government departments is very beneficial. Our formal position is that we are a non-ministerial Government department, but being formally part of BIS and the Foreign Office works very well for us.

**The Convener:** Who is your lead minister? If something went badly wrong, for example, which minister would be hauled up in front of the House of Commons to answer for it?

**Susan Haird:** We report to two secretaries of state, currently William Hague and Vince Cable, because they head our two parent departments. Under normal circumstances, there would be a minister for trade and investment, who would be

our lead minister day to day. As you may be aware, however, the Government has yet to appoint a lead minister for trade and investment, so at ministerial level below secretary of state, Edward Davey is currently overseeing UKTI's operations.

**The Convener:** I understand that the majority of your overseas offices are located within either embassies or consular offices. Is that correct?

**Susan Haird:** Yes, or high commissions.

**The Convener:** What are the advantages and disadvantages of being so closely tied in to the ambassadorial network?

**Susan Haird:** The picture is one of advantage. Co-location gives us the cachet of being part of the Foreign Office, which is helpful in opening doors overseas. The ambassador is responsible for UKTI's targets overseas, so proximity to the ambassador is important. Proximity to other Foreign Office staff working on the political relationship with and looking at the economy of the country concerned is also important. Trade policy, market access, liberalisation, climate change, and the science and innovation links with the country are all germane to UKTI's activities, so it works extremely well to be co-located.

**The Convener:** Are there any situations in which being seen as part of the Government is a disadvantage?

**Susan Haird:** I cannot think of any. Even when the political relationship with a country gets difficult, as it does from time to time with certain countries, trade and investment tend to keep the relationship going. I do not think that there is a disadvantage in being seen as part of the Government.

**The Convener:** What proportion of your 1,300 overseas staff is recruited in-country, as opposed to being expats?

**Susan Haird:** Typically, three quarters of the staff are recruited and engaged in-country. Approximately one quarter of them would be UK-based diplomats. Many of the locally engaged staff who come to us will have had business experience.

**The Convener:** My final question is about how UKTI works overseas with other agencies, such as SDI. You mentioned that your Mumbai office is co-located with SDI. Does that provide particular advantages? In many other locations, SDI will have separate offices.

**Susan Haird:** It does provide advantages, but where we are not co-located, the situation can be made to work perfectly well. Co-location makes day-to-day business easier but there is not always the space or the opportunity. I am sure that SDI is

locked into leases in some places. The important thing is not really where we are located but that we have the will to work together to bring as many projects as possible into the UK.

**The Convener:** That concludes our questions. Thank you for giving us your time this morning. It has been helpful to our inquiry.

10:57

*Meeting suspended.*

11:04

*On resuming—*

**The Convener:** We resume the meeting with the second panel today in our international trade inquiry. I am pleased to welcome David Smith, who is the acting chief executive of Scottish Development International, and Frank Boyland, who is Scottish Development International's Asia director. I invite them to make some brief introductory remarks.

**David Smith (Scottish Development International):** Thank you very much, convener. It is a pleasure to be back at the Parliament and to have the opportunity to contribute to this important inquiry. I will make some brief remarks before I pass on to Frank Boyland, who heads up our operations in Asia Pacific.

Since we met in March, we have published a full independent evaluation of SDI's work and, which is important, our impact. That evaluation clearly shows SDI's strategic position in guiding and directing Scotland's internationalisation priorities, our efforts and our delivery focus. It shows that we work in strong partnerships and that we make every effort to leverage the maximum possible benefits from our relationships and networks in Scotland and globally. A good example of that is our work with UK Trade and Investment.

Public sector support for internationalisation remains critical alongside the complementary work of industry bodies, including the Scottish Council for Development and Industry and Scottish Chambers International. In the international arena, those bodies receive support from us and work jointly with us to deliver for Scotland. Good examples of that are our smart exporter programme work and the financial support that we provide to the SCDI and others to deliver trade missions annually. Together, they complement the programme of around 60 trade missions and exhibitions each year that SDI manages and leads.

Members are only too well aware that most economic commentators acknowledge the central role that internationalisation will play in

contributing to Scotland's recovery. Our core purpose remains growing an international mindset and culture, which is critical for Scotland's economy at this time. As the lead agency in Scotland for international trade and investment and with a global sales force, we are committed to playing our full part in supporting Scotland's sustainable growth and leveraging every available resource at our disposal in support of our work.

**Frank Boyland (Scottish Development International):** Good morning. I am the director of operations for Scottish Development International's Asia operations. I hope that my presence at the meeting will help David Smith, and help committee members to understand how SDI's overseas offices can assist Scotland's economic recovery, how we are helping Scottish companies to operate in overseas markets, and how we are helping companies in markets throughout the world to understand the inward investment opportunity that Scotland represents. It is a privilege to be here to take part in the discussion.

**The Convener:** I thank you both for those opening remarks.

I want to raise one of the prime concerns that led to our inquiry. There is concern that Scotland has a very poor record in international trade and exporting. Relative to companies in most other regions of the United Kingdom, Scottish companies are less inclined to export. We saw the reports at the weekend in *Scotland on Sunday* and *The Sunday Times* on the Ernst & Young ITEM club report, which shows that Scottish exports have fallen by 30 per cent since 2000. One reason for holding this inquiry is that we believe that improving our export record is one way of getting Scotland out of the recession. However, the record to date suggests that we are going in the wrong direction rather than the right direction. What are the reasons for that? What should we do differently to improve our international trade?

**David Smith:** It is clear that a number of factors are involved, and there are a number of points that I would like to make. One significant reason for the decline in trade performance over that time period is the decline of the electronics manufacturing base in Scotland. However, more recently, export trends and export performance have moved more positively, in an upward trajectory. Recent manufacturing export figures demonstrate that there has been some growth. The growth in food and drink exports in the past year—particularly food exports, which have increased by 20 per cent—demonstrates that we have strengths in export performance in certain sectors and that performances have improved recently.

More generally across the economy, there are challenges that we must continue to address. According to the latest numbers from HM Revenue

and Customs, Scotland has around 4,000 exporting companies, which represents around 5 per cent of the UK's base of exporters. We need to continue to work at broadening the base of companies that are engaged in export activity. We also need to continue to work with companies that are experienced exporters but which have the capability to grow more in the next few years, to take advantage of factors such as the relatively low currency exchange rate and to take advantage of opportunities in fast-developing economies around the world.

**The Convener:** The evidence that we have received and the evaluation report on your activities that you have provided suggest that companies benefit from working with you. The problem is that a huge number of companies are not working with you to improve their international trade.

When we asked the Federation of Small Businesses to give evidence for the inquiry, it declined on the basis that the inquiry was not relevant to it and its member companies. One of my biggest concerns is how we get round that attitude. How do we encourage more companies to see the relevance of international trade and to take advantage of the services that SDI provides?

**David Smith:** I agree absolutely that that challenge is significant. One way in which we can address it is by increasing understanding and awareness in the wider company base, particularly among SMEs, of the advantages of doing business internationally and of exporting. We have seen in several surveys and in feedback from our customer base that companies—and particularly SMEs—are still fairly highly concerned about the challenges of, and the size of the investment and effort that they need to put into, tackling international opportunities or export market opportunities.

That is precisely why we are partnering SCDI and Scottish Chambers International to undertake the smart exporter programme, which leverages more resources from the European social fund to raise awareness among SMEs in particular and to upskill the wider SME base. It is also precisely why we continue to recognise the important role that we, UKTI and others play in ensuring that adequate support is provided to help companies in Scotland to become more capable at tackling, and better equipped to take advantage of, export opportunities.

**The Convener:** You mentioned that businesses see internationalisation as a major challenge. What are the major barriers and what do they see as the biggest obstacles to overcome?

**David Smith:** We have covered several of the major perceived obstacles or barriers in our

research. Among the most significant is a lack of resources to research and better understand the opportunities. In some cases, that relates to access to appropriate finance but, in many cases, the issue is an organisation's level of knowledge and its capability to tackle international opportunities.

**The Convener:** The committee is aware of the success of the Scottish manufacturing advisory service. Can that model be developed to provide a similar service—a Scottish export advisory service—that would take a root-and-branch look at a company's opportunities to develop its markets not just internationally but nationally? Many small companies trade only locally and could trade more throughout Scotland and the rest of the United Kingdom.

**David Smith:** Such a service exists—we have all the elements of that approach. In our submission, we illustrated how such provision is in place throughout Scotland. That ranges from the initial market investigation and building understanding and awareness of opportunities in international markets all the way to the deeper penetration of a market presence.

We have laid out the provision that there is through SDI, in partnership with public and private sector partners, to enable companies to undertake a structured evaluation of how they can assess and analyse the opportunities in international markets and then get support for every step along the journey from initial assessment of opportunities right through to deeper market presence and market expansion, which is the ultimate graduation for a company or organisation on that journey.

11:15

**Rob Gibson:** The Global Entrepreneurship Monitor's "Scotland 2009" report, which was published this week, showed the current low number of start-up businesses in Scotland and said:

"start-up intention rates have been significantly lower in Scotland than in the UK since 2004".

Does that link into the kinds of companies that might be prone to exporting? You have shown that businesses that operate internationally have higher productivity. There is a chain between wanting to be an entrepreneur and developing those skills abroad or in exports.

**David Smith:** There is undoubtedly a link between the entrepreneur's mindset and the willingness of individuals in Scotland to start businesses and take advantage of opportunities in international markets. There is a link between entrepreneurship and our ultimately having more

companies that operate in international markets and export more.

We continue to try to address the challenge of the relatively low number of companies of scale that we have in Scotland. We want to encourage more companies to be internationally active and to become exporters, but we must acknowledge that the biggest relative gain for the economy in the short term can be secured by working in a deeper way with companies that already have some international activity. If we help such companies to access additional networks and opportunities, we can accelerate growth.

**Rob Gibson:** The Hunter centre for entrepreneurship found that it has been more difficult to set up businesses during the recession and as we come out of it. Is that factor perhaps linked with the fact that people are not coming forward to seek exports? It is clear from your list of the various things that people ask for that many of the barriers that people identify might well also be barriers to setting up a domestic business.

**David Smith:** There is clearly a link. However, we must address the challenge of getting additional support to companies that are established and active in the Scottish economy, in particular the 10,000 or so active SMEs, which, if they were offered more support on upskilling and identifying opportunities in international markets, could become effective at exporting. An important part of our strategy is to widen the base of exporters by focusing on companies that are active and successful in trading and doing business in Scotland and more widely in the UK.

In addition, it is important that we focus our activities on companies that are experienced exporters that have tackled opportunities closer to home, with which we can work to take advantage of fast-developing market opportunities. Frank Boyland will give you further insight into work that we are doing in fast-developing markets in Asia to help companies that are already experienced exporters in near-shore markets to accelerate and take advantage of such opportunities.

**Rob Gibson:** I am sure that members will discuss a wide range of issues with you in that regard. Will you talk about the work that you are doing with firms that have good ideas about clean energy and renewables—such firms in Scotland are often small—and the opportunities that you are offering such companies in the Asian market and so on?

**David Smith:** I will bring in Frank Boyland on the opportunities in the Asian market, and then I will address the question on a more general level.

**Frank Boyland:** There are great opportunities for Scottish companies to work with Asian companies to take advantage of the offshore wind

opportunity that exists in Scottish territorial waters. We have been working to build relationships with the top engineering companies in Asia, for example in China, India, Japan and Korea, to let them know about the opportunity in Scotland on offshore wind and the supply chain for that. The companies that we are speaking to in the markets in Asia are not all necessarily energy companies; they are anything from companies that make blades for turbines, or turbines themselves, to companies that produce steel and cables. We are introducing them to companies in Scotland that they might be able to partner in order to take advantage of the opportunity here.

About eight weeks ago, we ran a mission that went to Shanghai, Beijing, Seoul and Taipei. That involved introducing a few companies—SeaEnergy, the Atkins Group, the Wood Group and Oldbaum Services—to about 200 companies in those four locations. The aim was to promote the companies and the goods and services that they provide and to facilitate a discussion. That is an example of how we help Scottish companies to connect in Asia.

**Rob Gibson:** Can you tell us about any developments from those introductions?

**Frank Boyland:** Not right now. There is a lot of activity, but much of the information is commercially confidential, so I am unable to share it today. However, I am excited about the opportunities that have come from that mission and from the work that we have done in the past two or three years to build relationships with Asian companies and to introduce them to Scottish expertise.

**Rob Gibson:** The renewables business is a rapidly growing one at our end. There are well-established utilities such as E.ON in Germany or our own Scottish Power and Scottish and Southern Energy and other such companies. Are you targeting such companies as possible partners for our local good ideas companies that are fairly small?

**Frank Boyland:** Absolutely. Even our big utility companies are part of Scotland's proposition. For example, a couple of months ago, we worked with Scottish and Southern Energy to introduce it to key partners in Japan. For sure, we are connecting them. We hope that a lot of trade and investment will result from the introductions and business connections.

**David Smith:** On a more general level, we have worked with Scottish Enterprise and Highlands and Islands Enterprise to engage in seminars with about 550 companies throughout Scotland, particularly in the oil and gas services sector. Those were about building awareness and understanding of the supply chain opportunities in

the renewables space, particularly in relation to offshore wind. We are focused on building a deeper understanding of the opportunity among the company base, developing further opportunities through networks and building relationships for companies with existing inward investors here in Scotland.

As Frank Boyland alluded to, a big area of our work right now in attracting new and fresh inward investment is to bring companies from around the world that have an interest in what is going on in our renewable energy space, particularly the exciting possibilities in the offshore wind sector. We are running at about two or three inward investment visits a month from companies that are interested in that opportunity and potential in Scotland. I am hopeful of confident and positive news on inward investment in the coming year or so.

**Rob Gibson:** In our discussions with E.ON in Düsseldorf, we were informed that it and other utilities have been given permission to conduct wave power activity off Orkney. My question was concerned with the ability of those companies to invest in the development of those projects to a commercial level and to partner smaller businesses close to the areas of operation, in Orkney, Caithness and Wester Ross, that could benefit from the activity. Is that kind of focus emerging? Should it be a high priority?

**David Smith:** The short response to that is that, yes, that is very much our focus. In the seminar that we held recently, I referred the First Minister to Germany. Last year, we held a seminar with some of the major German investors in the renewable energy space and those who were interested in becoming investors, and we agreed that we had a particularly important opportunity to work with the existing investment base and potential investors to deepen their relationships with companies in the supply chain in Scotland. We are extremely focused on that work.

We supported Scottish Enterprise's recent investment in Burntisland Fabrications Ltd in Fife. That is a demonstration of the benefit that can Scotland can derive, in terms of additional employment, from having companies in the supply chain for the offshore wind sector.

**Rob Gibson:** Let us stick with the offshore wind side of things. Why did the US firm Clipper Windpower choose to go to the north-east of England? What could the north-east of England offer that we could not?

**David Smith:** We are in a very competitive marketplace. In the past year, we have been successful in securing investment by Skykon at Machrihanish, in the face of the possibility of Vestas withdrawing completely from that facility.

Along with colleagues in Highlands and Islands Enterprise, we persuaded the Skykon investment team of the benefits of continuing to invest in that facility and of the potential of the renewable energy sector in Scotland. We have also secured the BiFab investment and expansion that I just mentioned. However, we are not the only location in the United Kingdom or Europe that investors can choose from. Painful though it is to see investments going elsewhere, the important thing in the instance that you mention, is that the north-east of England was the right location for Clipper, taking account of all of the factors, and the investment was secured for the UK.

There will be other investments in the future. I am confident that what Scotland has to offer will most closely fit the needs of investors.

**Rob Gibson:** We talked about England, Wales and Northern Ireland gaining more inward investment and exporting more than Scotland has in recent times. Was there some reason why the north-east of England could offer Clipper more than Scotland could? I do not think that you quite answered that point.

**David Smith:** In that specific instance, one of the most important factors that were taken into account was proximity to Clipper's future customer base. In the case of other investment decisions, proximity to markets, the wider supply chain base and opportunities for future expansion will be factors.

With regard to some of the projects that we are working on right now, we know that Scotland's position is extremely competitive, and I am confident that we will continue to secure our fair share, if not more than our fair share, of investment projects in the renewable energy space.

**Marilyn Livingstone:** I will continue with the theme of barriers to attracting investment into Scotland. You said in your submission:

"potential investors are unaware of the benefits of locating in Scotland in terms of such things as skills, research base, infrastructure etc."

Last week, we heard in evidence from Rupert Soames, of Aggreko, that his company finds it difficult to attract key personnel to Scotland. If he wants to attract someone from the south of England to relocate in Glasgow, they are, like the potential investors to whom you refer, unaware of the benefits of living here and working in a head office of an international company here. How can we get over that barrier? What work has been undertaken on that?

11:30

**David Smith:** That demonstrates just how important our work is and continues to be. Last week, I spoke to James Thomson, vice-president of Odyssey Financial Technologies—a wealth management software company—who said that if it had not been for our visit to the company's Swiss headquarters in Lausanne where we explained the benefits of locating in Scotland, such as the skilled workforce, the quality of life and the ability to attract and retain talent, it was very likely that the company would have chosen to invest in another location in Europe. That illustrated the importance of our work in meeting companies to develop their understanding of the Scottish proposition—what we can offer—to attract them to Scotland.

You have to take into account the fact that 300 or so inward investment promotion agencies operate internationally. The marketplace is increasingly cluttered. The high-level marketing messages from investment promotion agencies around the world can sound very similar. Just about every country in the world is promoting itself as a potential investment destination for a variety of sectors. That is why our work focuses on our being distinctive. We target potential investors and the senior decision makers in companies in sectors in which we think that Scotland has the greatest competitive or comparative advantage.

**Marilyn Livingstone:** Your submission also states:

“Governments and their agencies are well placed to address the barriers highlighted above.”

You have told us clearly what you think you can do and what work you are carrying out. What should the Scottish Government do to help to address the issues that we have been discussing?

**David Smith:** It should continue to undertake some of the work that we are doing in partnership with it. Wherever possible, it should conduct high-level ministerial visits to marketplaces around the world to meet existing and potential investors to highlight the Scottish proposition. A big focus of the activities during Scotland week was meeting existing and potential investors. An important part of what we have to continue to do to support economic recovery is to maintain our relationships with existing investors and to meet potential investors who can bring much needed additional investment into the economy. Frank Boyland might want to comment on some of the recent visits that have taken place in Asia and some of the doors that ministerial colleagues have helped us to open in those marketplaces for inward investment and Scottish companies that are seeking to increase their trade.

**Frank Boyland:** To pick up Marilyn Livingstone's original question, we need to get out there and tell the story of why Scotland is an attractive place in which to live, work and study. We have two operational tactics for that. One is that, in the markets in which we operate, we target the top 20 or 30 companies in a sector. As you know, we have a sector-based economic development strategy that is based around seven sectors. It is our job, wherever our offices are around the world, to get to know the top 20 or 30 companies in the sector—for example, the top 20 life sciences companies in China or the top 20 engineering companies in Korea. We go directly to those companies' doorsteps. We visit them to tell them the story of Scotland and why Scotland is a place that they should consider for their European operations. That is a very tactical approach.

We pick the best companies and build relationships with them because that has two benefits. First, it enables them to understand what Scotland has to offer and why they should consider Scotland as a place to come. The second advantage is that, should a Scottish company come to the market, because we own the relationship with the top 30 companies in the digital creative industries, for example, we should be able to walk the Scottish company in the front door of the companies that we hope will purchase its goods or services. That is an example of the tactical way in which we take the message out to the top companies in the world to ensure that they are aware of what is going on.

We also have a top-level marketing strategy under which, at shows and so on, we tell the story through mass media, reaching more people and setting a tone about what Scotland is doing in life sciences, renewable energy and the other industries and why Scotland is an exciting place. Those are our two tactics for getting the message out there.

On how the Scottish Government can help us, it has been very helpful in the past year in my region, which is Asia. We have seen Mr Salmond visit China and Mr Swinney visit Japan. We have seen Mr Stevenson and Ms Hyslop in China and Mr Russell in India. They are working shoulder to shoulder with SDI to promote Scotland and help us open doors. For example, they have helped with inward investment to Scotland by companies that we believe have potential, to convince them that, right up to the highest level, the Scottish Government is behind the attraction of inward investment, and to help us to tell the story about why Scotland is such an attractive place.

**Marilyn Livingstone:** Do you think that the policy of the seven key sectors works?

**Frank Boyland:** Yes, I do.

**Marilyn Livingstone:** Is there enough flexibility?

**David Smith:** Yes. The overall approach is based on an assessment of the opportunities and the strengths that we have in the seven key sectors. We believe that the majority of the opportunities will come from those sectors, but there is not an exclusive focus on those sectors. It is important that we are opportunity driven and led, and we look at opportunities for Scotland wherever they exist throughout the economy. For example, we work closely with the chemicals sector in Scotland. We focus a proportion of our resources on working with chemical sector investors because that sector is an extremely important part of the economy. For example, we have worked with Ineos to secure more expansion investment in its facility at Grangemouth. That is extremely important given the contribution that Ineos and other chemicals companies make to Scottish manufacturing exports.

**Marilyn Livingstone:** I would like to move on to internationalisation. I was struck by some of the comments on that in your written submission, and particularly by what you say about smaller companies. I also pick up on what Rob Gibson said. You state that one of the barriers is that some small companies do not have a marketing manager, or they need to be able to access the information via a course or an event. Those seem to be simple things that we are not getting right. You mentioned the role of Government in providing financial support, but is it just about that? Is financial support what we need to improve?

**David Smith:** First and foremost, business gets done by having the right relationships in place and the right mix of skills in a company for it to take advantage of opportunities. It is a combination of factors. Especially in our overseas offices and locations, we focus on having the right people—business professionals from different sectors and walks of life who are locally connected. We hire the vast majority of our people locally because it means that we have people who can hit the ground running and who, through their relationships with businesses and markets, can provide more access to opportunities for Scottish companies or give them more insight into how to tackle opportunities in particular marketplaces. There is also an awareness and skills dimension, which we seek to address through the support that we offer, in many cases in partnership with others—for example, the international strategy workshop that we do in conjunction with the private sector.

**Marilyn Livingstone:** All those things are really good, but I think that what you are saying in your submission is that not enough people get access to those courses, so some companies miss out

because they do not have the necessary expertise. They might be too small to allow staff away. It seems to me that we could tackle that quite easily and help those companies with Government support. What you are doing is all well and good, but if people cannot get access—if they cannot get to the courses—or do not have the expertise, they will not be able to make use of the opportunities.

**David Smith:** It is actually far more a question of demand. All the services that are on offer are open to any company in Scotland and we realise that we have to play our part in stimulating further demand for those services along with colleagues in Scottish Enterprise, Highlands and Islands Enterprise and the business gateway. There are qualification criteria, of course. You would expect me to say that, because not every service that is on offer is necessarily appropriate for a company, depending on its point of development. However, the services are on offer for all companies in Scotland, so it is a question not of access but more of trying to stimulate even more demand for the services.

**Gavin Brown:** The convener referred to the ITEM club story that appeared in the business or other sections of many of the Sunday papers. The quotation that I read talked about a reduction of 30 per cent in exports since 2000 despite, the ITEM club says, a doubling of world trade. In response to that, you suggested that the reason for the decline was a decline in electronics exports.

**David Smith:** It is a significant factor.

**Gavin Brown:** How much of that 30 per cent decline is down to the decline of electronics exports? I am asking for ballpark figures.

**David Smith:** I would need to come back to you with a precise figure because I could not give it off the top of my head right now. It is a significant factor in the reduction.

**Gavin Brown:** That is fair enough. Would it be more or less than half? Do you have any feel for the size?

**David Smith:** I would prefer to come back to you with a precise number. It is certainly a significant proportion.

**Gavin Brown:** That is fair enough as well.

Another article, which appeared in the most recent edition of *The Economist*, was pretty positive about the job that SDI has done. It stated:

“Over the long run”

Scotland

“has done better than any other region, with a 15.3% share of total FDI-related employment since 1997, says Ernst & Young.”

That was a positive piece of news but, later on, the article said that we did less well last year—in 2009, as opposed to in the last financial year—and suggested that we got

“only 7.7% of the new jobs”,

which is basically about half the long-term trend. Do you recognise and accept that figure?

**David Smith:** Given the earlier comment and the question that Wendy Alexander asked, it is important that we come back and explain in more detail some of the different figures that are around and the different sources of inward investment figures. The figures to which you refer come from the Ernst & Young European investment monitor. Over the long run, those are the figures on which we focus because they measure greenfield projects into locations in Europe or examine expansion projects in markets—what I would call straightforward FDI projects.

Based on the Ernst & Young figures for the past five years or so, Scotland was second only to the south-east of England as a recipient of FDI projects. Our percentage share fluctuated at somewhere between 7 per cent and 8 per cent over that time period, and our share of R and D projects was closer to 20 per cent.

During the past five or six years, our focus has been on attracting high-value-added investment, such as investment in research and development projects or projects that attract jobs that pay 20 per cent above the Scottish average salary. I acknowledge that in some of the other figures that are reported, which, in some cases, include the non-assisted successes that have come in from other regions, or mergers and acquisitions activity, our percentage share of some of the more widely reported FDI projects was different. I would like to come back to the committee with a fuller explanation of the different numbers. As I said, the most important figures for us are the Ernst & Young European investment monitor figures, because they look at the whole picture Europe-wide.

11:45

**Gavin Brown:** For the record, the article quoted earlier was in *The Economist* of the week beginning 5 June.

What percentage of SDI's trade and export work relates to SMEs?

**David Smith:** During the past year or so, we have supported intensively a record 909 companies. More broadly, we have given overall support to approximately 2,000 companies, including through our work with partners. As our evidence on the evaluation research shows, during the evaluation period, about half of our

work was with what are referred to as non-direct-relationship-managed companies or non-account-managed companies. Based on that figure, more than 50 per cent of our support work during the evaluation period was with SMEs.

**Gavin Brown:** If I heard it right, UKTI said this morning that approximately 90 per cent of its work is with SMEs. Could you come back to us so that we can see whether the figures of 90 per cent and 50 per cent are comparable? Of course, it depends on how one defines an SME. It would be quite useful to see that comparison, because we have had some strong evidence from companies that have highly praised SDI and the work that it has done. The criticism has come from SMEs that feel that they were not in the right boxes and therefore did not get the support. It would be useful for us to see whether there is a difference between the percentage of work done with SMEs by UKTI and SDI.

**Frank Boyland:** In Asia, we worked to help 161 Scottish companies to enter the Asian markets. That is 161 out of the 909 to which David Smith referred. At least 90 per cent of those companies are small or medium-sized. I am happy to share those data with you.

**Gavin Brown:** David, your evidence contains a statistic that, according to HMRC, approximately 5 per cent of the export market is Scottish companies. Was that what you said?

**David Smith:** The specific stat is for Scotland's percentage share of exporters. According to HMRC, 5 per cent of all UK exporters are based in Scotland; that is approximately 4,000 companies.

**Gavin Brown:** To make a crude analysis, we tend to think that if we are getting above 10 per cent, we are punching above our weight, and if we are below 10 per cent, we are punching below our weight. I know that a lot of the time, that percentage is not fair, but it is used pretty regularly.

The SQW Consulting report that gave feedback on SDI was pretty positive and said a lot of good stuff about SDI, but it suggested a bit of a weakness in one area. It pointed out that, although SDI helps companies to speed up and increase the scale and quality of their efforts, it does not work so much with the companies that have not yet made the leap but which we kind of need to make the leap if that 5 per cent figure is to increase. That report came out only last month, but coupling that point with the figure that you gave us suggests that we need a step change to get Scottish companies to take the leap and to export and trade internationally. On the back of that report, are you considering specific measures to get new companies to start trading internationally?



**David Smith:** One specific measure that we are already taking is the smart exporter programme. We are working with SCDI and Scottish Chambers International to reach 8,000 SMEs in the next three years with market awareness-raising programmes. The programmes are designed to upskill SMEs and improve their capabilities in considering and tackling opportunities in international markets. That is an important activity because, given that we have 5 per cent of UK exporters compared to about 7.5 per cent of VAT-registered businesses in the UK, we need to do more work collectively to increase the level of understanding that Scottish companies have of international market opportunities. We must do more to help to equip them, so that the perceived barriers to entry to international market opportunities are reduced and addressed in the eyes of the companies.

Alongside that, it is important that we continue to push out the message that our services and those of our partners, including UKTI, are available to all companies. The support that we provide and the knowledge in our overseas offices is available for all companies to access and leverage.

**Gavin Brown:** Is the smart exporter programme that you referred to live and, if so, how long has it been live for?

**David Smith:** It will launch formally during the summer, but we have been working since October last year with our partners Scottish Chambers International and SCDI to develop the programme. We have leveraged £3.5 million of European social funds into the programme, which is being matched by the partners. That is a substantial effort—it is a further £7.5 million going into upskilling SMEs throughout the Scottish marketplace and giving them greater insight into the opportunities in international markets.

**The Convener:** To be clear, is the matching contribution shared between SDI, SCDI and Scottish Chambers International?

**David Smith:** Yes, it is shared between the partners.

**The Convener:** So there is private sector as well as public sector funding.

**David Smith:** Yes.

**Lewis Macdonald:** I want to ask about the partnership with UKTI, which we heard about earlier. The review in March 2008 of the way in which UKTI, SDI and other agencies work together was pretty positive and found no issues of conflict or duplication or perception of confusing relationships among agencies. You subscribed to that conclusion at the time. Has that been borne

out in your continuing work in overseas markets since then?

**Frank Boyland:** I can give examples of places in Asia where we work with UKTI. As Susan Haird said, we co-locate our operations in FCO offices in Mumbai and Delhi. That is primarily for security reasons. Those cities are not necessarily the safest places so, in the interest of keeping our employees safe, we co-locate and work together. We also co-locate in Hong Kong, which again works well and makes sense.

We meet UKTI regularly in the regions. At least once a quarter, whoever heads up SDI's office in whichever market will meet his equivalent in UKTI. He will also meet the other devolved Administrations and RDAs for a catch-up of what is going on and how we can work collectively.

Another example is that SDI has just appointed a new country head in India, who is a secondee from UKTI, who was the best applicant for the job. We have an open hiring process. UKTI was very open to sharing one of its top guys with us.

There are many examples of our working with UKTI in the field.

**Lewis Macdonald:** There is clearly an active partnership at a practical level in the field. Is that reflected in the relationships at a corporate, national level?

**David Smith:** Yes. At a national level, there are quarterly meetings of the marketing teams at which we discuss the alignment of strategies, particularly around inward investment promotion and how we can work together more closely to help internationalise the business of Scottish companies. I will give you practical illustrations of how we build deeper understanding of the Scottish proposition among UKTI staff around the world. We host about 100 market visits each year involving UKTI staff who come back to the UK on what are called duty tours, as part of which they come to build up their knowledge of the Scottish proposition in the context of the overall UK offering. A big part of what we do is hosting visits and providing programmes that allow UKTI staff to meet existing investors here in Scotland.

We also work to align and share information about the proposition on a sector-by-sector basis. About a year ago, we launched what we call our extranet project, which gives UKTI staff and other partners around the world direct access to the Scottish propositions—the targeted propositions that we have—on a sector-by-sector basis. That enables UKTI staff in London and in overseas markets to gain a deeper insight into the Scottish proposition in a particular sector or sub-sector. That facility is being utilised very well indeed.

Once a year I attend, or the chief executive of SDI attends, a summit along with the heads of the RDAs and the agencies in the other devolved Administrations to discuss how we can continue to develop and align our strategies and approach.

**Lewis Macdonald:** Susan Haird said that the report concluded that there were areas in which you could strengthen partnerships even further. Are you looking at that actively at this stage?

**David Smith:** We will continue to look at opportunities to strengthen partnerships. Susan Haird made a good point about the opportunity to increase the provision and uptake from Scottish companies in support of strategy-related research. Ensuring that Scottish companies are taking full advantage of the support that exists in Scotland and from UKTI and helping them to develop more effective strategies and plans to tackle international markets continues to be an area of focus for both organisations. At a practical level, there is a great deal of collaboration around the exhibition and mission programmes that take place. Where we have a critical mass in certain sectors and areas, in many cases it makes sense for Scotland to take missions out to markets where there is an opportunity for Scotland or to have a Scottish presence at a particular trade show or exhibition. In other cases it makes sense for us to partner up with UKTI or the UK delegation to enable Scottish companies to take advantage of the critical mass that the UK might have at a certain trade show or in an area where there is less of a critical mass here in Scotland.

**Lewis Macdonald:** I return to offshore wind power, which members mentioned earlier. Offshore wind is a potential growth sector and an important window of opportunity exists for inward investment in it. That opportunity must be taken now if it is to be exploited successfully. When you talk to a Chinese or German manufacturer about entering the Scottish market to produce wind turbines for the offshore sector, do you promote investment that will bring supply-chain opportunities as opposed to simply assembly opportunities or do you take the approach that the investment is what matters and that, as long as you obtain the final assembly, it is not your business to worry about where the components come from or what the supply chain looks like? How significant is the kind of investment compared with whether investment is made?

12:00

**David Smith:** The kind of investment is a significant issue. Deeper opportunities to attract multiplier investment or investment that might bring additional investment in the supply chain are extremely important. The evaluation evidence shows that we have succeeded in attracting to

Scotland investment that has increased wages by creating high-value-added jobs and increased labour productivity.

We want to concentrate even more on attracting investment that will have an impact on total factor productivity, which will bring greater multiplier effects and multiplier benefits. That will bring know-how and additional supply-chain activity to Scotland. We recognise that we have a terrific opportunity, especially in the renewable energy sector, to do precisely that.

A lot of our efforts are focused on bringing in initial investment from companies—particularly high-profile wind-turbine manufacturers—that we believe will bring considerable investment in parts of the supply chain that relate to the manufacture and installation of wind turbines. That is a big part of our strategy in pursuing such investment.

**Lewis Macdonald:** Is that issue part of negotiations? The Vestas experience of a company coming in, assembling turbines and going away is probably not what we want in the offshore sector. That approach worked well for a few years, but many components and raw materials were brought in from elsewhere, as you know. When you negotiate with a potential investor from China, for example, do you set conditions? Do you simply provide the company with supply-chain contacts? How do you achieve a different outcome from that of having an assembly plant that closes when economic circumstances change?

**David Smith:** Within the framework in which we operate, we cannot be as precise as you suggest in putting conditions on supply-chain investment or contracts. Our focus is on targeting investment from companies that are likely to bring further investment in the supply chain. Whether a company is from China, Europe or the US, our conversations are about its current needs, its current suppliers and its future needs. We aim to provide an holistic support package that indicates to companies the support that we can provide to help them bring their supply chain to Scotland. That is an important part of our approach and strategy.

**Frank Boyland:** I am happy to add to David Smith's comments. A technology aspect is involved. Machines for offshore wind are moving from 2.4MW to 5MW and beyond. In the technology race, everybody wants to make even bigger machines than that.

We promote Scotland as a place for R and D and for making devices—whether at the European Marine Energy Centre in Orkney, where we can test the best tidal and wave devices, or whether through working with people in our universities, such as Jim McDonald at the University of

Strathclyde. We promote Scotland as a place in which companies should develop such machines and the next kind of blade and should understand the next stresses and strains on metals and how to marinise gearboxes, for example.

When we bring a Chinese, Japanese or other Asian investor to Scotland, they have a learning journey. They want to meet everyone with whom they could work, including the R and D and niche-type companies to which Rob Gibson referred, as well as our biggest engineering companies. We have some really smart companies in Scotland. The overall impression that an Asian investor should have of Scotland when they come here is of a smart country with smart companies that they can work with and a Government that is driving renewable energy in a way that is consistent with their business objectives. The companies that we talk to are always interested in how we price electricity and what our policies are on renewable energy. There are a number of aspects to how we sell Scotland on the technology side.

We have been pretty successful. In 2009-10, for example, we had 49 visits from Japanese companies to Scotland, a large percentage of which were to do with renewable energy. By the end of the quarter that began in April, 15 Japanese companies will have visited Scotland, almost all of which are interested in the renewable energy sector. We are getting the message out and we are getting people to come here to have the experience that I have described. The next part is to make them put down roots in Scotland and start to manufacture and do their R and D here.

**Lewis Macdonald:** That is very interesting. How do you link that with the export side? I am referring to Scottish subsea companies, which I presume have huge potential in Asia and other markets on the renewable energy side as well as in oil and gas. How do you link the work that you do with subsea exporters with the work that you do with potential inward investors on the manufacturing side?

**Frank Boyland:** I mentioned the mission that we had about two months ago, on which we took Oldbaum Services Ltd, Wood Group and SeaEnergy plc. Some of the Asian companies in question are interested in being involved in the offshore wind opportunities that are presented in Scotland, but there are third market opportunities. There is offshore wind potential in China. Around six months ago, SeaEnergy signed a great deal to provide its services and products in the Taiwanese market. That was made possible by introductions that SDI was able to make for SeaEnergy.

Once a large Asian heavy industry or energy-related engineering company has gone on a learning journey and has met all its potential

partners and found out what their business objectives are, it might look at a third market somewhere else in the world where it could do some work with those companies. We are very lucky in that we have 2,000 Scottish companies operating in 53 markets around the world. The fact that we have some of the best deep-sea technology is a big part of the selling proposition for Scotland.

**Lewis Macdonald:** That was extremely helpful.

**Rob Gibson:** I have a little more information. I would like to return to the issue of the Clipper Windpower investment in the north-east of England, which seems to have been made possible through a £4.4 million grant from the UK Government under its low-carbon energy demonstration fund, which was agreed in February this year. Could SDI have tapped into that UK fund?

**David Smith:** Yes. The UK funds are open to companies in all regions of the UK. For example, the funds that were made available through BIS in relation to low-carbon opportunities continue to be available to companies in all parts of the UK. An award has been made to Mitsubishi in return for it committing to the UK as a centre for R and D. A condition of that award is that Mitsubishi must locate a new R and D centre somewhere in the UK. As you can imagine, we continue to have discussions with the company about the possibility of that centre being located in Scotland.

**Rob Gibson:** But in the case of Clipper Windpower, you were not able to provide any extra support that would have enabled it to get that UK demonstration fund money to come to Scotland.

**David Smith:** That is correct in that particular case, but in line with the guidelines that we have agreed with UKTI and the overall concordat, we play on a level playing field in offering financial support to companies. Companies will make their decisions based on other factors such as the proximity to market, the availability of skills in a location, the additional support that might be on offer or the capability that exists, for example in the form of the skills or research base in local universities.

**Rob Gibson:** Factors such as university-based opportunities could play a role.

**David Smith:** The guidelines that are in place throughout the UK, which we respect and support, exist to try to avoid a bidding war for the UK taxpayer. We do not seek to get into a bidding war when it is clear that an investment is coming to the UK. We respect and play by the guidelines. The sales pitch moves to considering what value we can bring and what we can offer in addition to the financial support that might be on offer.

**Rob Gibson:** I could ask a whole lot of further questions about that, but I will leave it for now.

**Stuart McMillan:** Some of the issues that I want to ask about have been covered to an extent, but I am keen to get more information. Last week, we heard evidence that people's education requirements can be a challenge in encouraging them to relocate to Scotland. Has SDI found that to be a challenge or barrier to encouraging companies to set up in Scotland?

**David Smith:** On the whole, no.

**Stuart McMillan:** The example that we were given was that, although Aberdeen has an international school, there is not one in Glasgow or Edinburgh. That was deemed to be a bit of a challenge in encouraging people from within the UK and from overseas to come here.

**David Smith:** There is excellent provision in the private sector throughout Scotland. Many individuals who come here, such as the senior management of potential investors, are aware of that provision and utilise it. It has been brought to our attention that the availability of the international baccalaureate qualification would be of interest to a minority of companies. That is worthy of further investigation.

**Stuart McMillan:** Frank Boyland commented on his experience of Scottish companies going out internationally to build relationships. I assume that the process of trying to increase inward investment is fairly similar and involves building relationships. How important is joint working with organisations such as VisitScotland in enticing companies to come here? When you are out talking to businesses, do representatives of VisitScotland go along with you at key points?

**Frank Boyland:** VisitScotland is not involved in our business meetings. If there is a backbeat that Scotland is a great place to go on holiday and to enjoy and explore, that aids the inward investment story. We are trying to convince people from other parts of the planet to locate in Scotland. If there is a drum beat in magazines and other media that promotes Scotland and the benefits of Scotland more generally—the softer sides of Scotland—that certainly plays into what we are doing. However, most of the decisions that an inward investor makes are based on cold, hard business facts and why it is profitable to be here, rather than the fact that it is a nice place to come on holiday, although that certainly helps.

**Stuart McMillan:** We heard in earlier evidence sessions about trade missions. It was suggested that when politicians go abroad for whatever reason—for example, this committee's visits abroad to increase our knowledge for this inquiry—a trade mission should be attached.

Would you recommend that as worth while, or would it be overkill?

12:15

**David Smith:** We take the opportunity whenever we can to undertake trade missions and link them with ministerial visits to overseas markets. For example, there will be a trade dimension to and a trade delegation associated with the First Minister's forthcoming visit to China. Whenever we can, we will use the opportunity of a ministerial visit to a market to take a trade delegation. We will certainly focus a great part of any ministerial programme and visit on meeting potential and existing investors to develop relationships and opportunities for Scotland.

**Stuart McMillan:** It was suggested that mixed trade missions are too sporadic and not focused enough. Do you agree? Would a more targeted approach, such as sector-specific missions, be more beneficial?

**David Smith:** By mixed, do you mean cross-sectoral missions?

**Stuart McMillan:** Yes.

**David Smith:** We have shifted our approach in the past few years to the point at which just about every SDI-led mission or exhibition is focused on a particular sector or sectoral opportunity. The feedback from customers that we have had, and continue to have, is that sectorally focused or opportunity-focused missions are the most valuable and effective for the customer base.

Having said that, we recognise that there is a place for cross-sectoral work and that there needs to be provision to ensure that some cross-sectoral mission activity takes place. That is particularly the case in some of the fast-developing markets, where there are often linked opportunities—the marketplace is more dynamic and there is an opportunity to take companies with a variety of capabilities to address cross-sectoral opportunities. That is why we focus on fast-developing markets in the funding that we provide to SCDI for cross-sectoral missions. In fact, we specify through the tendering process the markets on which the cross-sectoral missions will focus.

**Stuart McMillan:** I used to work in the electronics industry a number of years ago, and I know that the industry has contracted a great deal because there are cheaper manufacturing and assembly costs elsewhere. However, it is still a major economic driver in Scotland. What assistance does SDI provide to individual companies and the industry to help them to export not so much the boxes but the services that the companies provide?

**David Smith:** You make a really important point, particularly in focusing on the know-how and capability that we continue to have in supply chain management, for example, and the smarter knowledge that we have in software development and designing and developing specific applications for the electronics and digital media sector more generally.

The activities that we have focused on have included trying to maintain that capability from a supply chain point of view by taking groups of companies to meet and develop opportunities with some of the larger electronic companies in Europe and further afield. That is what we call our table-top approach: we take groups of companies out to meet the likes of Siemens, to give such companies a deeper understanding of what Scottish companies can offer them, their supply chain and their overall capability.

We have continued to develop relationships with other parts of Siemens, such as Siemens Technology Accelerator, which is the company's corporate venture arm. It concentrates on what Siemens can do to spin out and take advantage of non-core intellectual property in Siemens and on the business benefit that Siemens can obtain from that.

In the past few years, we have secured investment from that relationship in the form of a spin-out company from Siemens called Pyreos, which was established in Edinburgh. That company is the result of the process of spinning out non-core intellectual property in Scotland. It is interesting that we have ended up with a company that was born global. It has brought capability to Scotland and has done research, so it is already in a position to take advantage of opportunities in international markets. All Pyreos's sales, which are approaching a value of about £8 million, are achieved from global markets and particularly from Asian markets. We are concentrating our efforts on such an approach, which focuses on know-how and capability.

**Stuart McMillan:** What support and assistance does SDI give the shipbuilding industry? That is not one of the seven key sectors and is much smaller than it used to be. I am more interested in the non-defence-related shipbuilding industry.

**David Smith:** As you say, the shipbuilding industry is substantially smaller than it used to be, but it still has opportunities in the maintenance and support of offshore activities in the oil and gas sector and in the renewable energy sector in the future. Our efforts concentrate on drawing those opportunities to the attention of the shipbuilding sector and companies that work in the supply chain.

**Frank Boyland:** I come from Port Glasgow and shipbuilding is close to my heart. My sense is that the offshore wind opportunity will require a fair amount of new vessels, to support towing equipment in and out and so on. I hope that Scotland will benefit from that.

I can speak only from an Asian perspective. We are working with companies that have a shipbuilding division and are thinking about ways of designing and making new vessels. We are perhaps at the start of something that could benefit Scotland greatly.

**Stuart McMillan:** I am a fellow Portonian, so we have something in common. I thought that I recognised your face. I would be happy to chat with you about the issue later.

**Ms Alexander:** I am aware of the time, so I will be brief. We have touched on inward investment trends. The only data that the committee has are from UKTI, which cover the past 15 years. They suggest that, from 1993-94 to 2000, more than 100,000 jobs were attracted to and saved in Scotland. In the subsequent eight years, the figure was fewer than 50,000, for reasons that relate to the electronics sector. As our report will examine where we are on trade and internationalisation, we will probably draw on those data. It would therefore help if you reflected offline on whether you are comfortable with the data that UKTI has provided. I will leave it to others to deal with more recent data.

As for spending, one interesting point that emerged today is that UKTI's budget is £360 million, whereas SDI's budget is £23 million. Are you comfortable that we obtain good value from that spend of £360 million, which is a huge sum of money? Even a tenth of that would be one and a half times SDI's budget. Do opportunities for Scotland arise from the retrenchment of the RDA network south of the border?

**David Smith:** I think that we get good value for the spend. The UK continues to be the biggest recipient in Europe of foreign direct investment. I want to come back to the committee on the numbers in relation to the attraction of inward investment into Scotland—in particular the numbers from the European investment monitor—so that we can provide more insight and add colour to the picture.

I think that we get good value for the money and effort that we put into attracting inward investment and supporting trade. The gross value added figures bear that out strongly. Foreign direct investment represents about £41 billion of GVA to the Scottish economy. I have figures from the Scottish Government that show that about 288,000 people are employed in Scotland as a result of foreign direct investment. The figure

represents about 16 per cent of total employment in Scotland. Such investment continues to be extremely important for Scotland. Employment from foreign direct investment in Scotland has risen during the past 10 years—that is the trend.

**Ms Alexander:** It would be helpful if you wrote to us with data on total employment from foreign direct investment, because the only data that we have come from the UK-wide body, which does not suggest that there is a rising trend.

**David Smith:** I will be happy to write to the committee.

**Ms Alexander:** Another thing that emerged from the UKTI submission is that there has been a 44 per cent increase in FDI projects from India, with 108 projects coming to the UK. Will Frank Boyland say how many projects came to Scotland? Has there been or will there be anything like a 44 per cent increase in Scotland?

**Frank Boyland:** That is a good question. We have increased our resources in India. In 2007 we had one person in our Delhi office; now we have five people in India. About a year and a half ago we opened an office in Mumbai, so the five staff are split between the two offices. We closed four FDI projects in India last year, with HEROtsc, Kavveri, AxSys and Piramal.

We are starting to see more activity coming out of India, despite the global economic crisis. There are a lot of positive signs. Probably 30 Scottish companies visited India last year, which is too low a figure. We need to raise awareness and get Scottish companies to figure out how they can take advantage of opportunities in India. However, the signs are positive and we are working to make them even more so.

**Ms Alexander:** Four projects came to Scotland out of the 108 projects in the UK that were closed. The subcontinent has huge links with Scottish society, so it is good to hear that the market is being grown.

In the context of its inquiry, the committee has considered the fact that in excess of 30,000 Chinese students are studying in Scotland. We know that it helps inward investment if people have a tie with a location. I am struck by the frequency with which people cite Tesco Personal Finance. Of course, Benny Higgins, the chief executive, comes from Scotland, and his family is here. That makes it easier for the company to grow here and for Scotland to be the location of choice. The emphasis in the education sector is on marketing by the universities to attract students, but we have not been able to identify much that is being done with Chinese students while they are here to encourage them to regard Scotland as the location of choice in Europe after they have

returned home. Has thought been given to the issue?

**David Smith:** I agree that there is an opportunity in that regard. We are active in the area but we can be more active. Our discussions with business schools in Scotland have enabled us to bring to the attention of Scottish companies the opportunity to engage MBA students for a short period in projects to consider business opportunities in the Chinese market.

Some of our programmes, including the international manager for hire programme, are also designed to broaden that work out not just to Chinese students, but more generally to students who come to Scotland with knowledge and experience of international markets or particular sectors. The idea behind the international manager for hire programme is to provide intervention support of up to 50 per cent to enable companies in Scotland to hire people for a one-year period to supplement the knowledge, experience or expertise that they might need to tackle international markets.

12:30

**Ms Alexander:** Can I leave just one thing on your agenda? You can write to us on it. It has not been made clear to us whether the 30,000 Chinese students that we have in Scotland is a disproportionate number in comparison with the number in our European competitors, which want to be the location of choice for Chinese FDI into Europe. It seems to me conceptually to be the case that 30,000 is probably more than are in most of our competitor countries—frankly, because of the English language and the quality of our universities. If somebody in your organisation can look at the trend—whether it is 30,000 or more—in countries that we see as our principal competitors, that would help to clarify whether Scotland has an important if not unique opportunity or whether the number of undergraduate and postgraduate students who are here is simply average. If you can write to us about that in due course, that would be great.

**David Smith:** We will be happy to come back to you on that point. Frank Boyland may want to comment on some of the work that we are doing on the ground in China in trying to pick up and develop those networks.

**Frank Boyland:** Yes. Wendy Alexander makes a good point. We work with alumni groups in China and other parts of Asia because those are potential Scottish salespeople for us. Hopefully, they have had a good experience of studying here and we want to keep in contact with them when they go back to China. For example, in November last year we worked with the British Council and

there were ceilidhs in Shanghai and Beijing. I went along and spoke to a warm audience who had a great experience. Those people will be the business leaders of the future and will, we hope, consider directing their investment at Scotland, which I think is your point.

**The Convener:** Can I expand on that slightly? Can you talk a bit about how we use global Scots? Are we using them to best effect? Are we tying the alumni issues into the globalscot network?

**David Smith:** The short answer to that is yes, very much so. Is there an opportunity to do more of that? Yes, there clearly is. We have been using global Scots to good effect in recent times. For example, in the food and drink sector we have a global Scot out in Texas with a retailer called Here Everything's Better, which has been instrumental in helping Mackay's—the Arbroath-based company that makes jams and marmalades—to access the retail chain.

We have used a number of global Scots to develop contacts with major retailers around the world and to develop our meet the buyer programme. A global Scot called Bill Black with whom I used to work many years ago in British Aerospace at Prestwick and who was with the European Aeronautic Defence and Space Company for a while helped us to get an introduction to the chief technical officer of EADS—a guy called Jean Botti. As a consequence of that, a small satellite research operation has been established here, at the University of Edinburgh's school of informatics, which we hope will build and grow into something more substantial. Those are just a few examples of how we use global Scots effectively.

To return to my earlier comment, business is all about building relationships and our overseas officers play an extremely important role in continuing to work alongside the global Scots, encouraging them to open up their Filofaxes and contact books even more to help us to identify more opportunities for Scotland and bring those opportunities to the attention of Scottish companies.

**Frank Boyland:** As a former global Scot, I very much believe in the power of networking and the power of the globalscot network. We have a very strong globalscot network around financial services in Asia. A lot of Scots have gone to Asia and set up banking and other businesses there. We regularly introduce global Scots to Scottish companies—not just financial services, asset management and insurance businesses, but other Scottish companies that come out to the market seeking finance. That might include an engineering company that is trying to raise money. Global Scots are in Asia, advising Scottish companies that are seeking finance.

Turning to an example that illustrates networking more broadly, SDI seeded a Scottish business group in Singapore. We decided that someone does not necessarily need to be a global Scot to be interested in Scotland, to wish to help Scottish companies and to promote Scotland. That organisation in Singapore is a great example. It started about 18 months ago and is now 70 strong. I am speaking about either Scottish companies or multinational companies with a Scot in a senior position. Without very much assistance from us, it has been a case of germinating networks, which can help us.

**Christopher Harvie:** I can supply you with the details of one of my PhD students, who is now dean of a faculty in Taiwan and whose PhD was on families and industrialisation in Scotland, Baden-Württemberg and Taiwan. It is useful—I will supply the name.

One of the major things that comes out of the stuff that I have been doing on the North Sea—I wrote "Fool's Gold" back in 1994, about oil—is the importance of software in control mechanisms, and server motors. That seems to be something that we are very well adapted to do, given the research that is being undertaken here, although the server motors themselves might well be built in Japan because the central information is held there. What success are you having in building up links of that sort? In essence, we can do stuff straight out of the laboratory, given the options that you can give us for transmitting that into the actual machinery.

**Frank Boyland:** We already have inward investment in that field from Japan—Yaskawa Electric is working on robotics-related systems in Cumbernauld. The University of Edinburgh has a lot of expertise in the systems for the robotics of motor control and artificial intelligence. That is part of Scotland's story, and we are talking to engineering companies in that regard.

**Christopher Harvie:** There is also the enormous amount of conceptual thinking involved with the potential use of the sea route over Siberia to the North Sea within a couple of years. One point that came up while we were in Germany was the notion of using Orkney or Shetland as break-in-bulk points for supplying Europe, given the much shorter sea voyage from the far east. Has that sort of thing, or its implications, come into your calculations yet?

**David Smith:** Not particularly. That is an interesting observation, which we will take away, ponder and consider.

**Christopher Harvie:** At the moment, that sea route is clear for only about two months of the year. There is a weather window, when importing along that route becomes very cheap.

When we were talking to representatives of North Sea oil firms and suppliers in Aberdeen, the oil days were mentioned and compared with current developments in renewables. People alluded almost nostalgically to the fact that there used to be a centralised method in the 1970s—the Offshore Supplies Office and so on. Nothing as concrete as that is in place today, but they want something of that sort to deal with that one sector. They were all old-fashioned capitalists, but they were strongly in favour of that sort of organisation in the form of a Government body.

On what is almost the opposite point, we heard about some problems that are being experienced by little north-east firms that are successful at exporting. People could build up the retained profit that enabled them to develop their firms only if they did not concentrate on Britain. With foodstuffs, companies are so much in the grip of the supermarkets that they cannot realise sufficient profit to reinvest. Therefore, small companies of that sort see exports as an important area of their strategy.

It came up in evidence that a lot of learning came from one-off experiences that are often helped by SCDI or SDI sponsorship in the first place. That fed into the notion of building up niche markets—perhaps in Saudi Arabia, Italy or Switzerland—on which the companies could develop their business as long as they had good banking finance to cover their exports. That was one thing that they worried about, while the second thing was the dominance of the supermarkets. What will the impact be on a small firm—a potential Macsween or Baxters, or a butcher or baker in a small Scottish town—of the tank-like advance of a Tesco or Asda? Will it stimulate them or crush them out of existence?

**David Smith:** Some of the larger companies in the whisky sector aside, the overall approach that we have been developing in conjunction with Scotland Food and Drink and other companies in the food sector has focused on quality and the premium price point that Scottish produce can get both in overseas markets and here in Scotland. Our general approach is to encourage companies, particularly with niche or high-quality products, to keep focusing on quality and provenance as a way of increasing profits and achieving more profitable growth for Scotland and the food sector.

Last year, it was encouraging to see a 20 per cent growth in food exports, much of which was driven by the seafood sector. From a strategic point of view, we have made a lot of effort to put more resources behind that push. We increased the amount of support to the food sector, and the seafood sector in particular, by £250,000 to increase the number of missions and exhibitions. We have worked with colleagues throughout the

sector, Highlands and Islands Enterprise and some of the councils to draw the situation to the attention of the industry and get support from the councils to increase the number of planning applications, which has enabled Scotland to increase production in a sustainable way of farmed Atlantic salmon. As a result of that, we are in a better position to increase the overall market share and value of exports in the sector. Focusing on quality and profitability is the way forward for the food sector.

**Christopher Harvie:** Do we require a cultural change? When you look at the small operators in the food sector, you get the spirit of Samuel Smiles, the radical doctor from Haddington who wrote “Self-Help”. In the 19<sup>th</sup> century, they had Smiles’s biographies of engineers and “Self-Help”. Why is a culture like that not being developed around the manufacturing sector? It would let kids read something that is simply explained to them and give them a sort of kick in approaching industry.

**David Smith:** Such a culture is emerging. Look at companies such as Mackay’s, which has watched the successful growth of Walkers in international markets. Mackay’s has been encouraged and inspired by the experience of Walkers in those markets. We are working with companies such as Mackay’s on sharing their experience of international markets to encourage more companies with quality products, particularly SMEs, to take them to those markets and emulate the success of Mackay’s, Walkers and others.

12:45

**The Convener:** It might be useful to get your views on a number of other issues that have come up in our inquiry. First, on your overseas office structure, various views have been expressed about the importance of having an office or some kind of physical presence in these markets. What is SDI’s general strategy in that regard?

**David Smith:** Our overall strategy is to look at where Scotland might have the greatest opportunities for both inward investment and trade development and to invest resources in the form of people in those locations. Since 2005 we have, with the support of Scottish Enterprise, HIE and the Scottish Government, increased the number of people that we have in overseas markets by about 60 per cent. As I say, the guiding principles for those decisions are about the markets that will provide the greatest investment opportunities for Scotland in the foreseeable future and the markets that are the most relevant and exciting with regard to growing trade.

The issue is not so much about real estate or offices. After all, over the period of time in



question, there has been no change in the number of offices overall. We have decided to close some offices and open in other locations, but the focus has remained on putting people and resources into developing in the long term valuable relationships with companies, potential investors and potential trading partners for Scotland.

**The Convener:** So—if I can paraphrase what you have said—the strategy is perhaps more about co-locating staff with UKTI and using it as a base instead of having a separate SDI office.

**David Smith:** Yes. We have taken a “think global, act local” approach; I know that the phrase is often heard, but what I mean by it is that our recruitment strategy and approach have been to hire people with knowledge of and expertise in the sectors and markets that are of greatest overall importance to and provide the greatest opportunity for Scotland. We seek to make efficiencies in our operating costs by, wherever possible, co-locating staff and, as a result, some of our staff are co-located with UKTI staff in certain markets including India and Dubai in the middle east.

Wherever we can, we seek to leverage or allow other organisations in Scotland to leverage from SDI's overseas footprint. For example, in Paris, we provide space for the Scottish Salmon Producers Organisation's representative and in a number of our offices, particularly in the United States, we make available incubation spaces for Scottish companies to give them a soft landing and entry. It is very much about trying to make the most of our capability and footprint.

**The Convener:** In a recent article in the *Sunday Herald*, Charles Cormack of Dumfries-based Cormack Consultancy Baltic outlined how he helped Scottish firms access the Baltic markets. In light of his success, would SDI consider other areas where it might work in partnership with private sector providers instead of providing a direct service itself?

**David Smith:** We are always looking at opportunities to utilise in overseas markets networks such as globalscot and the networks and relationships that some of our public and private sector partners might have built up in Scotland. A good example of that is Cairn Energy in India, which has offered temporary space to Scottish companies wanting to access the Indian market to give them a soft landing. We have had and are continuing to have discussions with SCDI among others about leveraging the footprint or presence that many of its members have in international markets to try to develop things from the virtual presence that Scotland has in many locations around the world. As I said, it is far less about real estate and offices and far more about how we take advantage of the wide network of relationships that we and others have in international markets.

**The Convener:** Frank Boyland talked about building relationships with the 30 leading companies in each sector of the various markets. Do you also look at the other inward or outward investment companies and agencies that operate in a certain region? For example, would you develop a relationship with agencies such as NRW.Invest, which we visited on our trip to Düsseldorf, to identify any market opportunities that might exist either for any of their companies that might be thinking of moving into Scotland or for any of our companies that might be thinking of moving into their regions?

**Frank Boyland:** Very much so. It makes sense for us to work with those agencies. For example, our Japanese equivalent, the Japanese External Trade Organisation or JETRO, offers services to Scottish companies that are thinking of setting up in the country and it simply makes perfect sense for us to introduce those companies to JETRO to find out whether they can take advantage of free office space, grants or any other assistance that might be available. That kind of work is an important part of what we do. In fact, going back to the issue of opportunities for trade and Scottish companies trying to get into particular markets, we also work where possible with JETRO to find out what its top companies are and which of them might be most likely to internationalise. After all, we will want to have a chat with those people and the organisation helps us by recruiting some of those companies and introducing them to us.

**The Convener:** At the end of your submission, you refer to

“Follow up meetings with interested parties”

including Boyd Tunnock, the consulate of Mongolia and the consulate of Iceland that have resulted from our earlier evidence sessions. Are you able to give us any information about the outcome of those meetings?

**David Smith:** They have all been very positive and productive. Both sides have recognised that communication between the parties could have been better, although the Mongolian consul general and the Icelandic consul general in particular have acknowledged that our track record with regard to working relationships and handling inquiries is generally very good. I should point out that many of these individuals are in honorary positions and the time that they have for developing such opportunities is very limited; nevertheless, we have established a clear understanding of the way in which we operate and the most effective way of communicating between parties, and we are investigating the possibility of undertaking a trade mission to Iceland in future. However, any decision in that respect will have to be based on the overall opportunities for Scotland.

**The Convener:** As members have no further questions, I thank David Smith and Frank Boyland very much for their attendance at a very lengthy but very helpful evidence session.

**David Smith:** Thank you for your time.

**The Convener:** Before we move on to our final exciting item, I suspend the meeting for a moment to allow the witnesses to depart.

12:53

*Meeting suspended.*

12:54

*On resuming—*

## **Subordinate Legislation**

### **Arbitral Appointments Referee (Scotland) Order 2010 (SSI 2010/196)**

**The Convener:** Colleagues, as there is another meeting in this room at 1 o'clock, we need to move on to our final item, which is consideration of a Scottish statutory instrument under the negative procedure. The order lists the persons who are authorised to act as arbitral appointments referees for the purpose of the Scottish arbitration rules as set out in schedule 1 to the Arbitration (Scotland) Act 2010, a piece of legislation that is dear to our hearts. After considering the order, the Subordinate Legislation Committee agreed that no points arose on it. If members have no comments, I seek the committee's agreement that we have no recommendation to make to Parliament on the order.

**Members** *indicated agreement.*

**The Convener:** That concludes our meeting. Next week we will take evidence for our international trade inquiry from VisitScotland and the Scottish Government.

*Meeting closed at 12:55.*

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