DRAFT BUDGET 2015-16: FOCUS ON EXPORTING

Thank you for your letter inviting a response to the submissions received by the Economy, Enterprise and Tourism Committee following the recent call for evidence on exporting. I know that the Committee has a long-standing and keen interest in trade and investment and your work on the issue to date has been extremely informative and most welcome.

As Committee members are aware, The Government’s Economic Strategy (GES) emphasises rebalancing the economy towards increased Scottish exports to capitalise on the significant opportunities in growth markets, including setting the challenging target for businesses to deliver a 50% increase in the value of international exports by 2017.

It is very rewarding to see that Scottish businesses are making great strides towards achieving this increase, despite difficult trading conditions in international markets.

I welcome the breadth of responses you have received from across business, trade unions, industry groups, business organisations, universities and others. This demonstrates the strong interest in exports and its critical importance to the growth of the Scottish economy.

I also note the positive tone of the responses and broad consensus of both the challenges and opportunities along with the approach Government has taken to date. This consensus is very encouraging as we continue to develop policy in this area and confidently look to build a more prosperous Scotland through engagement with all stakeholders. I am sure, as noted above, that the Committee’s considerations, will give further voice to specific areas of opportunity we should be taking forward.

In general, we are seeing a continued upward trend in international exports, and we need to do more to ensure we maintain the momentum. We know that we need more companies, in more sectors, exporting into more countries.
This is highlighted by the fact that Scottish export activity is concentrated in traditional markets, with around 45% of international exports going to the EU, and around 14% to the US. It is also worth noting that large companies account for 57% of our international exports, while only 13% of small and medium-sized companies export internationally.

That's why we have made it our goal to increase exports by 50% by 2017. However, exporting should not be seen as an end in itself, it is a means to help achieve sustainable economic growth, which is reliant on further developing an internationally competitive Scotland.

We accept the challenge to do more, but in doing so, recognise that we have some strong exporting performance; Scotland is already home to world class companies and sectors, for example in Oil and Gas services we have seen a 22% increase in international exports in the last year (2012/13). International activity now accounts for over half of the total Oil and Gas supply chain sales from Scotland, which now stands at a record 50.2%. By comparison, in 2002 this was 31%.

One of our strongest sectors, food and drink, has increased exports by 51% between 2007 and 2013, with exports of Scotch Whisky rising by 87% to £4.3 billion in the decade to 2012. This is the type of ambition we want to build on across all Scotland's businesses and sectors whilst we work with the industry for continued further growth in this sector.

Improving Scotland's international competitiveness is at the heart of the GES and it remains a high priority for the Government's enterprise agencies. I know you will be receiving a detailed joint response from Scottish Enterprise and Highlands and Islands Enterprise, and they will set out their approach with businesses both here and abroad to ensure that Scotland maximises the exporting opportunities available. Rather than repeating any points that they will make, I have set out below high level comments on the common themes identified throughout the responses:

- **International Competitiveness**
  The importance of being internationally competitive and the link of increasing exports to other drivers of competitiveness e.g. employment (Unison), globally competitive business environment (Oil and Gas UK) and wider economic development activity (STUC) highlights the need to address this in the round.

  As the GES articulates, in addition to exports, greater exposure to international trade promotes productivity and competition within Scottish markets. Being open to international markets can boost the Scottish economy as businesses learn new ideas, adopt new technologies and seek out new opportunities, and in doing so build their confidence, ambition and leadership aspirations.

  There is clear evidence that companies that export become more productive, with this helping to promote competitiveness and longer term sustainable growth. Increasing Scotland's exports supports a number of desirable characteristics and drivers of economic growth, helping to support and create high skill, high value employment opportunities across Scotland.

- **Innovation and Exporting**
  The synergies between innovation and exporting were highlighted by the SCDI, the Scottish Salmon Producers' Association and the ERC.

  We recognise the correlation between internationally minded businesses, the propensity to export and especially their increased tendency to innovate. Companies looking for international success need to be innovative, and they need the leadership and talent to turn that innovation into a marketable product.

  A recent example of this is a Bank of Scotland survey of Food & Drink companies. This forecasts the industry could see an increase of nearly 10,000 additional jobs over the next five years, with exporting and new product development expected to be the key drivers for growth in the sector, with 58% of firms planning to expand their export activities.
Actions to encourage innovation and leverage Scotland’s strengths in university research are an important part of this. For example, our investment in Innovation Centres aims to boost demand-driven, collaborative knowledge exchange and research activity to stimulate sustainable structural changes in linkages between academia and industry.

- **Visibility of Support to SMEs, Market Failure and Cluttered Landscape**
  This was an area highlighted by most respondents including business organisations (CBI, SCDI, SCC) industry bodies (Oil and Gas UK, Scottish Salmon Producers’ Association) and by business itself (ResDiary).

  It is critical that companies can access the right support at the right time. Government support should focus on areas which add value to the Scottish economy and which, without this support, would not happen. Where services can be provided on a commercial basis then the private sector should take the lead. In many cases, it is the public and private sector working together towards common objectives which makes the difference. This 'Team Scotland' approach is a fundamental part of 'Scotland's Trade and Investment Strategy 2011-15'.

There is a continued need to be customer focussed and ensure easy access to services. As part of this, and responding to business demand “The Scottish Business Portal” (http://www.business.scotland.gov.uk) is an accessible site where businesses can quickly access information about exporting and be signposted to available support. The portal draws material from Business Gateway, SE, HIE, SDI and SDS joining up the key support agencies making clear links with skills. This support includes the ‘Smart Exporter’ programme which was designed to encourage and support more businesses to export. Since its launch in 2010 it has worked with over 4,000 companies.

  Support delivered by the enterprise agencies and Business Gateway also focuses on providing individual businesses with a range of tailored support – from leadership development, to assistance in securing finance, to services of the Scottish Manufacturing Advisory Services (SMAS) – which raises businesses’ ambitions and equips them to fulfil those ambitions.

- **Connectivity**
  I note that improving connectivity between Scotland and the South East was seen as a key barrier to exports for CBI members, while the SCDI highlighted the vital importance of physical connections more generally (road, rail, sea, air) to internationalisation and competitiveness.

An efficient and sustainable transport system is one of the key enablers for delivering the Government’s purpose of increasing sustainable economic growth in a low carbon economy. Scotland’s geographical position makes strong international and cross-border transport links vital for our economic success and our social wellbeing. Its geographic peripherality means accessibility is largely dependent on air travel.

  It is therefore very important to improve Scotland’s international air connectivity. Team Scotland partners have ongoing engagement with airlines to promote the start-up of new routes and the expansion of existing services from Scotland. Over the last decade, the number of foreign airports served from Scotland has more than doubled to 107.

- **Inward Investors**
  The role of inward investors and linking them into the domestic supply chain was highlighted (Oil and Gas UK) as well as the continued attractiveness of Scotland, given its talent and research to foreign investors (Universities Scotland).

  Inward Investors tend to be significant exporters, with many using Scotland as their platform for trading across Europe. In terms of international investment, Scotland has performed strongly in recent years. The talent of our people and research excellence of our Universities, along with natural and built assets, all make Scotland an attractive place to invest. This Government is committed to maintaining this economic advantage by increasing our international competitiveness.
• **Access to Finance**

The business organisations responding all saw access to finance as a particular challenge (CBI, SCDI, SCC).

Access to finance is often a barrier to companies who export, the Scottish Investment Bank has a remit to improve the flow of finance to Scottish companies, specifically growth and exporting, working directly with the financial community to strengthen Scotland's business base.

• **International Mindset**

Many of the respondents picked up on the underlying aspects from the link to youth employability and skills agenda (Scottish Youth Parliament) to team working, leadership and intercultural awareness (SCDI) to the need to address a deep attitudinal change (SCC) and the use of 'soft power' of alumni across the world (Universities Scotland).

We need to continually develop an overall international mindset within our businesses and people, along with competencies which underpin this. The enterprise agencies are working closely with their partners on creating an environment that can support businesses to look outward, be innovative, and ambitious. These actions will help deliver a more balanced economy through increased international competitiveness and international trade. Overall, exporting has to be seen as an integral part of developing a more internationally competitive Scotland.

I trust that this is helpful to the Committee and I look forward to discussing this important topic with you in due course.

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JOHN SWINNEY