The STUC welcomes this opportunity to contribute to the Committee's scrutiny of the draft budget 2015-16.

The STUC has previously raised concerns with the Committee over the relevance and achievability of the Scottish Government’s ‘increase exports’ indicator in the National Performance Framework’. In our submission to the Committee’s scrutiny of last year’s draft Scottish budget we argued that:

“…whilst the STUC has long argued that a rise in net exports would be good for the economy, the target associated with this indicator is, to put it mildly, optimistic. The low level of exports is more to do with industrial structure than a failure of Government to support exporting firms. Setting targets that have little credibility hardly helps goals to be realised”.

**General Points**

*Measuring performance:* information on the value and composition of Scottish exports (international and to the rest of the UK) comes from three main sources:

- Global Connections Survey carried out by the Scottish Government with support from Scottish Development International; the only survey covering exports of goods and services;

- The Index of Manufactured Exports; a quarterly Scottish Government publication; and,

- HMRC’s Regional Trade in Goods Statistics; a quarterly publication providing a regional breakdown of international imports and exports from nations and regions of the UK.

While all three sources are credible and illuminating, considerable uncertainty persists. There is certainly insufficient information to accurately estimate Scotland’s balance of payments. It is also important to note that exports of oil and gas extracted from the UK continental shelf are not included in any of the sources.

Therefore, it is difficult to comment with authority on Scotland’s trade performance. On the information available, Scotland’s performance on total exports as a percentage of GDP is better than the UK’s although middling in terms of all OECD nations. It is also widely accepted that Scotland’s exporting base is too narrow both in terms of the number and size of exporting firms and the sectors within which they operate.

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1 The STUC has compiled tables from Eurostat data showing the UK’s very poor relative performance on goods exports [http://cf.datawrapper.de/XQtT6/1/](http://cf.datawrapper.de/XQtT6/1/) and better performance (although not sufficient to avoid a current account deficit) on services [http://cf.datawrapper.de/0pClu/1/](http://cf.datawrapper.de/0pClu/1/)
The following chart\(^2\) should be treated used cautiously for comparative purposes but it does show that Scotland’s export performance ‘improves’ as exports to the rest of the UK (Scotland 2) and exports of oil and gas extracted (Scotland 3) are added to Scotland’s international exports (Scotland 1):

**Table: Exports of goods & services, 2013**

![Chart showing exports of goods & services, 2013 (million EUR)](image)

Manufactured products currently account for 59% of international exports and 55% of all exports including to rest of UK. Although the volume of manufactured exports increased by 1.9% in 2013, volumes remain below 2008 levels.

**Institutional/regulatory barriers to trade:** Scotland as part of the UK is a very open economy (it’s remarkable that openness to trade is an issue which has been entirely absent from the independence debate). In our second submission to the Committee’s Scotland’s Economy post-2014 inquiry the STUC pointed out that regulatory barriers to trade and investment in the UK are very low relative to other OECD nations\(^3\):

**Table: Barriers to trade and investment, OECD, 2013**

![Chart showing barriers to trade and investment, OECD, 2013](image)

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\(^2\) Table compiled using information from Eurostat, Global Connections Survey and Scottish Government. For consistency with Eurostat figures the July 2013 exchange rate was used to convert to Euros.

\(^3\) Source OECD, indicators of Product Market Regulation 2013
As the STUC has consistently highlighted in submissions to this Committee and others, on any credible comparative measure, Scotland is currently a very good place in which to do business. Therefore, any perceived under-performance on exports/trade/inward investment should not be attributed to ‘red-tape’ or intrusive government.

Current support structures: the STUC is of the view that the support provided through SDI and Scottish Enterprise to companies that want to increase exports/start to export is generally very effective. The STUC is aware of numerous examples where support from these agencies has helped firms increase exports. This intelligence comes directly from trade union workplace representatives and also through the STUC’s involvement with various industry leadership groups.

Of course support will have limited or no impact if the company seeking assistance simply lacks the competencies necessary for exporting and/or products demanded by export markets.

Emerging markets: a key theme of current debates over increasing exports is the failure thus far of the UK and Scotland to export more to emerging markets. Progress has been made but focusing on ostensibly large percentage increases disguises the still very low level of exports. Again, failure to properly crack emerging markets can hardly be explained by lack of government support but rather industrial structure – is Scotland producing the goods and services that emerging markets want to buy?

Specific Questions

Has sufficient funding by the SG, FE and HIE been made available since 2012-13 to support the ‘increase exports’ NPF indicator?

The STUC doesn’t believe it has the information required to answer this question accurately. We have raised concerns over the past few years over cuts to the budgets of the enterprise agencies but the specific impact on support for exporting isn’t clear. If the Scottish Government is serious about its target for exports then clearly SE, HIE and SDI should be sufficiently funded to deliver vital support services.

What are your views on the extent to which SG policy and spend can lead to increasing exports?

The STUC believes that, over time, the correct policy framework can help assist a growth in Scottish exports. However, it must be stressed that the scope for exports to grow depends not only on policy supporting exporting firms but also on the strength of the global economy: if key markets are weak then the scope for growing Scottish exports will be limited. Depending on global economic conditions it may well be that retaining exports are current levels is something of a success.

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4 See for instance http://www.stuc.org.uk/files/Congress%202011/Wrong%20Plan%20for%20Growth%20Final.pdf
Specific actions to support exporting must continue to complement wider economic development activity which, in the long run, will be at least as important in growing firms with the capability to export.

It is also interesting to note that despite significant additional support for exporting announced in the UK Budget 2014, the OBR does not believe this will lead to net trade providing any positive contribution to growth over the current forecast period.

*What are your views on the type and level of public support being provided through the draft budget to increase exports? Is it being targeted in the right areas?*

The STUC believes that the Scottish Government actions listed in the Committee’s call for evidence are broadly appropriate and will prove beneficial over time. Again, it’s important to emphasise that there are limits on what public interventions can achieve: if the firm receiving support ultimately lacks the competencies to export effectively, and/or if the goods/services being produced cannot find a market then that company will not be a successful exporter. The evidence seems to show that a significant cohort of Scottish firms simply not interested in selling beyond Scotland’s borders.

*What alternative spend would you propose within the draft 2015-16 Budget and from what area should resources diverted?*

N/A

**Conclusion**

The STUC shares aspirations to increase Scottish exports but is does not believe that the associated NPF target is appropriate given that the volume of exports depends on factors far beyond the Scottish Government’s control. The support provided by the enterprise networks is essential and should be sufficiently funded.

STUC

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