

SCC2011 Dinner Chairman's Speech

Secretary of State, Cabinet Secretary, distinguished guests, ladies and Gentlemen, welcome to the 2011 Dinner of the Scottish Chambers of Commerce.

Scottish Chambers of Commerce with its 22 member Chambers across Scotland truly represents businesses of all shapes and sizes from Wick to Wigtown, Fife to Fort William.

We have seen our membership continue to grow with another two Chambers meeting our Affiliation Criteria during 2011 and becoming part of the network.

Within our Chamber membership we have seen overall growth across Scotland which in my view speaks volumes as to the proposition Chambers offers to business:

- Our network process over fifty thousand export and financial documents per annum throughout Scotland;
- We have delivered over 780 events, accessed by over 27,000 businesses;
- We employ one hundred and seventy three staff in our 22 offices;
- In partnership with Scottish Government, Scottish Enterprise, Highlands and Islands Enterprise and with financial support from Europe, we have just successfully matched our 6,000 business through our highly successful Business Mentoring Programme. An enormous thank you to our partners and also the army of volunteer business leaders across Scotland who share their knowledge, expertise and connectivity with others.
- We are working with the Scottish Funding Council and a number of colleges in an innovative project "Enterprise into Education"

– seeking to integrate real business need into the curriculum - you will hear more about our experiences later in the year.

<pause>

2011 has been an interesting year with fluctuating economics and the elections to the Scottish parliament returning an SNP administration with a clear majority- no coalitions here!! <PAUSE>

SCC continues to engage in dialogue with governments both in Westminster and in Edinburgh on matters which affect business. We do this on a strictly non partisan basis, and we believe in a constructive and meaningful manner.<Short Pause>

There are changes on going with regard to the provision of local services with significant changes in the way in which services are delivered by local authorities. The private sector and in particular Chamber members have a real role to play in ‘doing things differently’ in continuing to deliver the services to a different cost

base. SCC has been actively working with the Scottish Government to address issues that our members have raised about the procurement process. We now have a single PQQ registration and have created a ‘Single Point of Enquiry’ for business to raise their concerns. So, when we met this week with the Cabinet Secretary Alex Neil, we acknowledged our successes but our focus was on the work still to do. Our priority going forward is to ensure that procurement processes can take into account Local Economic Development Impact on local jobs, and to get the public purse really working for the benefit of Scottish businesses, including our many SMEs.

Our members are fully ready and willing to engage with this at Holyrood and Europe.

<Pause>

Despite adverse trends in the Western Economies particularly in Europe the economy in Scotland is not doing as badly as some might have feared.

Exports, particularly in Oil and Gas and in Whisky, have continued to shine, between them contributing almost half of Scotland's exports, with food and drink featuring well too. It is particularly gratifying to see that quality Scottish offerings are not only appreciated around the world but they are being bought by the growing middle classes in the emerging economies. Scottish manufacturing has also maintained its place against all the odds, again I suspect in the higher value, high quality parts of the market.

The Creative Industries play their part too and it is pleasing to see that this great city is firmly placing Scotland on the map with regard to filming and film locations- just don't go looking for a yellow cab when you leave tonight- you might get one!!

It would be a pity if Scotland's strong creative position was weakened by yet further cuts in our Scottish productions. <Pause>

I mentioned Oil and Gas, which was hit by yet another raid by this chancellor, following the previous two by Gordon Brown. This is a business which pays in direct taxation, some £20bn/year with an estimated further contribution of £6bn from the supply chain. The supply chain last year brought in £7bn in export business to Scotland. With a declining resource and some clear signs that UKCS activity is now in decline the term 'Golden Goose' comes to mind. The business is changing, -we are dealing with a natural resource which is declining- and it will not last forever, it cannot be killed off early!

The 20bn plus barrels which have been produced thus far were the easy 20bn,- the remaining 20bn will be a lot more difficult and costly and the industry needs a tax regime which is not only fair but stable. At the recent Offshore Europe conference in Aberdeen the UK was said to have one of the least stable tax regimes- and this was someone from Angola!

Oil and Gas supply over 70% of our current energy needs- this cannot be ignored-, which leads me nicely on to one of the principal costs on many businesses- the cost of energy. <pause>

Current retail energy costs excluding fixed charges where they apply are:<and I'm afraid I've got some numbers here>

-3.69p/KWh for Gas

-Heating Oil at 7.33p/KWh (based on 66p/litre which reflects the world price of Oil at \$115/bbl)

-Electricity is 12.44p/KWh These Gas and Electricity prices are from SS&Es latest domestic tariff. (and by the way the price of electricity in 2004 was 6.79/KWh)

Now I think that everyone knows that petrol and Oil have gone up because the world price of the commodity has increased very significantly. But why has electricity gone up so much?

The answer of course is partly because the cost of fuel, (Coal and Gas), have also gone up. But there is also an additional element and that is the Government's

Renewables Obligation whereby the consumer subsidises renewable generation, both on and offshore.

<pause>

Scotland is almost uniquely placed in Europe as a source of wind and tidal generated electricity, and it is rightly seen as a major opportunity for Scotland and Scottish business, particularly in the area of offshore wind generation capacity.

However the costs of these projects is going through the roof, a recently announced second round project in the Irish Sea speaks to an investment of £1.6bn for a windfarm of 389MW capacity- this is £4.1million/MW which is 25-35% more expensive than the next closest technology and 25% more expensive than the estimates of 18months ago. According to Mott McDonald on the BBC web site- and by the way Mott McDonald is a consultant to DECC,- the costs of generation from these windfarms is now approaching 19p/KWh.- Compare the

current wholesale spot price of Gas of between 1.75-2p/KWh

Mott McDonald in a report on the DECC website are projecting an electricity price of 25p/KWh as a result of these costs, with the other sources of generation being brought up to this base by the addition of the costs of Carbon Capture and Storage – which is in itself unknown at the moment - and the imposition of so-called Carbon Taxes.

The Scottish Government have committed to have the majority of generation coming from this very expensive source by 2020. All I say at this time is- have a care!

<>This is indeed a very significant opportunity for Scotland, but only if the cost base is right. If as a consequence the rest of the economy is disadvantaged then perhaps such a total commitment is misguided.

Other lower cost technologies are available!!<>

We must focus on reducing our consumption as quickly as we can, but also using lower cost options for the energy we use. It is vitally important. As a fish

processer in Peterhead recently told me- he uses about £500,000 of electricity per year, and has invested a lot in reducing his consumption and being efficient, but if his electricity bill doubles – he’s out of business!.<Pause>

We need the economy in Scotland to grow, energy costs are part of that equation, but increasingly so is Broadband connectivity, particularly outwith the larger conurbations.

Scotland is a nation of SMEs and there are increasing number of SMEs starting up operations in more rural areas with poor or no broadband connections.

We are pleased to have been advised that the UK Government has allocated £69 million to spread superfast broadband throughout Scotland, and that the Scottish Government is to match this such that everyone in Scotland will be connected by 2020. We believe this is too slow and we also demand a bigger share of the UK investment. This plan must be accelerated by at least five years. <Pause>

Another area of concern which is vital to economic growth is transport connectivity.

I repeat my call made in previous years for more joined up thinking in terms of Scotland's transport network, road, rail and air- connecting Airports, for example, not just to the nearest conurbation but to the wider rail network- we know which ones need this and it is essential for it not only increases the efficiency of the travel itself but it increases the catchment area for the airports themselves, which in turn helps the business cases for new routes and route networks. With the clarity we now have in terms of Government majority there is little excuse now for not having a joined up approach. We are pleased that there now appears to be a plan for coordinating these elements.

.<pause>

For all of Scotland to grow economically, connectivity is vital. The air route development fund gave our regional airports a massive boost, and we would ask the

Government to look at investing in a similar fund to give our airports the boost they now need.<>

The rail network has seen a number of improvements such that rail usage has increased very significantly.

We note that the Scotrail Franchise is up for renewal in the near future and we would ask the Government to look at ways in the new franchise to allow real investment by the Franchisee over a longer period. So soon after an election, there is scope for longer term thinking than is usually possible by a Government. We would also ask that improved ways of allowing access to additional rolling stock during the life of the franchise be built in, so that the Operator can better meet the needs of greater rail usage and avoid the overcrowding which today is the concomitant effect of success.

SCC has also been vigorous in Campaigning for HS2 to be brought North to Scotland- the case for the longer distances is compelling. SCC are leading the business message on this – for example, we appeared alongside

the Scottish Government at the UK Transport Select Committee earlier this month. We are ensuring that Scotland takes a united front on this issue with the same messaging- as once again there are disparate groups all doing the same thing slightly differently- Governments love division – it allows them to rule!! <pause>

We were also instrumental in the successful campaign in retaining through running trains from North of the Central Belt to London when the current fleet of 125s are finally retired. This requires trains which can be diesel powered when off the overhead electric network. The first of these trains are to be ordered soon for the Cross Country services.<Short Pause>

One of the key reasons we have campaigned so vigorously on cross border rail links has been the need to preserve Scotland's connectivity to London and the rest of England against a background of reducing air services to Heathrow and rising landing charges at Gatwick. It is essential that any shift in demand from air to High Speed Rail is accompanied by protected

slots at London's airports to guarantee air services to the north and north east of Scotland.

On the roads there has been a lot of progress with the opening of the M74 extension and the completion of the M80/A80 upgrade, <>the upgrade of the western end of the A8 to motorway standard must be next on the agenda for the Central belt.

For the rest of Scotland the Aberdeen Western peripheral Route is bogged down in an appeals process again, although we hear that the process may have been speeded up. Nevertheless we must ask ourselves questions about a so called democratic process whereby a very small group of people can at the expense of the rest of us, hold up a project that an entire Region supports. There is something wrong there that Government must unravel.

One would hope that the second Forth Crossing will not be similarly held up. <short Pause>

The A9 to the North is to get further investment and this should continue, and we must not forget the roads in the South West leading to the Ferry Ports to Ireland- if ever there was a case for improvement this must be one!<Pause>

I have spoken a lot about physical infrastructure as an engine for growth. It is key to ensuring that Scotland achieves its aspirations. However, there is one major part of the national resource which must be effectively developed and utilised. I am talking about our young people and their education.

Too many businesses are reporting low levels of numeracy and literacy in too many school leavers.

There have been some very disappointing figures on academic attainment by secondary schools in certain parts of the country. It is pleasing to see that Glasgow, in spite of the economic constraints, is to allocate more teachers to certain areas of the City.

Our young people are both the feedstock for the economy and the bedrock of future society. We owe it

to them to see that they are properly educated and equipped for life today, able to participate and contribute, particularly through vocational courses and apprenticeships. <>

Many businesses do require Degree level young people, but many many others need well educated artisans to help build their businesses.

Much is said about impoverished parts of society, the worst impoverishment must be the impoverishment of opportunity occasioned by poor education. Education is the ladder by which people can rise. We must not only provide the proper means of education and training, but develop the aspirations and ambitions of young people to make full use of whatever is available to them. <>

It is pleasing to see that there is now a consultation underway regarding post 16 education and training. My point though is that we as a society need to look earlier than that in order to embed the basic skills in young people so that they can then go on to other things.

<>Would it not be worth some thought to look at the

provision of some vocational training as part of the secondary schooling system? This would enable pupils' to potentially start the apprenticeship route prior to 16 when a good number of children are bored with school anyway.<pause

To match this, we need innovation and more flexibility from our Universities, we welcome moves highlighted by Dundee University this morning, to introduce three year degrees in appropriate disciplines.

Finally I cannot leave business rates alone,<> for business to flourish and to grow and create employment, not just for young people but for the broadest spectrum of Scots, there must be a competitive and predictable cost base. Last year many businesses were very negatively affected by the changes in the business rate system and the withdrawal of transitional relief. Last week's Scottish budget announced in the small print that the burden on business would increase by £849 million over three years (these are Government

figures). This is in an environment of tough times on High Streets, increased costs across the board- and as we have seen energy costs too. The balance seems to have been lost somewhere, it is fine to have a social agenda funded directly by government, but the biggest and best social agenda must be to have people gainfully employed and paying their way. Businesses large and small are the creators of employment and wealth in its true form, wealth which is properly spread across society.

Please! Think again before this misguided regime sucks the life out of SME Scotland.<pause>

Of course, Business Rates are not the only tax in the Scottish headlines at the moment. The Scottish Government has called for Corporation Tax to be devolved with a view to making it more attractive to do business in Scotland. This is a welcome debate but there are many questions yet to be answered but our politicians must deliver for Scottish business with the

powers they have today before assuming new fiscal powers. <pause>

Ladies and Gentlemen, I hope that you enjoy this evening. As with all Chamber events, it would not be possible without business input, and for tonight I must thank in particular Thomas Tunnock Ltd, Howden Group, Solo Films and Irwin Stuart Design for really valuable support.

The Chamber Network continues to grow and be your voice in Scotland, we are increasing our staff so that we can be even more effective in speaking on your behalf, our approach will continue to be based on facts and knowledge, and we will continue to ask for your support and input to these efforts. Thank you for your support to our network over the last year have a great evening and let's continue to promote and be proud of our "*Made in Scotland*" brand.

Thank you.

