Down to Business 2010

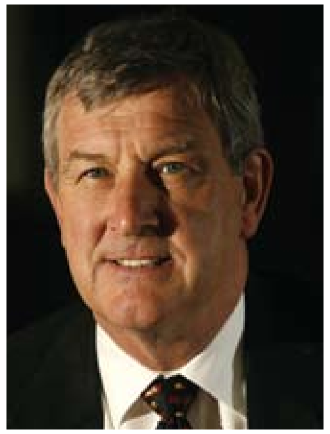
Scottish Chambers of Commerce

The Ultimate Business Network

Contents

Scottish Chambers of Commerce
The Ultimate Business Network

Foreword



We will continue our dialogue with Government, the Civil Service and other agencies to address all of these issues.

Scottish Chambers of Commerce (SCC) is the only business organisation that truly represents the broadest spectrum of business, large and small, across every sector, and with a geographic spread from Caithness in the north to Galloway in the south. Through our network of Chambers we have over 170 staff based in 22 offices throughout the country, servicing some 9,500 member businesses.

We have a strong view that business, with a supportive environment, can develop itself, providing employment and opportunity for people at all levels. Business is the key platform of economic activity and the principal element of the creation of wealth.

The Scottish Chambers' network is unique in that the local Chambers, via their management and membership, provide focused local support for businesses. More strategic matters can be fed via the network to SCC who represent business to Government on issues affecting us at a national level. Through the larger network this can be extended to the UK Government, the EU and beyond.

In these times of global stress, it is important that Scotland becomes more agile in global markets, positioning itself to take advantage in whatever opportunities present themselves.

SCC will be focusing on infrastructure, including transport and connectivity; skills and education; and the reduction of bureaucracy at the highest level; as well as the issues of internet connectivity and Government procurement.

We will continue our dialogue with Government, the Civil Service and other agencies to address all of these issues.

The future of Scotland is intimately linked to business success; if businesses grow and flourish – Scotland will flourish!

Mike Salter
Chairman
Scottish Chambers of Commerce

Scottish Chambers of Commerce
The Ultimate Business Network

As the UK faces an election year, the debate intensifies on how to move Scotland and the UK into a new era of growth after the recession of the last two years.

Introduction

Scottish Chambers of Commerce
The Ultimate Business Network

As the UK faces an election year, the debate intensifies on how to move Scotland and the UK into a new era of growth after the recession of the last two years. Business, as the engine of wealth creation and prosperity, must inform that debate.

This document sets out Scottish businesses' public policy priorities for 2010. Although it is a general election year for the Westminster Parliament, we do not seek here to compartmentalise our concerns into 'reserved' matters as opposed to 'devolved' ones – many policies which fall into one category are influenced by the other. The economy, and the central part that business has to play, cannot be so easily defined. It is universal, and so this document addresses key themes that are of relevance to politicians at all levels - UK, Scottish and local.

Without Vision We Have No Goal

The UK and Scotland have experienced economic difficulty, which has had severe implications for the cohesion and wellbeing of society as a whole.

However, there are grounds for optimism for the future. Many of the fundamental ingredients remain for a resurgent economy: an innovative business base, with several strong sectors; relatively flexible labour markets; plenty of capacity; strong trading relationships and sound institutional structures.

At the same time, the budgetary and economic crisis gives us an opportunity to rethink old mistakes and recast policy approaches through aspiration as much as necessity.

We envision an emergence from recession with a renewed sense of purpose, so that in the medium term we can grow stronger.

Specifically, that means Scotland achieving UK levels of growth, and the UK itself rising up the growth league table. It also means forging a new relationship between public and private sectors that underpins excellence in public service and a stronger society.

Scottish Chambers of Commerce
The Ultimate Business Network

Government does not create wealth, but it does frame the conditions for economic growth. Strong government provides a secure, light-touch environment that allows business to flourish.

In the years preceding the recession, the UK had built a strong economy based on open markets, secure property rights, flexible labour markets and a taxation system less onerous than some. These remain the key ingredients of long term prosperity.

Despite the financial crisis and subsequent economic contraction, Britain remains well placed to resume growth so long as this big picture of a stable, market-led economy remains intact and is strengthened.

However, the budgetary pressures on government pose a major potential threat to economic policy.

SCC identifies five 'big picture' policy areas that require government focus, both at Westminster and Holyrood, if we are to re-build a climate for economic growth.

The Big Picture

Scottish Chambers of Commerce
The Ultimate Business Network

The Budget Deficit

- Britain must establish a coherent deficit reduction plan that sets the country on a medium term path towards budgetary balance and commands the confidence of international financial markets. This is essential to retain investor confidence, secure long term currency stability, and keep interest rates low.
- Budgetary instability will make it harder for both government and industry to borrow, threaten Britain's credit rating, and result in higher long term taxation, reducing overall competitiveness.
- Whichever party wins the election, the UK government must set out a credible programme to bring down the deficit, and government in Scotland must approach the budgetary question with a similarly constructive strategy of living within its means.

Tax

- SCC understands that if the government is to achieve fiscal balance, it needs to increase tax receipts.
- The goal must be to avoid tax increases that directly penalise wealth creation, or complicate the overall tax system. The planned increases in National Insurance Contributions will make it more expensive to take on new employees at a time of rising unemployment. We urge politicians of all parties to reverse this as soon as possible.
- Government must steer clear of taxes that place undue burdens on industries where we have a clear advantage, such as duties on whisky production.

  Government should recognise that fostering economic recovery and growth is the best way to restore tax receipts. We should consider cutting corporate taxes and reducing the tax burden on oil production.

  Meanwhile, the Scottish Government should not use its fiscal powers to increase taxes locally, such as non-domestic rates or income tax. Any such moves would put Scotland at a greater competitive disadvantage.

Public Sector Reform

- Public sector pay and employment to be kept in line with trends in the wider economy, and productivity must increase.
- Better measurement of public sector performance against international comparators.
- New approaches to infrastructure investment, allowing private finance to fund transport and utility networks, including Scottish Water.
- Welfare reform to encourage employment and reduce benefit dependency.
- Public Sector procurement must be used to increase the opportunities available for Scottish SMEs.

Scottish Chambers of Commerce
The Ultimate Business Network

The financial system

- The root of the economic crisis was a failure of the global financial system to adequately assess systemic risks that had their origins in the US mortgage market. Both government and the financial sector were at fault, and it is vital to our economic recovery that the correct remedies are applied.
- Government has taken steps to encourage business and personal lending after the system nearly froze in the aftermath of the crisis. SCC applauds these efforts and urges government to ensure low interest rates are passed to borrowers while allowing banks to rebuild their capital base.

  At the same time, there is a fine line in monetary policy to ensure that prices are kept under control.
- The government must work with international partners to arrive at a system of regulation that guards against the mistakes of the past without placing undue costs on the financial sector. The new approach should encourage competition, particularly in the provision of business finance, and new entrants to the market.
- The financial sector is one of Scotland's strengths and its dynamism and diversity is a major advantage to Scottish business. We must enhance its presence and rebuild its reputation.

Public sector pensions

- Of particular concern to SCC is the growing divide between pension provision in the private and public sectors. This creates a major distortion in the labour market, and places a growing and unsustainable burden on public finances.
- Many public sector employees enjoy final salary pension arrangements. Any shortfall is made up by the taxpayer. This problem grows as life expectancy increases and investment returns diminish. The private sector has moved to defined contribution schemes where payments reflect changing market conditions and so are more affordable. SCC supports moves to encourage greater savings for retirement, but believes that all employees should be treated equally and encouraged to take more responsibility for flexible pension arrangements.
- Such a move would have major benefits at both the Scottish and UK levels. The Scottish Government's current spending on public sector pensions has doubled in the last seven years to £2.53bn, and overall faces a deficit of £65bn.
- Putting new public sector employees on a level playing field with their private sector counterparts would remove this burden over time and help solve budgetary problems confronting government at all levels.
- We call for a minimum retirement age for non-revised pensions of seventy.

Effective Regulation

We recognise the need for an efficient regulatory regime to ensure health and safety at work, fair trade, and compliance with necessary fiscal propriety. SCC have been measuring the regulatory burden. Since 1998, we calculate the cost to business of new legislation alone to be in excess of £4.8bn in Scotland.

Despite successive budget speeches promising a war on red tape and the 2006 Davidson Review of the Implementation of EU Regulation, barely a dent has been made in the morass that ties down businesses, – small businesses especially. This in itself is a major deterrent to would be entrepreneurs, and a massive hindrance to trading companies. Some regulatory issues include:

i. GOLD PLATING For example EU regulation stipulates member states must do A & B. By the time it has passed through UK enactments we find demands for A, B & C where C is not actually in the EU directive.

ii. DOUBLE BANKING Where EU legislation overlaps UK legislation resulting in two sets of regulations.

iii. REGULATORY CREEP EU regulation is translated into UK regulation. They then follow “guidance regulation” materials which move beyond the original intent of the EU regulation.

iv. SMARTER APPROACHES It has been noted that recent EU succession states have applied slimmer and sparer interpretation approaches in implementing EU regulation. This may be something to learn from.

A Climate For Business

Scottish Chambers of Commerce
The Ultimate Business Network

Regulation: Key Recommendations

- Government must look to the way in which European legislation is implemented. Uniform scrutiny of regulatory impacts across the EU could help measure the success of policies aimed at cutting the costs of regulation.
- SCC are not opposed to regulation per se – it often serves an essential commercial or social purpose. Instead we want to see better regulation – achieving its purpose with a lighter touch.
- Devolution gives Scotland an opportunity to take the lead in addressing this agenda, and progress is being made through the independent Regulatory Review Group.
- Enforcement agencies need to adopt an enabling role. More governmental bodies could look to follow the example being developed here by the Scottish Environment Protection Agency (SEPA).
- The use of plain English in legislation and regulation alike would contribute to the easing of the regulatory burden.
- What may be achievable by large businesses may be utterly prohibitive to a sole trader. Accordingly, regulation should be appropriate to scale and capacity of the business in question.
- SCC supports the early implementation of a Business Regulatory Impact Assessment (BRIA) in order to ensure that government has a clear understanding of the impact legislation will have on business prior to its implementation.

Skills

Human capital is one of Scotland’s major strengths and is key to recovery. Despite Scotland’s strong performance on delivering skills and qualifications, we lag behind the world in productivity. Business needs to be better represented when developing skills strategies and skills development and productivity must be demand-led and more employer-focussed.

Future key industries should define demand for skills development. Predicted shortages are identified within engineering, oil and gas, technology, tourism, hospitality and construction. Investment into such skill sectors can help rebuild the economy and provide a stronger platform for international growth.

Productivity amongst Scottish workers is two percent behind the UK national levels. Increased productivity can have a marked effect on the UK’s economy. A 1% increase in productivity generates around £1 billion additional GDP.

Skills shortages prevent businesses from growing and stifle innovation. Scotland needs to attract high quality candidates to support industry apprenticeships in engineering, technology, oil & gas and construction to counter the effects of an ageing workforce.

Companies offering support to staff in obtaining post-graduate qualifications should be encouraged. More resources should be committed to developing leadership, management and entrepreneurial skills to prepare future business leaders.

ICT skills are vital to the economy, society and the environment. This calls for clear strategy and funding.

Scottish Chambers of Commerce
The Ultimate Business Network

Schools

Despite Scotland's higher per pupil spend, attainment levels have flat-lined since devolution, whilst improving in England. Scotland's ranking in maths and science has fallen near the bottom of OECD countries. This calls for different approaches.

We need better integration between Scottish Government and Skills Development Scotland to promote science, technology, engineering and maths (STEM) subjects and careers.

Further and Higher Education

Colleges and Universities play a pivotal role in providing skills. Tertiary education must driven by industry demand, appropriate for business This requires a focus on developing core skills such as working effectively with others, customer care handling; planning and organising, problem solving and workplace 'readiness' into courses so recent graduates can be effectively utilised by employers.

Scotland's Colleges should be supported to provide for the skills shortages expected over the next 10 years.The Scottish Government has not specified how it will guarantee the long-term competiveness of Scottish HEI. A debate on future education funding is imperative. Alternative funding options could include:

- Increased collaboration between business and university for funding placements though tax-break incentives.
- Increased collaboration between colleges and universities. For instance, sharing resources, collaborating on funding grants, developing future pathways between institutions.
- Improvement of inefficiencies throughout HEIs.
- Leveraging existing skills more effectively. For instance developing the commercialisation arms - across all disciplines - of HEIs as legitimate revenue streams.
- Expanding the funding for Knowledge Transfer Partnerships to encourage connections between universities and business research and develop innovation and entrepreneurial behaviour.

Skills: Key Recommendations

- Scotland needs to attract high quality candidates to support industry apprenticeships in engineering, technology, oil & gas and construction to counter the effects of an ageing workforce.
- Programmes need to be developed to enhance 'softer' core skills to aid effectiveness of newly graduated employees in the workforce.
- The importance of ICT skills to Scotland should not be underestimated. Business and government need to co-operate in developing a rational and funded strategy.
- A lack of progress in school results calls for a revision to the current approach to learning and points to a need for a focus on outcomes.
- SG and SDS must work together to promote science, technology, engineering and maths (STEM) subjects and careers in order to cater for predicted skills shortages.
- It is essential that university and college education is driven by industry demand and appropriate for business – contributing to economic recovery and growth.
- A debate on future education funding is imperative.
- There needs to be better promotion of skills services available to business, particularly SMEs. Local Chamber networks should be leveraged to effectively disseminate skills information throughout the business community.

Energy

Scotland has a wealth of energy resources, which have always been essential drivers of our economy. Our rich energy resources from forests and peatlands, coal, water, wind and oil and gas, have contributed to our growth and success. A reliable and affordable energy supply has been central to industrial growth in the developed world, but we are entering an era where traditional sources of energy are becoming increasingly difficult to harvest and subject to increasing global demand, rising prices and volatile global politics. It is essential we put in place plans to leverage our indigenous energy resources, whilst also considering the potential threat of climate change.

Scotland needs a policy that addresses both the demand for and the supply of energy. This should be supported by education and incentives to provide business and the public with information and resources necessary to achieve lasting changes in behaviour. Stemming demand growth should be the first priority of our energy policy, since reduced demand will have both a direct effect on lowering emissions and extend the lifespan of our finite energy resources.

Scotland needs a comprehensive, fully costed, itemised and deliverable energy policy – getting lucky is not an option. Realising our energy potential will mean that our business, academic and public sector communities will need to work together to generate the synergies required for success. As a nation we should build self-reliance in energy sources.

Scottish Chambers of Commerce
The Ultimate Business Network

Energy: Key Recommendations

- We must minimise usage and conserve resources. Government strategies should favour any options that enhance these objectives, for example through grants or tax breaks.
- National energy policy must maximise our indigenous resources to build self reliance in energy sources and so reduce exposure to uncontrollable global factors.
- Energy policy must welcome incremental increases in the renewable contribution. Equally our future energy choices must be reliable, able to meet the base load demand at the lowest possible unit cost, offer an equitable distribution system and be sustainable in the long term. We call for a detailed plan of future demand to show how and where new installations – and programmes of energy saving – can meet that demand. This must be carried out within the first two years of the new UK Parliament.
- Transition to lower carbon technologies requires that we are realistic about present need. Meeting Carbon Emissions targets should not be to the detriment of the continuing exploration and development of our indigenous supplies of hydrocarbon reserves in the UK Continental Shelf.
- Coal is a vital resource forming a significant proportion of base load on the Grid. We look to government to accelerate the development of cleaner technologies including carbon capture.
- Transfer of the world class subsea engineering skills that presently exist in the oil and gas industry should be encouraged into the marine renewable disciplines.
- Despite the problems of waste disposal, nuclear power will continue to play a role in future energy policy.
- The great potential for Scotland to export surplus electricity is dependent on a National Grid fit for purpose. We welcome the abandonment of higher charges for Scottish providers and call for incentives for small scale producers to also contribute back to the Grid. Government must ensure the objectives in the National Planning Framework for the grid are met and exceeded. The realistic possibility of new off shore connections for the grid must be examined in detail.
- Government support is required if indigenous renewable energy technologies are to be developed and commercialised, opening up new export opportunities. Despite our abundant wind resources, we have lost out to competitor nations in terms of manufacturing. We cannot afford to lose this opportunity regarding offshore and marine energy.

Planning

The Planning etc. (Scotland) Act 2006 came into effect during 2009, as the statutory instruments and secondary legislation came into place over the course of last year. Key changes to the Scottish planning system have included the introduction of a three tier system of development plans and planning applications, front loading of the application process and new time limits for the determination of applications. One of the biggest challenges going forward is ‘cultural change’ to build up trust between the private and public sectors, to negate pre-determined attitudes and to ensure the new planning system can produce the desired results. Time will tell. Local Authorities have a duty to renew local plans every 5 years – any failure to do so must result in meaningful intervention by the Scottish Government. The English planning system has been subject to persistent change and alteration, with further reviews promised after the general election. The implementation of a new and stable planning regime in Scotland may be seen as advantageous to some investors and occupiers.

The Scottish planning system could assist in attracting business if it operated effectively, had up to date development plans and had clearly stated guidance on developer contributions that was transparent.

With tightening public sector budgets, it will be necessary to explore new and innovative ways of leveraging investment into local development projects. Two examples of alternative funding sources include:

LABV – Local A sset Backed Vehicle

- A LABV is a long term partnership or joint venture between a local authority (or one or more public sector bodies) and a private sector partner.
- The LABV brings together local authority land and/ or buildings with private sector funds and skills sets (e.g. development and project management) into a commercial partnership through a joint venture vehicle or corporate entity.
- The value of the public sector assets is used by the LABV to raise funds to enable development and regeneration.
- Generally, the private sector partner is asked to equity match the value of the public sector assets placed into the partnership.
- The recessionary environment of the last 18 months has made this quite challenging given the limited availability of bank lending.

Scottish Chambers of Commerce
The Ultimate Business Network

TIF – Tax Increment Funding

- TIF has been used extensively in the US to assist with funding regeneration projects and is now finding its way into the UK. TIF has proved popular because it can attract investment to sites that may otherwise struggle to do so. It is a mechanism for using borrowing against the forecast increases in tax revenues to finance the improvements. In simple terms "it enables a local authority to trade anticipated future tax income for a present benefit". Typically, those that invest in the municipal debt that is TIF funded are incentivised to do so by a tax exemption on the interest that they receive.
- TIF works on the principle that the provision of new / improved infrastructure will lead to both new development and an increase in the value of surrounding property, both of which will generate additional property taxation revenues. The debt finance issued to pay for the project by utilising increased property tax revenues can be over a 20-25 year period, but may also be over a much shorter timeframe.

Planning: Key Recommendations

- Scotland needs a coherent planning system that balances the enhancement of our landscape with the encouragement of investment.
- Local authorities must engage with clarity when dealing with both developers and other interested parties, providing full information and a precise timetable of events.
- Local Government must pursue alternative funding models such as LABV and TIF in order to leverage investment against a background of public spending cuts.
- Planning reforms in Scotland will only achieve the desired results if accompanied by a change in culture across the public sector. This was much heralded at the time the current legislation was being considered, but must be incentivised if it is to become a reality.

Transport

A modern, efficient transport system is vital for Scotland's future economic success. Government must work with the private sector to develop a national and international infrastructure which meets business needs now and into the future. Whether by road, rail, air or sea – within our borders and overseas – Scottish businesses across all sectors will reach their full potential only if supported by a reliable 21st century transport network fit for purpose.

Long term, strategic planning – often lacking in the past – is the only route to success. Governments need to look ahead to the next 20 or 30 years.

All levels of government – Westminster, Holyrood and local authorities - must work closely with organisations such as Transport Scotland, the Regional Transport Partnerships, Network Rail and airport operators if they are to stand any chance of meeting the transport needs of businesses and communities across Scotland.

Public transport infrastructure projects provide a shot in the arm for the economy and play a crucial role in revitalising business prospects. However, we appreciate that funding is going to be tight in the period ahead. That is why a range of alternative funding sources must be fully considered, including leveraging private investment and the use of innovative funding solutions such as Network Rail's powers to borrow against its assets to help fund the Edinburgh-Glasgow Improvements Programme. The Scottish Government should also be able to borrow for capital investment.

Connected Scotland

Scottish Chambers of Commerce
The Ultimate Business Network

Transport: Key Recommendations

Road

- The construction of a new Forth Road Bridge.
- The upgrading of the M8, Scotland's busiest motorway, to reverse years of underfunding, including improved links to Edinburgh and Glasgow Airports
- The upgrading of the A9, A96 and A82 which, between them, serve Scotland's fastest growing city, Inverness, and the Highlands & Islands, home to some of Scotland's most promising new industries.
- The construction of the Aberdeen Western Peripheral Route
- The increase in the HGV speed limit on single carriageway roads from 40mph to 50mph, easing congestion and improving fuel efficiency.
- The allocation of dedicated high priority vehicle lanes which would reduce congestion and encourage greater use of public transport options.

Rail

- The completion of current major rail improvement projects, as set out in the Strategic Transport Projects Review.
- We demand that Scotland be included as an integral part of current plans to expand the UK High Speed Rail network
- Investment must continue in the existing network meantime, complementing eventual HSR. This would also reduce journey times between Scotland and cities in the North and Midlands of England years before new high-speed tracks can be built.
- Franchising arrangements for long-distance passenger trains should be structured to facilitate and encourage investment by the private sector to reduce financial demands on the public purse.
- Crossrail projects for both Glasgow and Aberdeen should be a high priority.

Air

- We support the consideration of a new Air Route Development Fund, as has already been established under EU rules in Cyprus.
- Air Passenger Duty increases damage our competitiveness relative to other European countries which have reduced or abolished such taxes to help their aviation industries through the recession and recovery period. We call on the UK Government to do likewise in the interests of business and communities throughout Scotland. The Stern report demonstrates that the aviation industry accounts for only 2% of carbon emissions. Taxation of the industry must be proportionate.
- Heathrow Airport is the UK's main hub airport as well as being a key gateway for travel to and from Scotland. The construction of a third runway is essential if it is to continue performing these functions in future.
- Aberdeen Airport runway extension remains a priority.
- We must improve our airports' links with road and rail networks.
- The air discount programme for Scotland's remote island communities must remain a budgetary priority.

Sea

- Sea travel, both passenger and freight, plays a vital part in the Scottish and UK economies. In 2006, Scottish ports handled 102 million tonnes of freight, some 17% of the UK total, and 10.5 million passenger movements. It is vital, therefore, that we improve links between our ports and the wider transport infrastructure,
- In addition to the existing freight facilities grants, Government should create a new freight route development fund to complement a new air route development fund.
- The future use and development of ports must be facilitated through the planning system, recognising the role of ports in supporting the economy in general and the oil, gas and marine renewable energy industries in particular.

Scottish Chambers of Commerce
The Ultimate Business Network

Broadband

Doing business in Scotland in the 21st century increasingly requires access to fast and reliable digital communications technology. For many businesses, and indeed the Scottish public, online access has become an essential service alongside electricity, gas or the telephone.

The web presents a tremendous opportunity for businesses across all sectors, however, there are a number of challenges which must be met if business is to take full advantage of technological advances and reap the economic benefits.

It is essential that all Scottish businesses have access to high speed data transfer services, both through broadband telecommunication services and high speed mobile telecommunication systems such as 3G and its successor technologies. At present we have concerns regarding the coverage of each of these services in Scotland. Vast areas of Scotland, including many densely populated areas, are lacking any 3G coverage and many businesses are still unable to access broadband services nearly a decade after the Scottish Executive began its roll-out across Scotland.

A recent study by Cisco has placed the UK in 25th place out of 66 nations in terms of the quality and reach of its broadband services. We require additional investment in order to meet the needs of the future. The average broadband connection speed in the UK is currently 4.1Mbps, but a speed of at least 11.25Mbps will be required to handle our anticipated future needs, in less than 5 years. We therefore need to be considerably more ambitious against an ever rising threshold of quality. Competitor nations such as Norway, Sweden and the Netherlands already have a head start on us in terms of the quality of their broadband.

We must look to secure the best possible competitive advantage for Scottish businesses. Our digital communications infrastructure will be as important as our transport links and fiscal regime when it comes to attracting new businesses to Scotland, and providing local businesses with an advantage over their international rivals. There are many challenges in achieving this but competitor nations are finding these solutions, even in the face of difficult topography. We must rise to this challenge and put Scottish business ahead of the game.

Broadband: Key Recommendations

- The Government must set a target of a minimum download speed of 11.25Mbps for UK broadband by 2014, with a plan in place to reach at least 100Mbps by 2020.
- We support the 50p land line levy proposed to fund the expansion of the UK's broadband infrastructure, but this may have to be revisited in order to ensure that Britain is internationally competitive.
- The roll-out of fibre optic cabling in the UK should accelerate.

International Trade

Scottish exports account for approximately £35 billion p.a. substantially contributing to the country's economic health. Combining this with the understanding that many other parts of the global economy are not in recession, it is clear recovery should be export led. To facilitate this, government needs to invest in communication and infrastructure to grow and support international activities, improving our balance of trade and overall GDP.

Scotland needs to heavily invest in improving our economic competitiveness. At present, we are operating well below our potential. This means investing in skills, transport and ICT links to develop Scotland's international agenda. For instance funding for the development of additional air routes; road, rail and port infrastructures to facilitate efficient distribution are absolutely essential. Providing incentives for skilled migration is also imperative along with instilling an international mindset into business graduates.

At present there is difficulty in accessing trade credit to pay for or receive goods. It is also difficult to access credit insurance due to fiscal pressures. Government needs to make funding available to all sizes of Scottish business to facilitate international growth.

The costs of initial market-entry should also be off-set and encourage international engagement. SCC argues that UK and Scottish Governments should provide tax incentives – particularly for market research – and that the corporation tax levied on SMEs exporting over 40% of their turnover should be lowered from the current rate of 21%.

Policy on exporting support needs to be better integrated between the various trade support organisations and the Scottish government. There needs to be better programmes that provide financial and business skills support. Additionally, the Export Credit guarantee system requires a review as it is seen to stifle risk-taking in new start-ups.

There is also the perception that SDI, UKTI, Westminster and Holyrood present a confusing and contradictory image to new exporters. We need a clearly defined, integrated and constructive support network between government and Chambers of Commerce, with a unified vision of Scottish and UK international trade. Government budget allocations to such agencies should reflect the urgency for developing international activities given the current climate. SCC recommends a new model of promoting Scotland's message globally, encompassing our brand, our investment opportunities and our skills. The current fragmented approach needs to change towards a more business-led approach, utilising the Chambers of Commerce brand which is recognised and respected across the globe.

Business support

Government needs to improve access to international support programmes to the wider business community, including new, small scale exporters. Initiatives such as Intelligent Exporter should be considered an example of best practice and replicated to effectively reach the parts of Scottish business that other programmes have not. Chamber of Commerce networks and Business Gateway initiatives can also be leveraged to provide increased international business support.

Whilst SDI provides an array of services that deal with combating the main barriers to entry, Public Private Partnerships can also contribute to providing business support. SCC believes Chambers of Commerce play a key role in the introduction to potential customers, international marketing advice, and access to market research.

Exploiting new market opportunities

Historically, Scotland has had strong international trade links with the USA and Europe, accounting for 41 percent of trade. However, efforts should be made to encourage businesses to diversify trade links to limit over-dependence on mature markets. Specific business support and advice should be provided to pursue emerging markets such as Brazil, Russia, India and China (the BRIC nations).
The business services sector currently accounts for approximately £2.3 billion and is amongst Scotland's top five exports. Therefore, a push for increased exporting of services would be valuable in diversifying the Scottish economy.

Additionally, our leadership in oil and gas supply chains should be leveraged for attracting inward foreign direct investment (FDI). Decommissioning projects in the North Sea are also areas for further international investment, building an exportable skill base, as has happened with UKAEA in nuclear decommissioning.

International Trade: Key Recommendations

- There is difficulty in accessing trade credit and credit insurance to pay for or receive goods. Government needs to make funding available to all sizes of Scottish business to facilitate international growth.
- UK and Scottish Governments should provide tax incentives – particularly for market research – and the corporation tax levied on SMEs exporting over 40% of their turnover should be lowered from the current rate of 21%. Policy on exporting support needs to be better integrated between the various trade support organisations and the Scottish government. There need to be better programmes that provide financial and business skills support.

  Specific business support and advice should be provided to pursue emerging markets such as Brazil, Russia, India and China.
- A push for increased exporting of services would be valuable to the Scottish economy and diversify away from manufactured based products.

Oil And Gas

The oil and gas industry is Scotland's largest export sector. The industry contributes £40 billion to the UK balance of payments, provides over 450,000 jobs and accounts for over 30% of the investment made by the UK's production and manufacturing industries. However, activity in the UK Continental Shelf (UKCS) has slowed and business confidence is fragile. If investment into the UK North Sea is not sustained, up to 15 billion barrels of reserves could be left in the ground, negatively impacting both the UK balance of payments and energy supply. It is critical that government encourages investment in Scotland's oil and gas industry to retain its position as European oil capital.

Businesses operating in the North Sea oil and gas sector are among the most highly taxed in the country, and the current regime does not reflect that the industry is now in decline. SCC argues that such shifts be reflected by tax reform. Government should encourage the development of new smaller fields and continued production of mature depleted fields. A fifth of the UK's remaining gas resources lies in the West of Shetland Province and requires a £2 billion investment to bring it ashore. This will ensure that the UK's primary energy needs will be met for future decades.

Decommissioning of infrastructure is an area for major economic opportunity. The Royal Bank of Scotland puts the figure to deal with around 450 offshore structures by 2030, at between £15bn and £20bn. SCC argues that the UK and Scottish Governments should be open to a range of environmentally sustainable options put forward by Scottish industry. This would allow Scotland a competitive advantage over competing decommissioning initiatives.

Playing to Scotland's Strengths

Oil and Gas: Key Recommendations

- Businesses operating in the North Sea oil and gas industry are among the most highly taxed in the country. With the industry now in a mature phase, the tax burden must be reduced.
- Government should encourage the development of new smaller fields and continued production of mature depleted fields. SCC believes investment to drill such fields needs to be encouraged through relevant tax incentives.
- Decommissioning of infrastructure is also an area for major economic opportunity. SCC argues that the UK and Scottish Governments should be open to a range of environmentally sustainable options put forward by Scottish industry.
- UK and Scottish Governments need to recognise the importance of anchoring the oil and gas industry supply chain to Scotland given that oil and gas resources are depleting and the tendency will be for businesses – local and foreign – to migrate to other regions. This should be encouraged by fiscal policy.
- Investment in developing technical staff and graduate engineers is considered critical for the future prospects of the oil and gas industry in Scotland. SCC suggest suitable partnerships be developed between public and private enterprise to ensure appropriate supply of skills for the industry for now and the future.

Scotch Whisky Industry

The Scotch Whisky industry is Scotland's second largest exporter accounting for over £3 billion in exports annually. This represents 22% of Scotland's total exports and 25 percent of all UK food and drink exports. As such, the industry is of crucial importance to the UK and Scottish economies, to its supply chains and to local producer communities across Scotland. It also contributes massively to Scotland's tourism offering. It is therefore essential government creates a business environment in which the industry can thrive.

The industry continues to suffer from barriers to trade in its international markets, especially from India, the world's largest spirits market. Elimination of India's 150% import tariff on Scotch Whisky would result in a five-fold increase in exports, valued at over £150m. Meeting such demand would also mean encouraging foreign investment into Scotland. This should be pursued through the EU with the strong support of the UK and Scottish governments.

The importance of discussing the World Health Organisation's (WHO) alcohol strategy at the WHO Executive Board is necessary. The WHO's alcohol strategy should not interfere with international trade obligations and treaties, nor ban duty-free purchases which is a legitimate cross-border trade. It is argued that such a ban on duty-free distribution would not reduce alcohol misuse and be against the UK's national interest.

Whisky: Key Recommendations

- The UK and Scottish Governments should not unfairly tax its most important alcoholic beverage sector and move towards taxing all alcohol content at the same level.
- We need to see the approval of 'Scotch Whisky' as a recognised Geographical Indication (GI) and introduce a definition of 'Scotch Whisky' in order to protect the integrity of the product.
- Fair market access needs to be gained from India, the world's largest spirits market. At present, the market imposes discriminatory duties and levies at the State level that obstruct Scotch Whisky's penetration of the market.
- The WHO's alcohol strategy should not interfere with international trade obligations and treaties, nor ban duty-free purchases which is a legitimate cross-border trade.

Tourism

In Scotland, tourism was the outstanding successful sector of 2009, bucking the trend in the height of recession. However, many new regulations have been implemented in recent years which have had a significant impact on the tourism and hospitality sector.

Since the amalgamation of the Area Tourist Boards with VisitScotland in 2004, there have been worries over the loss of a local tourism focus. This concern has been shared both by rural areas and cities and the spread of destination companies across Scotland could be seen as a reflection of the need to maintain a local focus. At present, the funding for these new destination companies is coming from the local authorities, European Funding, the VisitScotland Growth Fund and some funding from the private sector. There is a question how sustainable these are in the long run. In addition it means less resources for VisitScotland as the local authorities tend then to cut back their funding to VisitScotland. Visitscotland.com has now been integrated within Visit Scotland at considerable cost to the public purse.

The Tourism Industry in Scotland has always struggled with staffing issues and in the past few years, with changes to European legislation, the solution in many places has been to employ staff from Eastern Europe, Australia and New Zealand. These staff work extremely hard and are an invaluable resource. However, the tourism industry in Scotland still needs to recruit Scots into the industry with a pride and passion to work promoting their country.

Tourism: Key Recommendations

- We recommend that a full review of regulations and their impact on the Scottish tourism industry is carried out by the Scottish Parliament's Economy, Energy and Tourism Committee, supported by the Westminster Scottish Affairs Committee.
- SCC would urge VisitScotland to take on board the views of the industry when looking at new developments for visitscotland.com. In the current web-enabled world, the consumer, not just the tourism industry, would expect a national tourism website to also have the capacity to take direct bookings as well as selling the country. The roles of Visit Scotland and Scottish Enterprise in tourism policy should be examined and responsibility for tourism should remain entirely with Visit Scotland in order to avoid confusion.
- SCC believes that closer working between academia and the tourism industry could result in a career profession that is given a higher profile – as seen in countries like Italy and Spain.

Scottish Chambers of Commerce
The Ultimate Business Network

Financial Services

Financial Services are vital to Scotland's economy, despite the sector's central role in the recent recession. Not just as our fastest growing and most vibrant industry in the years leading into the recession, but as a continuing force to be reckoned with, employing 90,000 people. There is also a vital need for its services to facilitate business investment and enjoy domestic financial security.

A leader in global terms as a financial centre, Scotland is particularly recognised for its strengths in life assurance and pensions investment management and asset servicing.

The extent to which Royal Bank of Scotland and Lloyds Banking Group have been driven into public ownership remains a major cause for concern. Both because we wish to see a return to commercial success for the companies themselves, but also because the Banks' ability to recover ownership of their assets into the private sector is vital to reducing the National Debt and the burden on the public purse.

It is clear that the recovery of the markets is crucial to the buoyancy of all funds. Therefore government policies must balance the need for reduction of public debt with the gradual encouragement of recovery avoiding precipitate clampdowns which would stifle the economy at the very time it needs a shot in the arm.

It is necessary to provide an attractive environment for inward investment. It is clear that the Westminster government must find a future working arrangement with the Scottish Government where there is clear understanding and agreement about capital budgets which fairly reflect Scotland's contribution to the UK tax take, and also seek to redress the imbalance in economic success between the South East of England and the wider regions of the UK through appropriate investment.

With the arrival of companies like Esure in Glasgow and Tesco Personal Finance in Edinburgh it is clear recovery is underway. Supporting this sector has been a massive investment for the whole nation. We look to government to create the climate of confidence that is needed for the private sector to drive the recovery forward.

Financial Services: Key Recommendations

- We call upon government to strike an appropriate balance in the governance of the banking sector, ensuring that the urging of caution over lending policies does not strangle the need for finance for growing companies upon whom the recovery will be dependent. We accept that the banks themselves need to manage their portfolios with probity, but the elimination of risk is not possible if we are to have a functional economy – for risk lies at the heart of enterprise.
- The regulation of banks must pay due attention to the needs of smaller companies, and we commend and call for the extension of schemes such as Prompt Payments to speed up transmission of funds between banks, and for due powers for smaller businesses to protect themselves from late payment.
- We call upon government to find new ways of supporting infrastructure development and to maximise the involvement of the private sector as partners in the process. With nearly £700bn of funds under asset management and an even greater sum within the pensions and insurance sector in Scotland there is no shortage of cash available for major investments.

World Leading Opportunities

Scotland is a world leader in many areas of business and we are forging ahead strongly across new and exciting arenas. As a nation we need to push our ambitions further and faster if we are to maintain and build on our advantages.

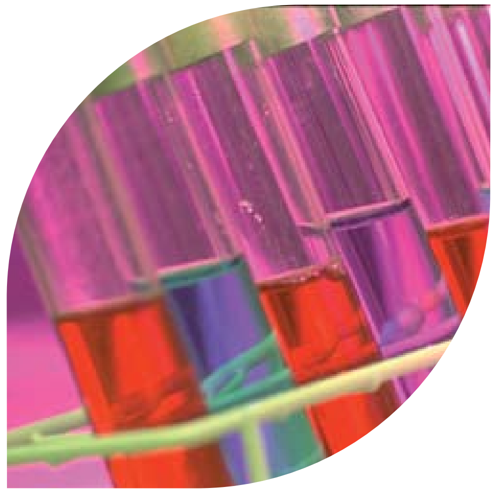
One myth we have sought to dispel is that manufacturing is dead. Older industries have given way to new expertise. Be it pumps that power the oil and water supplies of the world or the generators that lit the Beijing Olympics, there are always new opportunities.

It's the job of business to research and develop new products and services. It's the job of government to use regulation and catalytic inputs to ensure the environment is fertile to grow these new ideas successfully.

Life Sciences present one of the greatest opportunities. From Scotland's world lead in cloning we can see great potential for stem cell research to provide totally new solutions for previously incurable conditions. Bio engineering with artificial limb replacements, new surgical appliances and the expanding field of optics are all fruitful seedbeds.

The Games Industry stands out in the world of software development. But we are also world leaders in technologies as diverse as animation (for work and play) and advanced avionics, including radar systems.

Renewable Energy is hugely significant. The challenge of recognising that our energy resources are limited creates great opportunities for Scotland. With the greatest share of available renewable sources of any European country –10% of the continent's available wave power and 25% of offshore wind and tidal resource – and with our engineering skills base, we have an unrivalled opportunity to establish ourselves as world leader in the renewable energy field. We are also on the brink of pioneering carbon capture technology.

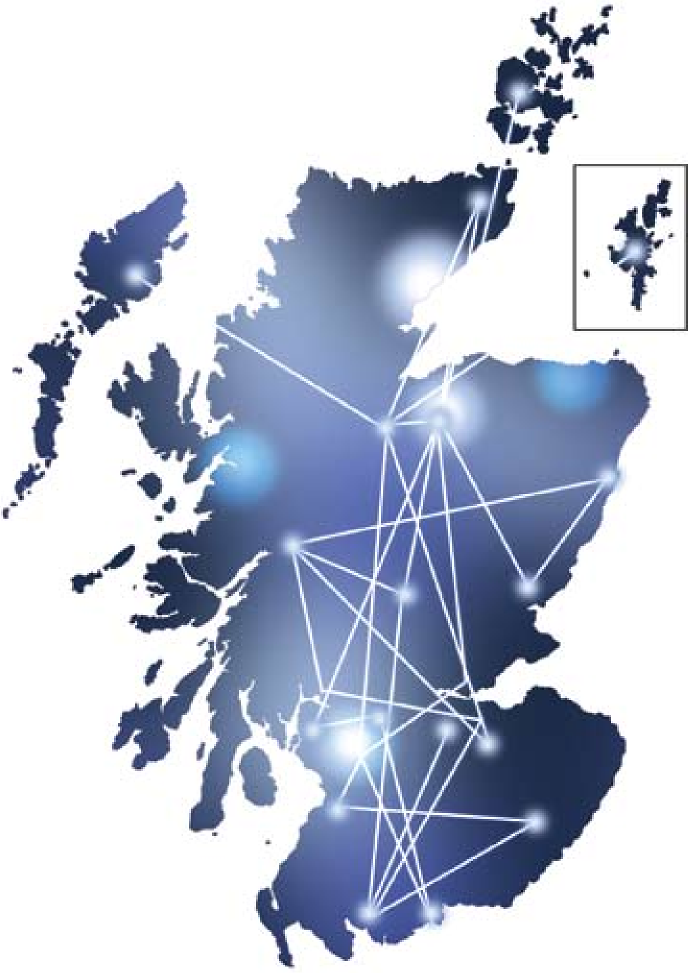


Key Recommendations

- The funding of lifelong education and training opportunities which can ensure the smooth transition of displaced employees into new skill sets.
- The encouragement of schools and their students to select training and careers which are targeted at key opportunities for economic growth.
- Tax breaks for innovation investment.
- Smoothing the planning process to enable centres of excellence to develop rapidly.
- Innovative means of funding infrastructure investment.
- Genuine reduction of red tape and an end to over-regulation.
- The continued integration and prioritisation of export support.
- We must continue to support our games development industry, work to grow the sector in Scotland and attract new businesses to anchor skills and talent in cluster areas such as Dundee.

Scottish Chambers of Commerce
The Ultimate Business Network

Speaking with One Voice



Scottish Chambers

1 **Aberdeen and Grampian**
Tel: 01224 343 900
info@agcc.co.uk

2 **Ayrshire**
Tel: 01292 678 666
enquiries@ayrshire-chamber.org

3 **Caithness**
Tel: 01847 896 508
info@caithnesschamber.com

4 **Dumfries & Galloway**
Tel: 01387 270 866
admin@dgchamber.co.uk

5 **Dundee and Angus**
Tel: 01382 228 545
info@dundeeandanguschamber.co.uk

6 **Edinburgh**
Tel: 0131 221 2999
info@edinburghchamber.co.uk

7 **Fife**
Tel: 01592 201 932
info@fifechamber.co.uk

8 **Fort William**
Tel: 01397 874 487
secretary@fortwilliam-choc.co.uk

9 **Glasgow**
Tel: 0141 204 2121
chamber@glasgowchamber.org

10 **Greenock**
Tel: 01475 715 555
hugh.bunten@greenock-chamber.org.uk

11 **Helensburgh & Lomond**
Tel: 07850 365 780
susan.mathieson@helensburgh.org

12 **Inverness**
Tel: 01463 718 131
info@inverness-chamber.co.uk

13 **Lanarkshire**
Tel: 01698 426 882
info@lanarkshirechamber.org

14 **Midlothian & East Lothian**
Tel: 0131 654 1234
info@met.org.uk

15 **Moray**
Tel: 01343 563 540
chamber@moray.gov.uk

16 **Perthshire**
Tel. 01738 450 401
info@perthshirechamber.co.uk

17 **Renfrewshire**
Tel: 0141 847 5450
info@renfrewshirechamber.com

18 **Scottish Borders**
Tel: 01750 505 059
enquiries@borderschamber.org.uk

19 **District of Wigtown**
Tel: 01671 403 875
enquiries@dw-chamber.org.uk

20 **West Lothian**
Tel: 01506 777 937
info@wlchamber.com

Key Partners

VATTENFALL

Scottish Enterprise

O2

determined to succeed

In Association with

COLLIERS CRE

Scottish Chambers of Commerce
The Ultimate Business Network

Scottish Chambers of Commerce 30 George Square Glasgow, G2 1EQ
email: admin@scottishchambers.org.uk tel: 0141 204 8316
www.scottishchambers.org.uk