
BIS Committee's Industrial Strategy Inquiry

AGCC response

27 SEPTEMBER 2016

Introduction

Aberdeen & Grampian Chamber of Commerce (AGCC) is North-east Scotland's leading private sector, member-focused, business organisation. It represents more than 1,300 businesses from various sectors with almost 130,000 employees in the region. Our vision is to help create the buoyant, diversified regional economy that will enable our member businesses and their employees to be more successful and prosperous.

AGCC response to questions posed

1. What does the Government mean by industrial strategy, and what does the private sector want from one?

AGCC supports the four broad aims presented by the British Chamber of Commerce for the UK Government's industrial strategy:

- 1) A sense of mission, long-term objectives and national goals
- 2) Getting the broad fundamentals right, such as basic infrastructure
- 3) Being sensitive to geographical factors
- 4) Flexibility to deal with failure and take advantage of new opportunities. The industrial strategy must be able to adapt to a changing environment.

2. Government intervention and scope of the strategy

The AGCC's view is that the main goal of business regulation and taxation must be to create conditions which encourage growth and competitiveness. The Industrial Strategy will need to consider that businesses require stable and clear regimes in which to operate effectively.

The benchmarks used by the Government to gauge this should not be only national but international, since the strategy will potentially play a role in making the UK an even more attractive place in which to invest, live and visit.

A solid understanding of the supply chain relationships in major sectors will help the Industrial Strategy to identify market failures and decide on the level and type of intervention which may be needed.

- For the oil and gas industry, this could mean connecting the dots between operators, the Oil & Gas Authority (OGA) and the supply chain in order to maximise economic recovery of the UKCS' resources.
- In Scotland's food & drink and agriculture sectors it is important to strengthen the supply chain in ways like ensuring the sustainability of abattoirs and milk processors. Some government intervention may even be necessary to ensure fair business practices between suppliers and buyers, as is done in many other countries.
- Realistically in most industries' major procurement activity is undertaken via buyers and larger (e.g. Tier one) supply chain companies, and the benefits to SMEs flow from there. There needs to be a focus within the industrial strategy on what we are trying to nurture in the UK across that supply chain as different elements accrue different economic benefits.

3. Lessons which can be learned from other countries and devolution issues

Enterprise Zones are a sample of where the overlap between the Scottish and UK Governments in terms of devolved and reserved responsibilities would be evident. BEIS' pledge to create 48 Enterprise Zones by 2017 in England, with incentives and schemes for start-ups and business growth, would also be very

welcome in Scotland. However, in the context of the industrial strategy, this would require coordination at national, Scottish and local authority level due to devolution in policy areas like business rates, planning systems, delivery of utilities, and many others. This coordination is critical if we are to ensure sound economic planning as we look to create globally successful clusters i.e. considering geographical with sectoral planning is vital.

BEIS should look at examples of successful “business zones” in other countries, such as the free trade zones and industrial parks in the United Arab Emirates. These zone have broadly succeeded in attracting international investors of a specific description, by creating conditions for greater ease of doing business than other parts of the country. Such an approach would allow the UK Government to follow its objective of encouraging economic growth in areas outside of London and the South East of England.

However, it is important that the conditions within “enterprise zones”, wherever they are located, are stable and consistent with a long-term cross-party consensus. When creating the Industrial Strategy there will be overlaps between the UK Government and its devolved administrations. Communication between the governments will help to identify the issues which currently constrain clusters from becoming more competitive and successful.

The most usual constraints for our members are related to infrastructure and connectivity. There must be a coordination of actions between the Scottish and UK Governments which recognises the clusters’ biggest infrastructure needs and the potential economic benefits that will come from filling these needs.

4. A geographical or sector approach?

The term “cluster” would encompass both geography and sector - companies from the same industry working close together and enjoying benefits of economies of scale like attracting skilled workers, supply chain companies, information channels and relevant research to one region. Many research studies show that sector clusters need tight geography. Therefore, Government need to be careful about ‘spreading benefits’ and must support clusters which already succeed globally and invest in these ‘places’ (i.e. the geography). Taking a geographical or sector approach is destined to fail and a cluster approach is more economically sound.

The North-east of Scotland presents a good example of a successful cluster: the oil and gas industry has prospered here due to geographical circumstances (proximity to the UKCS) and has created a broad economic network of employers, employees and researchers which represent a strong intellectual and entrepreneurial capital. It is a global success story for the UK with some operators now creating more economic output from procurement from overseas in the UK supply chain than their domestic purchases.

For example, in a recent study Chevron found that:

- Chevron’s economic activities from goods and services bought from overseas from UK supply chain companies was £951 million
- Its economic activities from goods and services procured relating to its operations in the UKCS was £728 million

The key message is that delivering internationalisation and innovation requires a strong cluster approach which succeeds at domestic level and that can then expand.

In regions of the UK it is then the role of local economic development to support and nurture new clusters and opportunities. The private and public sectors have identified in addition to Oil& Gas, Food & Drink, Life Sciences and Tourism as being important to the future of the North-east. North-east businesses share the view that diversifying the regional economy is essential to ensuring its sustainability, but this is very difficult without the proper support mechanisms from Government.

The success of the oil & gas industry even in challenging times shows the importance of BEIS' mission: to set up a long-term, comprehensive yet flexible industrial strategy for the UK's diverse clusters which will make the most of economies of scale now through the provision of necessary infrastructure, and extend their lifespan for the future. For example, the oil and gas cluster in the North-east will inevitably head towards decommissioning. In order to turn decommissioning into an opportunity and capitalise on the expertise of being a mature basin, the UKCS "cluster" will require investment in infrastructure like harbours before decommissioning begins in earnest.

Conclusion

It is important that BEIS name these clusters (naming the geography and sector) to ensure Government support is well planned and organised. In order to be sustainable and long-sighted, BEIS' industrial strategy must support the UK's strongest clusters where capabilities are already evident while recognising that we need to nurture new talent.