

“Good evening ladies and gentlemen and a very warm welcome to this the eighth SCDI Annual Lecture.

SCDI is delighted to be back here at the Marcliffe for our flagship North East event. The feedback from the 2011 Lecture, which you’ll recall was given by Lord Smith of Kelvin, was again very positive and I am pleased that our 2012 event has once again attracted such a positive response from our members and sponsors. Much more of our Lecture Guest Speaker Jim McColl later, but SCDI is delighted that he has been able to make space in his busy schedule to join us this evening to deliver our 2012 Lecture and I am sure this year’s address will be equally as stimulating and thought provoking as that in 2011. Jim – we look forward to hearing from you later and for the opportunity to engage in a q&a/discussion session with you. But for now please accept a warm welcome to Aberdeen and the North East on behalf of SCDI.

Before I go any further just a brief word on safety. There are no fire alarms planned for this evening. The alarm itself is a continuous bell. If we hear this alarm it is real and we have three escape routes from the Ballroom. The one beside the bar, one at the far end of the room and one at the main entrance. Muster point is in the lower front car park opposite the main entrance to the hotel. Can I also ask that you turn all mobile phones off or to mute.

As I say every year, this event doesn’t happen without the support of SCDI members and their willingness to come forward as sponsors for our major events. I’m pleased to offer a special SCDI welcome to our 2012 Lecture sponsors. Firstly to our Principal Partners and their guests – Aberdeen Harbour, Accenture, Balmoral Group, Brodies, Enermech, Ernst & Young, KCA Deutag, Lloyd’s Banking Group, Lufthansa and Shell. In addition, we are grateful to our Associate Partners, ARAMARK, Highland Spring and the Robert Gordon University. I would also like to express a special thanks to Stewart Spence and the Marcliffe for generously sponsoring our drinks reception and for Stewart’s continued support of SCDI’s work.

The principal role of SCDI is to represent its members' views and to try and influence government and public policy to the ultimate benefit of the country. During 2011 we spent considerable time consulting with our members on a very wide range of issues and representing these to both Scottish and UK Governments, not only privately at staff level but in many members' events the length and breadth of Scotland and in London. The Scottish elections in May saw the election of the first majority Government at Holyrood and with the SNP's success the constitutional issue is clearly one that will be an important thread across all aspects of Scotland's policy and economic debate over the next few years. I will return to this theme before I close but from a North East perspective the overarching topic of attracting investment into the region and driving growth across the economy has once again dominated the work and thinking of SCDI and our partners. Indeed the "Driving Growth" theme will be a feature of the second North East Business Week which is being held from April 16th. More details of this will follow in the coming weeks but SCDI is pleased to be working again with Aberdeen & Grampian Chamber, Enterprise North East Trust and the Federation of Small Businesses on setting an agenda and delivering a series of events designed to foster growth and entrepreneurship in the region.

The private sector is taking a strong lead and making major investments in the North East economy across the energy, food & drink and tourism sectors with projects coming together at a fast pace, in some cases despite fiscal policies set by national government acting as a disincentive to investment. In stark contrast national public sector investment in the North East economy has consistently been lower than in other parts of Scotland and been consistently delayed - the AWPR was approved by the Scottish Government back in January 2003 with a plan to get it open in 2010. Next year's Annual Lecture will take place around the 10th anniversary of that announcement. There surely must be final approval and progress this year. Our frustration that large scale infrastructure takes too long to deliver in Scotland remains, and whilst accepting that protection of the rights of individuals and groups to object to such large projects is important, we do think the system is out of kilter and needs further examination as regards the

balance of those rights and the economic benefits such infrastructure can bring to the country.

On a more positive, albeit longer term, note SCDI welcomed the Scottish Government's Infrastructure Investment Plan announced last November. Covering the period up to 2030 the plan for the first time laid down a commitment to dualling the A96 between Aberdeen and Inverness and doing likewise for the A9 from Inverness to Perth. In addition significant investment in the rail network between Aberdeen to Inverness and the Central Belt featured. We acknowledge the timescales are long and funding uncertain but including these projects in the Investment Plan is an important first step and worthy of recognition. However, as demonstrated by the AWPR if we don't sort out the planning system, dualling the A96 by 2030 will be a pipedream.

As regards rail, one of the lobbying successes for SCDI last year was helping secure a commitment from the UK Government for the future of the East Coast rail services between London, Aberdeen and Inverness, in particular the agreement to maintain existing frequency and to invest in bimodal fuel trains to enable electric and diesel running, which is necessary north of Edinburgh. That having been achieved we were surprised and disappointed that the Rail 2014 Consultation, published last December by the Scottish Government, cast doubts about the operation of these East Coast services north of Edinburgh and also on the future of the cross border sleeper services. As regards to the latter the future looks more secure following the Scottish Government announcement just before Christmas that it would at least match a £50m investment from the UK Government in new sleeper rolling stock. Returning to the Rail 2014 Consultation, SCDI is currently surveying members to obtain views and will be using these to inform our response to this consultation paper. It may not surprise you to know that there have been a high percentage of responses from the North East so the views from here will clearly form a key element of our response. If you'd still like to respond get in touch with our Regional Director, Ian Armstrong or Head of Policy, Gareth Williams. We'll also be engaging with Transport Scotland officials at our North East and Highlands & Islands Committees next month.

Turning to air transport, 2011 has been largely positive for the area with passenger numbers from Aberdeen Airport rising to 3.1 million, an 11% increase compared to 2010. In addition, and well ahead of schedule, October saw the opening of the £10m runway extension at the airport which helps protect routes and offers the potential for new ones. One such route is the new service to Frankfurt offered by Lufthansa. Direct access to the German market plus the hub opportunities at Frankfurt are a great opportunity for this region, although the usual use it or lose it caveat does apply. I'm pleased that we have many key people from Lufthansa in the room tonight and I'd encourage members to seek them out at Table X and explore what they can offer.

SCDI worked closely with Aberdeen Airport, NESTRANS, the Chamber and Local Authorities during 2011 to put a strong case to the UK Treasury for the devolution of Air Passenger Duty to the Scottish Government. The rationale being that with control over these fiscal levers more direct routes from Scotland could be encouraged and that the pressure on major hub airports could be reduced. We are disappointed that this has not been included amongst the proposed fiscal powers in the Scotland Bill, although acknowledge that the Treasury has committed to further research and consultation on the matter. Clearly we will continue to make the case alongside that for the on-going importance of access to landing slots for the regional airports at Heathrow.

On tax issues clearly the major story of 2011 was the decision by the UK Government to further increase the supplementary corporation tax on the oil and gas sector in the spring budget. Announced on the same day as the SCDI Annual Conference, at which Scottish Secretary Michael Moore MP was speaking, we took the immediate opportunity to express our deep regret that the assurances that had been made, privately and publicly, by senior Coalition Government Ministers to the industry and organisations such as SCDI of their commitment to a stable and predictable regime for investors had not been kept in the Budget. It remains SCDI's view that we do not consider the economic benefits of marginal reductions in fuel duty can justify or compensate for the potential loss of investment caused by the increase in the supplementary tax on

North Sea oil and gas. It is always difficult to prove and quantify investment loss following such a decision, but the fiscal instability in the UKCS caused by the actions of successive governments, of differing political persuasions, is deeply regrettable and can only have served to damage long term investor confidence. Despite this, and with the oil price remaining high, there continue to be great opportunities in the UKCS. To highlight this, and shamelessly borrowing from our second ever annual conference held 40 years ago in 1972 entitled Oil & Scotland's Future, SCDI is organising a one day conference in Edinburgh next month, entitled Oil & Gas and Scotland's Future, which will examine what lies in store for the next 40 years. With the correct regulatory regime, a consistent cross party political approach and an appropriate fiscal regime, we believe the UKCS can continue to support many thousands of jobs and attract many billions of investment over this period.

Maintaining the investment theme, the Trump Golf project, Aberdeen Offshore Wind Project and City Gardens have been little, if ever, out of the headlines in 2011. 2012 offers more of the same I suspect but briefly touching on each in turn. The progress at Menie has been astounding and the championship course is due to open in July. To date and despite much scepticism what has been promised at the site has been delivered and if progress is maintained it will undoubtedly be a major attraction and building block of the regions' diversified economy in the future.

The Offshore Wind Deployment Centre plans have progressed and are now at the formal planning application stage, with Marine Scotland due to reach a decision later this year. Again SCDI firmly believes that the deployment centre element of the plan offers a great opportunity to help enhance and secure Aberdeen's long-term position as an all-energy hub for the Eastern Hemisphere. We are of course conscious that there is conflict between these two projects which we hope can be resolved. Both are necessary and important.

The City Garden project also continues to attract much debate and conflicting views. After much discussion and some conflict of our own, SCDI took the view that it was right to progress the project so that a fully costed and designed

proposal could be considered further. With the design contest and subsequent exhibition of the six short listed designs having now taken place and a winning design now selected, things have moved on considerably. This “Granite Web” design will now go forward to a referendum of city residents in the spring. On balance SCDI continues to believe that this project can be of benefit to Aberdeen particularly if it delivers better connectivity to Union Street and the rail station. As such and along with the developing role of the Business Improvement District or BID we can see it being an important catalyst in helping boost and regenerate the city centre. Should the referendum result be against the project though, we do not believe that it will be the last opportunity for Aberdeen to diversify or reposition itself as an attractive investment location.

Cities though are clearly key to growing and developing the Scottish economy and SCDI has been working closely with the six Scottish cities and the Scottish Government during 2011 to define and develop a vision and action plan for shared success. SCDI has engaged in Scotland's cities agenda because, as international evidence shows, when cities grow and expand their economies, the economies of whole nations also grow and develop. Six cities working together to achieve growth is therefore vital to Scotland's efforts to return to economic prosperity and tackle unemployment. By working together the cities are not pitting urban priorities against rural ones, but recognising that here in Scotland, as well as globally, it is our cities that will drive regional and national economies as well as offering solutions to the social and environmental challenges we face. The action plan, *Scotland's Cities: Delivering For Scotland*, published in mid-December, outlines four key areas where Scotland's cities, the Scottish Government and the private sector – strategically facilitated by SCDI – can work together to deliver success. These areas are connectivity, sustainability, knowledge and culture. To be the engines of growth, our cities need impactful investment in infrastructure and we look forward to driving forward this agenda during 2012.

As many of you will have read over the festive period, tonight's Lecture is my final formal duty before I stand down as Chairman of SCDI's North East Committee. Before doing so I hope you will indulge me in mixing a little bit of

SCDI thinking with my own personal views in relation to the constitution. From an SCDI perspective we are acutely aware that our membership will have very wide and mixed views on the issue of independence for Scotland. I do not believe it is for an organisation like SCDI to be pro or anti-independence, our role is to ask key questions on behalf of our membership on what the business case and national balance sheet will look like should the people of Scotland choose to once again become a sovereign state and end 305 years of Union with England. We will of course do this and offer members many opportunities to engage with both sides of the debate, just as we did in the run up to the 1997 Devolution referendum. In terms of independence itself I think it is vital that we develop a much better understanding of the economics and business scenarios around an independent nation state. For example, on the downside what happens to our country's balance sheet if oil falls to \$20/barrel and on the upside what benefits might flow to Scotland if we create a more attractive tax regime for people and corporations coming to our country. Never one to steer clear of this territory, Jim McColl may wish to pick up on some of these issues later in the evening. Almost regardless of the degree of any future constitutional changes, speaking from a personal perspective, I see two critical issues in the energy arena, which Scotland must capitalise on in the years ahead. Firstly I believe it is important that an ownership structure is created in Scotland that forms a framework whereby the renewable energy sector in this country delivers long term benefit to the Scottish economy. Likewise in a North Sea context the decommissioning solutions we reach must be of net benefit to Scottish industry and the country's economy. It will be a major missed opportunity if we do not maximise the benefits to our nation from these two significant business opportunities.

However, enough of me and SCDI for just now. I will just briefly outline the schedule for this evening and not keep you from your meal much longer. We will shortly dine and I would encourage you to network at your tables and to interact as much as you can with fellow SCDI members. We even have a few non-members as guests here this evening and I would encourage my fellow SCDI members to show true missionary zeal in encouraging them to join and support our work. Following a brief break I will then introduce our special guest for the evening, Jim McColl, and ask him to deliver his Lecture and take part in a Q&A

session. My successor as SCDI North East Committee Chairman, Colin Parker, will then say a few words and Ian Armstrong, SCDI's Regional Director will draw the evening to a conclusion around 10.05pm with some closing remarks.

SCDI is delighted to be organising this annual lecture and I urge you all to listen, learn, participate and enjoy. I will appear again about 8.55pm but for now please enjoy your meal and the company of fellow guests”.