



OFFICIAL REPORT  
AITHISG OIFIGEIL

# Economy and Fair Work Committee

Wednesday 22 September 2021

Session 6



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**Wednesday 22 September 2021**

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**ECONOMY AND FAIR WORK COMMITTEE**

**5<sup>th</sup> Meeting 2021, Session 6**

**CONVENER**

\*Claire Baker (Mid Scotland and Fife) (Lab)

**DEPUTY CONVENER**

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)

**COMMITTEE MEMBERS**

- \*Alexander Burnett (Aberdeenshire West) (Con)
- \*Maggie Chapman (North East Scotland) (Green)
- \*Jamie Halcro Johnston (Highlands and Islands) (Con)
- \*Fiona Hyslop (Linlithgow) (SNP)
- \*Gordon MacDonald (Edinburgh Pentlands) (SNP)
- \*Colin Smyth (South Scotland) (Lab)
- \*Michelle Thomson (Falkirk East) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

- Charles Hammond (Forth Ports)
- Ewan MacDonald-Russell (Scottish Retail Consortium)
- Martin Reid (Road Haulage Association)
- Andrew Richards (Construction Scotland)

**CLERK TO THE COMMITTEE**

Anne Peat

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Economy and Fair Work Committee

Wednesday 22 September 2021

*[The Convener opened the meeting at 10:00]*

### Decision on Taking Business in Private

**The Convener (Claire Baker):** Good morning, and welcome to the fifth meeting in 2021 of the Economy and Fair Work Committee. Our first item of business is a decision on whether to take in private agenda item 3, which is consideration of evidence. Are members content to take item 3 in private?

**Members indicated agreement.**

## Economic Recovery

10:00

**The Convener:** Our main item of business this morning is an evidence session on support for economic recovery. I welcome our witnesses, who are Charles Hammond, chief executive of Forth Ports; Ewan MacDonald-Russell, head of policy and external affairs with the Scottish Retail Consortium; Martin Reid, director for Scotland and Northern Ireland with the Road Haulage Association; and Andrew Richards, who is a member of the Construction Scotland industry leadership group.

The purpose of today's evidence session is to consider what policies and actions are needed to promote economic recovery as we come through a very difficult period. The evidence will also help to inform our consideration of the Scottish Government's budget for 2022-23.

My first question is for Martin Reid and is on road haulage. At the moment, it is impossible to read the news or open a newspaper without reading about the difficulties with haulage and supply. The matter has significant coverage, and we are all familiar with the debates on the shortage of drivers and other issues. To what extent is the issue particularly sharp in the United Kingdom and Scotland, or is the pressure being felt across the European Union, too?

**Martin Reid (Road Haulage Association):** It is fair to say that it is pretty acute here, and that very few supply chains are not affected in one way or another. It is also fair to say that no one particular factor has caused the issue and that there are a number of contributing factors.

Obviously, we had the changes from 1 January. We estimate that, before that date, the industry was 50,000 to 60,000 drivers short and that we had about 15,000 EU nationals working in and out of the UK. Some of them went home with no intention of coming back; for others, it was difficult to come back.

We also had Covid, which was a major issue. It meant that the Driver and Vehicle Standards Agency, which would normally put through about 75,000 heavy goods vehicle tests per year, was unable to operate at the same levels. We reckon that about 35,000 tests took place, and the pass rate is slightly above 50 per cent.

Those two factors have made a difference. We also had the introduction of legislation on IR35 and self-employment. A number of the EU nationals who came here did so as self-employed or agency workers. The changes to tax status and so on meant that they either renegotiated higher rates or

just stopped, because there was easier work to be had on the continent without the bureaucracy and hassle that comes with working in the UK.

Those are three factors. We also have an ageing workforce, and have done for many years. The average age of an HGV driver is about 55. We therefore have a lot of leavers, whether through people finding other careers, through retirement or through ill-health. It has traditionally been difficult to attract new blood into the industry, and only 2 per cent of HGV drivers are under 25.

All those factors have come to a head, along with many others that have added to the issues and that I am sure the other witnesses will speak about. At the moment, of all the goods that are delivered, consumed, worn, eaten and so on, about 85 to 90 per cent—or maybe even more—spend some time in the back of a truck, so the shortage that the industry is feeling is being felt right the way through many supply chains.

**The Convener:** In the previous session of Parliament, I was on the Culture, Tourism, Europe and External Affairs Committee, where we heard the concerns that the road haulage sector had about what the rules would be after leaving the EU and about there being a negative impact. Since then, Covid has added to the pressures, and you have described how everything has come to a head at once. The first question is, when do you think that that can be resolved? Is it going to get worse before it gets better?

**Martin Reid:** That is a really difficult question to answer. I guess I would say that, if we are not getting access to the labour markets that we had before, it will take time to grow our own wood, so to speak.

Across the UK, and certainly in Scotland, there is training going on left, right and centre, either to upskill existing workers or to bring new drivers into the industry. A number of trainers are trying to bring new blood into the industry through the apprenticeship scheme that is available. That is going on right across the UK, but it takes time. We have short-term issues, medium-term issues and long-term aspirations. I do not see things improving at all in the short term.

**The Convener:** Thank you, Mr Reid. Other members will want to pick up on some of the issues that you have identified.

I have a specific question for Ewan MacDonald-Russell. You have made recommendations for the 2022-23 Scottish budget on how to support the retail sector. What are the key challenges that you face at the moment? What are the key measures that you would look for in the budget to ease some of them?

**Ewan MacDonald-Russell (Scottish Retail Consortium):** Thank you for the opportunity to speak this morning. I will start with the challenges. The Covid pandemic has absolutely smashed the Scottish retail industry. Our sales, 18 months on, remain below pre-pandemic levels. Footfall is one fifth below pre-pandemic levels in town and city centres.

We reckon that, because physical shops were closed for so long, they missed out on something like £4.5 billion. That has been incredibly difficult, and I do not need to exaggerate the reality. We have all seen the high streets and the big shops that, sadly, no longer trade because of the pandemic.

Given all that, we would say, first, that Government at both Westminster and Holyrood has done immense work to support us. In particular, the business rates relief in the past two years has been fundamental to many shops' surviving—it has been huge. Business rates, therefore, segue into the budget. We would not anticipate a similar 100 per cent reduction next year; I do not think that that would be realistic for the public finances. However, some sort of modest reduction—instead of a return to full 100 per cent rates, and particularly for retailers that are still recovering—is probably our big ask.

On top of that, we remain concerned about consumer demand and spending, which are still pretty sluggish. Retail sales are very sluggish. We might speak about inflation later, and that challenge is real. We would like measures that protect consumers, so we would ask for there to be no increase in income tax rates for below medium earners. That has been a priority for us for some years, because those people tend to have less discretionary spend.

Furthermore, there is the idea of taking action to stimulate growth, so we get people back to town and city centres safely. Northern Ireland has brought in a voucher scheme to encourage people back to physical shops. That is the kind of idea that we would be very interested in exploring, particularly as we come into the crucial golden quarter of trading.

**Colin Smyth (South Scotland) (Lab):** I would like to follow up on the question to Ewan MacDonald-Russell on retail. How great are the short-term supply challenges that retailers face in terms of stock levels? What does that mean for families as we gear up for Christmas? Are we going to have shortages of particular items on our high streets?

**Ewan MacDonald-Russell:** Martin Reid explained the reason for the shortages of HGV drivers, and we acknowledge that. In the short

term, that provides a huge structural challenge to keeping stores stocked.

You may have noticed that a lot of retailers are already prioritising the need to have lines in place over specific products. For example, you might see that a certain product line does not have the range and choice that was previously there. Unless there is action on visas for EU HGV drivers, for example, we may have to live with that situation in the run-up to Christmas. To be frank, it will get harder as we go into Christmas, because the volumes that go into stores increase.

That is on the grocery side. More broadly, on non-food lines, in particular Christmas presents, there is a real challenge. Retailers will be desperate to get every product into store—as I mentioned, Christmas is the big trading period of the year—but there are huge international challenges. Shipping costs are up, and shipping methods have been disrupted by the pandemic and by a huge number of other issues. Those are global challenges, but in combination with the problems with HGV drivers and the on-going economic challenges, the situation for us will be really hard. We have been quite candid in saying that, in preparing for Christmas, this is a pretty good year to be organised with your Christmas shopping.

**Colin Smyth:** Thank you—that is a big problem for me, as a Christmas-eve shopper.

Is this the new normal? Are the challenges that we face, in many cases—to be frank—here to stay? Do we have to rethink the just-in-time stock approach? What does it mean for our high streets? At the moment, walking down any high street can be quite a depressing experience, given the shop closures. Are these long-term challenges, or is it a short-term phenomenon?

**Ewan MacDonald-Russell:** What we are currently seeing is partly a culmination of years of pressures building on the retail industry. We have been saying for years that the impacts of the costs of running property and employing people would come to a head when digital technology hit. The pandemic has created a perfect opportunity for that—at one point, digital sales went up to 65 per cent; they have dropped down to about 40 per cent now.

There has been that kind of pressure on the retail model on the store side, and then all the supply-chain challenges are coming through because competition, and the way that the industries work, has meant that there has never really been any slack in the system. All these businesses, such as retailers and producers, are running really lean operations with pretty minimal profitability, so when these economic shocks—

Covid is a huge economic shock—ripple through, we see the consequences coming to a head.

I would add a note of caution. In retail, we are probably very much at the apex of that challenge. I would hope that, as we move forward and the industry adapts, and the businesses that adapt are able to become more productive, our models should, we hope, be able to adjust and adapt, except in the short term, when we are really struggling.

Indeed, the CO<sub>2</sub> challenges this week have indicated just how little slack there is in the system. That may have impacts on the wider economy, especially if a lot of different measures and costs come in, as it will be very hard for those costs not to be passed on to consumers in the future. We really want to avoid that, but it looks like it will be harder and harder for us to do so.

**Maggie Chapman (North East Scotland) (Green):** I thank you for what you have said so far, Ewan. Can you say a bit more about how the SRC, and the businesses that you support and work with, see the changing nature of the high street?

Before the pandemic, we saw significant moves around local identity and place making on the high street. You talked about protecting the high street and encouraging consumers back in. What should we be doing to support and encourage local businesses such as retailers to generate places where people want to be? Getting consumers back on the high street is about not only financial incentives, but place making. I would be interested to hear your thoughts on the changing nature of the high street.

**Ewan MacDonald-Russell:** That is a fabulous question, and the answer is that there is no one-size-fits-all approach that works across different areas and different places.

Some places in Scotland are amazing at that kind of thing. They do not necessarily have big shopping centres, but they may have some sort of natural or other asset—St Andrews, with a huge golf course and the university, comes to mind as a unique example. A lot of towns and cities have a distinct identity, which gives people a good reason to go there.

From a broad customer perspective, consumers are looking for somewhere that is easy to get to, whether by private or public transport. It is about making sure that people can get there—we would not take a view on how they do so—and what other reasons there are for them to go. We also need to accept that the retail offering in different towns and cities will perhaps not be what it was five or 10 years ago, when we used to have a relatively identikit approach. That is because, 10 years ago, a UK retailer would have needed 600

shops to have a nationwide presence. Now, they probably need about 150 shops to have a UK-wide presence, and they might not need even that many, because of the way that a digital presence can interact with that. It is about those businesses that find that unique opportunity. From a retail perspective, that comes down to thinking: "What can I do that's great? First, can I do it physically, but, actually, is digital working for me, too?" On one hand, we see digital as a terrible threat to the high street, but, of course, if you have a great proposition, it gives you a huge customer base, too.

10:15

To come back to that town and city centre principle, it is about good planning and clear vision. It does not always have to be just retail—it is about the other aspects, too. Are there great hospitality options? Are there visitor attractions, such as museums or parks? It is about having that reason to go there. Retail alone is certainly not going to be the answer, and there will be fewer shops in the future, albeit, we hope that we have passed the crest of the wave of closures.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** My questions are for Charles Hammond from Forth Ports. I want to ask you about an article on the Forth Ports website dated June 2020, when you called on the UK Government to have a national resilience strategy. In that article, you said:

"We need a long-term strategy underpinned by in-depth analysis that examines a range of weaknesses, from the frailties of our supply chains, future skills shortages to the residual capability required to maintain critical supplies".

What has changed in the past 15 months to address these issues, which you highlighted last year? What would be the role of Scotland's ports in dealing with the frailties of our supply chains?

**Charles Hammond (Forth Ports):** Good morning. Thanks for the question. I made that comment as the chair of the UK Major Ports Group as well at the height of the pandemic. First of all, I want to thank all the operators in our industry, particularly across the UK, for delivering essential goods and supplies during the pandemic. That is a good starting point. We started to see a build-up in stocks in our ports. You can look at our ports almost as the last line of defence. We need to keep operating to get goods on supermarket shelves, but we also need to keep operating to ensure that Scottish exports get out to markets. Our answer to that was to continue to invest.

Obviously, we run Grangemouth, as Scotland's largest port, which handles a big percentage of Scotland's gross domestic product, and, since I made that comment, we have commissioned new

warehousing, satellite storage areas, a training centre at Grangemouth and the new rail terminal. The answer from the ports industry is to create more capacity. On average, we are probably holding double the amount of stock of goods that we were holding before the pandemic, because we think that people are moving from a just-in-time supply chain to a just-in-case supply chain. They want to know that the goods are on the quayside, and we are distributing those goods when there are slots in warehouses.

I also made the comment because I am conscious of the shortage of HGV drivers. We have tried to manage the peaks with the driver shortage by extending our operating hours, so that we can receive goods at all hours, particularly, again, for export. I tend to agree with Martin Reid's comment that there is no quick fix, but I would like to highlight that, as well as having a training centre, we are talking to the Scottish Government about creating a simulator centre beside the training centre. We have one of these at Tilbury for returning ex-servicemen for apprenticeships, and it occurs to me that some simulator training might help with the HGV training problem as well. We would be keen to implement that measure as soon as possible. The Tilbury centre was funded through London interbank offer rate funding, and it is run as a charitable trust. Something similar could be done in Scotland, and the investment would probably be around £1 million to £1.5 million. That would complement the training facilities that we have already.

I am sorry that that is a slightly long-winded answer to your question, but the short answer is that we need to be operationally more efficient, to create more capacity and to continue to invest.

**Gordon MacDonald:** You rightly said that Grangemouth carries a large proportion of Scotland's GDP through its port—I think that it is about 30 per cent. In addition to that, about 70 per cent of Scotland's population lives within 1 hour of Grangemouth. When the Economy, Energy and Tourism Committee visited Grangemouth in 2015—that was the last time we considered the issue—we were concerned that investment in port infrastructure lagged far behind that in continental Europe in relation to the handling of containers.

Will you say a wee bit more about the level of investment that you have put into Grangemouth in recent years, given the billion pounds that you have invested in Tilbury in the past eight years?

**Charles Hammond:** In terms of the container terminal itself, we have around about £250 million of projects across all our ports. Since the committee visited, investment at Grangemouth has been more than £50 million, with some of the investments that I highlighted. There is an ongoing programme of investment for equipment.

It is probably worth saying that we did not agree with the observation that the committee made in 2015. We felt that we were well invested and said that we would continue to invest and provide more capacity, cranes, barrel carriers, warehousing and rail terminals, and we have continued to do that on an on-going basis. However, we pointed out to the committee at the time that the productivity at Grangemouth, as Scotland's largest port—*[Interruption.]*

**The Convener:** We have a problem with your connection at the moment, Mr Hammond. We will try to resolve it.

**Charles Hammond:** Can you hear me okay?

**The Convener:** We can hear you now. We missed the last few sentences of what you were saying; perhaps you could return to Gordon MacDonald's question.

**Charles Hammond:** I am not sure how much of it the committee caught, but my answer was—in effect—that we have invested significantly in capacity at Grangemouth through more than £50 million.

I also wanted to make the point that the productivity at the container terminal at Grangemouth is better than that at a number of continental ports. We therefore feel that we are well invested. We are in an almost continuous building programme of warehousing capacity. We can take the longest trains in the UK and we have adequate cranes and resources for handling the peaks of anything that is thrown at us just now. We have also recently invested in a border control post in readiness for Brexit. There has therefore been a significant level of investment since the committee last visited.

**Gordon MacDonald:** My final question is about Leith. Evidence in previous parliamentary sessions has suggested that a lack of capacity in Scotland has contributed to holding back the development of a Scottish supply chain in renewable energy, particularly in relation to onshore and offshore wind. Does the proposed development at Leith address the capacity issue, or do other gaps remain?

**Charles Hammond:** A lot depends on the frequency of development of offshore wind. Leith goes a substantial way towards addressing that capacity issue. I say that because we are about to finish the first purpose-built renewables site in any Scottish port at Dundee. Leith will replicate what we have at Dundee; we will therefore have two renewables hubs.

Obviously, there are also facilities elsewhere—Nigg, for example—and a number of facilities are planned. The real game changer at Leith is the fact that we are releasing 150 acres of cleared

land for manufacturing supply chain and start-up businesses. The local content that we are all looking for, particularly in the ScotWind leasing round, and some earlier developments can happen at Leith.

A lot depends on the supply chain and the pace of development, but Leith will make substantial inroads into that, and it is important that we get that development off the ground as soon as we possibly can.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** Good morning to the panel. I have a number of questions for different witnesses. However, I will start with Charles Hammond on the points that he made.

In the past few years, a number of Scotland's ports and harbours have specialised in certain areas such as freight, tourism, fishing or renewables. Is the plan for Scotland's port and harbour infrastructure co-ordinated enough? Is the approach that each port prioritises a sector?

**Charles Hammond:** I will answer that question carefully, because 75 per cent of the port industry is now in private hands, although there are fewer private operators in Scotland. Port operators are perfectly capable of investing in their port infrastructure; the cost of money and attracting capital into the ports industry are not problems. Across the UK, we attract capital from overseas, including from the Commonwealth and the US, and from long-term pension-based shareholders. Investment capacity is not an issue.

In relation to co-ordinating infrastructures, my view is that infrastructure has to be built against market demand and a proper understanding of the market in which you are operating. As long as you do that, there is a level of co-operation for infrastructure-ready ports, particularly in renewables. We will get delays in the supply chain, so people need to work together to iron those out, which we are doing at the moment at Nigg.

It is difficult to say that it should be more co-ordinated, but the Scottish Government should take a more holistic view of what is going on and encourage investment in port infrastructure, because the capital is there to be invested in the right markets.

**Jamie Halcro Johnston:** In relation to your opinion of your market here in the UK and more globally, it was suggested that the volume of freight coming through UK ports was down by 10 per cent in the first two quarters of this year compared with 2019. Has there been a reduction in global freight capacity? Are there fewer ships operating or fewer containers available, and is that part of the increasing pressure on availability and prices?

**Charles Hammond:** The cost of moving a container from the far east to Europe has gone up in the past 18 months from around a couple of thousand dollars to nearly \$20,000. Deep-sea lines at the moment are pretty much at capacity, but are also extremely profitable. Globally, ports are also starting to get to capacity because of the just-in-case mentality.

Taking together the effect of the pandemic, people thinking about stockpiling because of Brexit and the disruption in the supply chain that the grounding in the Suez Canal caused, the container shipping market is at capacity and it is therefore important for the ports to release more capacity in that market. That is what we have been trying to do at Grangemouth to make sure that the supply chain continues to run smoothly.

Some of the bigger global players are starting to look at their own shipping solutions to try and get around that capacity issue; markets usually find a way. Things are not logjammed yet. We may be at greater capacity than we were before the pandemic but, as far as I can see, operations in general across the UK and in Scotland are working satisfactorily.

**Jamie Halcro Johnston:** I know that colleagues will ask more about that issue. I turn to Ewan MacDonald-Russell to ask him some questions in relation to the SRC. Charles Hammond talked about a shift from just in time to just in case. Will that become an issue for your members? Traditional storage space above a shop or in a depository might be needed. Will further stockpiling become an issue?

10:30

**Ewan MacDonald-Russell:** There are huge challenges with moving to that model, because of the inherent cost. We have just in time not because it makes us look good but because the efficiency of the system has two big effects. First, it reduces waste enormously, which is good for sustainability and, to be blunt, also makes a huge difference in economic terms, as it allows everything to run more efficiently. Secondly, if we are talking about creating warehouse space, the fact is that such space has been at a premium for the past couple of years, for various reasons that we have articulated.

Moving to that model, therefore, will mean pretty significant cost changes. The caveat is that as we shift more and more online, particularly with regard to non-food and other categories, this sort of thing can, to a degree, happen more easily as we are not putting stuff above shops. Indeed, the storage space in shops is pretty much at a minimum, because everyone now wants their goods in a single big distribution hub.

You might see some element of stockpiling, but it all comes back to the cost of moving to the model and the question of where that cost currently falls. That is why there will be a bit of resistance to it, with people asking how we can improve or repair the current system instead of making wholesale change.

**Jamie Halcro Johnston:** We talk about supply lines as if they happen just in the United Kingdom. Given, for example, the huge amount of press coverage about the availability of toys at Christmas, are there issues with, say, the increased cost of manufacturing abroad, transport of products to the UK and so on? Are some of your members recognising that the price of a certain product means that it is just not suitable for the UK market? How is all of that impacting on what might or might not be available?

**Ewan MacDonald-Russell:** You are completely correct. Global prices and commodity changes are driving an awful lot of things with regard to capacity and demand across the world. We have seen, for example, the impact of the pandemic on different nations and how they operate, and all those changes have shifted the demand opportunities.

As for products themselves, ultimately the situation is consumer driven. I know that that answer seems like a cop-out, but the fact is that if consumers continue to want things and pay for them, retailers will find a way of providing them. The issue is whether the prices remain stationary. The August consumer prices index showed the global prices of toys, electricals and so on going up, and I suspect that the costs will eventually be passed along.

Whether we see the same thing happening with food is a different question. There are distinct reasons for being very nervous about food inflation, which is inherently regressive. Of course, the Bank of England is quite confident that many of the pressures are transitory and will peak around the end of the year, and I very much hope that that is correct. We are a bit nervous about some of the quite structural issues that are coming up, such as the labour shortages that we have in the UK, although I should point out that the problem is not unique to us. Such things tend to drive up overall costs.

Those are the reasons for our nervousness about the cost impacts.

**Jamie Halcro Johnston:** I have one more question, which is for Andrew Richards. I will be very brief, as I know that Fiona Hyslop or some other committee member is going to ask about the same issue.

Given the current unpredictability of the residential and commercial property market, where

do you see the construction sector going in the next few years? Where will you find the opportunities to build, and how will demand, or lack of demand in some cases, be met, addressed or otherwise dealt with?

**Andrew Richards (Construction Scotland):** Good morning, Can you hear me okay?

**Jamie Halcro Johnston:** I can hear you fine.

**Andrew Richards:** It is an interesting issue, because the demand profile globally as well as locally is really quite strange. With regard to global demand, most countries have projects that are way behind where they should be because of the Covid pandemic, while projects that were already coming through the pipeline are continuing to do so. Meanwhile, a number of countries that see construction as a route to improving their economies after a Covid recession are accelerating projects. As a result, there has been a massive increase in the global demand for construction, which will inevitably impact on supplies globally. Obviously Scotland is not immune to that situation.

There are more local issues to deal with, because a lot of construction products and materials are not made in Scotland. They are imported from England, Europe or further away again, and they are obviously not manufactured in Scotland.

There is also a very rigorous standards regime. The components and products that are used in construction have to pass huge amounts of testing—Grenfell aside—which has quite a bearing on what can be supplied. There is also a low-cost procurement regime, so you have an industry that is constantly trying to beat itself up, with companies competing against each other to win work. The industry is almost killing itself by trying to win work. The frailties of the industry have been highlighted by the pandemic, and it is interesting to have an industry that has a huge amount of demand and yet is not going to be as transformative as you would want it to be.

Residential markets—affordable homes and private sales—are really quite buoyant in Scotland. The same applies to older projects that are still being finalised or that are in the construction phase and struggling for supplies. There are current projects and additional projects. Additional demands are coming through on achieving net zero carbon and carbon-reducing measures that require retrofitting to be done. It is not just about new build but trying to improve existing buildings. The demand side of things is huge and the supply issues that we are dealing with are probably based on where we get the product from and how we get that product to our sites at reasonable prices.

**Jamie Halcro Johnston:** Thank you for that. I had better let other committee members come in.

**Fiona Hyslop (Linlithgow) (SNP):** Thank you for joining us. My initial question is for Andrew Richards from Construction Scotland, but I want to ask all the witnesses about the cumulative impact of supply chain pressures and resilience planning. I am interested in not just immediate mitigations, but measures for the future.

I thank Construction Scotland for its hard work during the pandemic and for continuing to operate in the context of safety measures. I am very conscious that, as you have just set out, in many countries, including Scotland, construction can be seen as—and is—a way to drive economic recovery. I want to explore further some of what you have just said. Please feel free to set out in more detail, with examples, the impacts that you are seeing of supply chain pressures on our drive to secure more economic recovery through construction.

**Andrew Richards:** A specific example is that, on net zero, everyone is talking about air-source heat pumps and using hydrogen as an energy source, rather than gas or even electricity. That in itself creates an issue with regard to where we get all the components for air-source heat pumps, for example. Although there is the Mitsubishi plant in Livingston, there is no other area in Scotland that produces such technologies, and Mitsubishi does not produce enough for everything that we require in Scotland.

The wider issue, which is never really thought through, is that, when you use an air-source heat pump, you need bigger radiators. Nobody in the world is making the radiators that you need to heat homes and offices, because traditional-sized radiators do not get hot enough with an air-source heat pump. What is ultimately driving—*[Inaudible.]*—understand the demands of particularly the public sector but also the private sector in respect of net zero. There is such a wide spectrum when it comes to what people actually want. As a result, we do not have the investment in manufacturing to deliver exactly what we need.

Now that the 26th UN climate change conference of the parties—COP26—is coming, everyone knows and understands that we have the aspiration to achieve net zero. Everyone is talking about it, but in order for that aspiration to translate into what is needed for buildings or a proposition that makes somebody want to invest in Scotland to build those bigger radiators, we need to be able to demonstrate that there is a pipeline of opportunities for the next 10 to 15 years. Without that, we cannot make the business case for reinventing Scotland's manufacturing capability. Such challenges arise regularly. We think we know what we want, but we are not

moving the industry forward in a transformative way, partly because of that uncertainty.

As I highlighted to Jamie Halcro Johnston earlier, the other issue is the fact that the construction industry is such a low-margin industry, and the way in which construction is procured forces it into chasing work for lower and lower margins and lower and lower cost, which leaves no slack in the system for investment and finding new methods.

Currently, there is a race to the bottom, because procurement on the basis of massive amounts of risk transfer from the public sector to the private sector, along with the fact that lowest cost always prevails, forces people into taking whatever shortcuts they can to win that work. More often than not, that involves trying to source as many materials as possible from outside Scotland and much further afield. Ultimately, we are trying to drive the circular economy, but we are doing the complete opposite with the existing procurement regime.

**Fiona Hyslop:** The construction sector is a source of resilience and transformation, but the supply chain poses challenges when it comes to delivering that. Is that your message to us?

**Andrew Richards:** Yes. Obviously, construction needs money to transform and has to be in a pretty healthy position to be able to start investing in itself. How weak the industry is has been exposed by Covid, but it would love to be in a much stronger position to be able to invest in itself and move forward. However, the procurement regime hinders such a transformation rather than helping with it.

The other issue, which was touched on earlier, is that things cannot be changed overnight. We cannot suddenly grow more trees or come up with innovative technology that does not have to undergo rigorous testing. A lot of the resilience that we have is based on looking at the situation in the medium to longer term rather than the short term. We set up with the Government a material shortages working group, which is headed by Ivan McKee. It has another two weeks to go. That group has done a hell of a lot in enabling us to understand the position as regards shortages.

All the discussions with key material manufacturers and suppliers in Scotland have highlighted the fact that we cannot do what we did with personal protective equipment in diverting resources that were being used elsewhere towards giving us what we wanted, because the components that are used in construction are so complex and have to be well tested. We therefore recognise that we have a short-term problem that we must address through budgets and other means. However, for the longer term, we must use

the Covid situation positively as a catalyst to try to get some of the transformative—*[Inaudible.]*.

**Fiona Hyslop:** We are getting a bit of buffering.

**The Convener:** We seem to have lost the connection. You can move on to another panellist, Ms Hyslop.

**Fiona Hyslop:** We will try to get Andrew Richards back later.

I have a couple of questions for all the panel members. What is the current cumulative impact of supply chain issues across different sectors? What can be done to mitigate that? What resilience planning are you aware of at Scottish Government or UK Government level? I have three supermarket distribution warehouses in my constituency, and I am aware of the potential cumulative impact on those of Covid, Brexit and the shortage of labour supply. Given the interrelationships that exist, what can be done to mitigate some of the immediate issues? What do we need to do to build in resilience for the future?

10:45

Andrew Richards is now back with us. We are about to hear from the rest of the panel on the cumulative impact of the current pressures and how they are affecting the interrelationships between the sectors. What can be done to build in resilience for the sectors? We will start with Martin Reid, as we have not heard from him for a while. Is there anything that the other sectors can do to help your sector? What resilience planning do you think is needed?

**Martin Reid:** Thank you for coming to me on that. We are all finding out now that we are the glue that keeps the other sectors together, although that is not to say that the importance of the sector had not been recognised. The UK logistics sector employs 2.54 million people and is worth £127 billion to the public purse.

We have a number of requests for Government, some of which are short term and some of which are medium and long term. At the moment, we need short-term answers to fulfil existing orders. We have asked the Government to look at temporary or seasonal visas and our access to different markets. We have looked at expanding existing programmes, such as the youth mobility scheme, to help to bring people in, but a perennial issue that we face is the image of the industry.

In the short term, we could bring some of the many people who have left the industry back in to help with the existing problems. We have asked the Government for a review of the certificate of professional competence. We have proposed what we call a one-for-one system, which would mean that, instead of requiring those drivers to have a

block of five CPC training days before they can come back in, one day would be enough for them to work for one year, on a temporary basis. Those proposals are already in.

We can also ask for help from a number of different quarters on the industry's image. As an industry, we have had to put ourselves under the microscope and look at terms and conditions, wages and so on. Although the additional money that is coming in for wages is very welcome, we are getting feedback that wages are not the major problem in attracting people back to the industry. A large part of the problem is around how drivers are treated on the road network and within delivery and pick-up scenarios.

I totally understand what Andrew Richards said about the race to the bottom in terms of money, but the legislation side is important, too. Drivers are covered by the drivers' hours regulations, as well as the working time directive. There are legal requirements when it comes to how they operate their tacographs, how long they are allowed to work, how long they are allowed to drive and how they go about their business.

As the microscope is applied to all aspects of how we do things, we are also finding that efficiencies are being missed because of the number of delays that occur at pick-up and drop-off. That is right across the board. We have worked closely with Charles Hammond and his colleagues at Forth Ports on the vehicle booking system, and that has been largely successful. At times, there are faults on both sides that could be remedied, but the same is true of retail distribution centres.

The UK and Scottish Governments were keen to label HGV drivers as key employees at the start of the pandemic, because they were keeping the PPE, the pharmaceuticals and so on moving around the country. However, we are still finding scenarios in which drivers are being denied welfare facilities. There are also unreasonable delays in loading and unloading in certain places, as well as a lack of flexibility on time slots. For example, if something has happened on the roads that causes a delay and a driver misses a slot, they often have to wait a couple hours to do the job, which impinges on their ability to keep to the working time directive, the drivers' hours regulations and so on. All that means that the trucks are not running as efficiently as they could be.

We as an industry and the wider industry that we deliver to must examine ourselves. We also need Government help in a number of areas. We lag far behind the rest of Europe on welfare facilities in the network and safe and secure overnight parking. Freight crime has been growing for the past few years, and curtainsiders are seen

as an easy target when drivers are resting. We need safe and secure facilities on the network, and the Scottish Government could help us by putting pressure on the UK Government to deliver those.

**Fiona Hyslop:** Charles Hammond talked about some of the practical things that are being done with HGVs. I am interested in your views on the interdependencies that exist and on resilience planning. Do you think that that is satisfactory or should we do more?

**Charles Hammond:** We are doing pretty much all that we can in the immediate situation. Martin Reid highlighted the issue of vehicle booking systems, which are designed to make the flow of information in the supply chain as efficient as possible. We are extending capacity, tackling storage, providing more warehousing and using the ports more flexibly, almost as trading zones. Those things will all help us to deal with the immediate issues.

In the longer term, I would like to see the Government highlighting transport and logistics across all industries as a good career that people should be encouraged to go into. It can be a rewarding long-term career, but it is not seen as aspirational or attractive at the moment. We need to fix that in the long term. With the best will in the world, Scotland has a small economy and is a bit peripheral to Europe's main markets. Our transport and logistics must therefore be even more efficient, particularly because we are export dominated and some of those exports drive our economy. The industry needs general encouragement, facilities for training, apprenticeships and better networking with higher education. Those would be good long-term measures rather than a quick fix.

There are not many areas of Scotland or the UK where we make things. We must encourage people to make things again. It was interesting to hear the construction industry perspective. We need training zones around our ports and manufacturing centres to capitalise on the skills and expertise that people in those areas have. Grangemouth is the largest petrochemical complex in the UK. There are many skilled people there. Ineos has made important announcements about investment. We can also give people the opportunity to make things in the renewables sector. We should create the capacity for renewables and the accompanying supply chain. Those long-term measures would help to build resilience into our economy.

**Fiona Hyslop:** Thank you. Can I put the same question to Ewan MacDonald-Russell and Andrew Richards?

**The Convener:** I am afraid that we must make progress. We will hear from the Scottish Retail Consortium, but then we must move on to questions from Colin Beattie.

**Fiona Hyslop:** I am sorry, Andrew—I think that we are being cut off.

**Ewan MacDonald-Russell:** The surprise is not that there are resilience challenges now but that it took so long to happen. In the past two years, the retail industry has faced structural change, the impact of the Covid pandemic and its restrictions, and the impact of our exit from the EU. Any one of those changes would be enormous for any industry to absorb; taking on all three simultaneously has been really hard. Despite all those challenges, stock is still coming through and the industry is still able to respond. However, those pressures have become almost impossible to bear in recent weeks.

In the very short term, with regard to measures that would help, we have had support from Government to allow for changes in delivery hours and delivery times to enable shops to operate. That measure is quite small, but it is important.

In the past year, the Protection of Workers (Retail and Age-restricted Goods and Services) (Scotland) Act 2021 has made a difference to our operations. It gives shop workers a bit of protection, and confidence, in enforcing a huge number of rules in difficult circumstances, and—to be frank—it supports the morale of people who have had a really tough couple of years.

A third support measure would involve HGV drivers. We agree with Martin Reid that there is a need for a short-term fix. No matter what we do on training or testing, and despite the investment that SRC members are making, we simply cannot magic up out of thin air the necessary drivers that we need for the next couple of months. We could not take people who were not fully trained or supported, as it would not be safe for anybody to be in that situation. We would absolutely support some sort of visa system or support in that area.

In addition, it is worth acknowledging the recent delay to import restrictions on goods from the European Union. That is helpful on food and drink, as it will help to keep supply chains moving. However, in the long term, those challenges will need to be resolved.

On what Government can do in the medium term, it is about giving the industry a bit of time to breathe, and to look at some of the measures that Government might like to implement. For example, there is discussion about a ban on new year's day trading, and we potentially have a deposit return scheme coming in next year. There are quite a lot of areas in which we need to have a pretty candid discussion. While some of those measures are

virtuous or may be good in a lot of ways, we need to consider whether this is the time to put increased burdens on the industry. For example, we are seeing a lot of tax measures, such as the UK Government's proposals on national insurance. All those things are adding more costs at exactly the point when businesses are under enormous pressure.

The two biggest things that our industry could do with are probably coherency from Government—the retail strategy on which the Scottish Government is currently working is a great opportunity to develop that up here—and a bit of economic growth. The single biggest thing that will help the retail industry is if we can get the economy moving again and get people out and about, and get a bit of growth. That tends to lead to a concurrent rise in sales. A lot of our challenges will go away if we can get a bit more growth and productivity. Without that, it will be a really hard couple of years.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I want to look at how industry is absorbing the increased costs of freight and transportation, and the major components of that issue. Charles Hammond highlighted the exponential price increase for a container coming from the far east, from \$2,000 to \$20,000. During Covid, we were told that, because of the pandemic, the transport system was discombobulated and all the containers were in the wrong place, and that, while there were all sorts of fallouts from that, the situation would gradually rectify itself over a period. I do not know whether that has happened; I would appreciate your comments on that.

Nevertheless, the UK Department for Transport has indicated that, in comparison with pre-Covid times, volumes of freight to the UK have actually dropped by 10 per cent. Is that due to reduced demand, or because of a lack of ability to get hold of containers and ship to the UK? Perhaps I can get a bit of information on that—Charles Hammond might be able to enlighten us.

**Charles Hammond:** Looking at the freight statistics across the UK, a lot of the decrease also results from issues between the short straits—the Channel—down in England. As a result of Brexit, we are seeing a move from accompanied freight, with a driver, coming from the EU, towards unaccompanied freight. I do not think that the decrease in freight is quite as large as 10 per cent as we stand today, because there is an element of recovery. However, we are seeing a movement from accompanied freight to unaccompanied container routes in particular, so we are absorbing those changes at the same time. At the same time, you are right—empty containers are not always in the right place. That is quite an

important issue for Scotland in particular, because of the export domination of our trade.

We are constantly aware of and looking at the issue of finding cost-effective ways of repatriating empties. The answer is not always to drive them across the country. Sometimes, the answer is to ship them and store them, which is why we are creating more storage opportunities.

11:00

At the moment, we are not seeing trends that are set in stone; we are still in the process of recovery. We will see changes in supply chains, however, and I suspect that there will be a more regional pattern of haulage, with greater use of rail. All those things are currently featuring in how we are handling trade.

**Colin Beattie:** You have talked about Brexit and the impact on EU trade. Mention has also been made of congestion in our ports. If the volumes are down 10 per cent, why are we not coping? Why are we not able to handle it when there is a reduced volume?

**Charles Hammond:** You cannot take that 10 per cent as being across every single port. The move from accompanied to unaccompanied means that volumes at a lot of ports are not actually down 10 per cent. In our operations, volumes are higher at the moment than they were at the same time last year. In addition, because we are holding more stock in the ports, the density of container stacks has increased by at least 20 or 30 per cent over the same period. The move that I was talking about from just in time to just in case means more stocking. Therefore, we have to create outside storage areas for longer-stay boxes to ensure that product flows through. There are congestion issues, predominantly at Felixstowe, as a deep-sea port. At a number of other ports around the country, those congestion issues are being managed through having higher levels of stock on the ground.

**Colin Beattie:** Just to pick up on what you mentioned about the increased volume of freight over last year, the Department for Transport says that freight increased by 13 per cent compared with 2020, although the volume is down 10 per cent against the comparable periods in 2019. You are saying that the issue of port congestion is focused on Felixstowe. Why is that?

**Charles Hammond:** It is to do with the size of vessel going into Felixstowe, the amount of facilities available and the fact that boxes are staying around longer, as well as the aftermath of the Suez grounding. Those are all issues. As well as that—referring to the trend away from retail—there has been massive growth in e-commerce and in people buying things online.

**Colin Beattie:** I ask Martin Reid to come in on this, since it is the haulage industry that moves containers around. What is your take, Martin?

**Martin Reid:** I am certainly not going to argue with anything that has been said by experts who are far cleverer than I am. I know from feedback from members that there have been greater delays in moving goods, particularly in the southern ports, with greater waiting time. I guess that that is partly because there are skills shortages across the board. The numbers of staff working in warehousing are down, too, because of the issues that we have already outlined. That is a concern.

There is a reason why road haulage has the hegemony: it is because it is flexible and nimble enough to cope with issues such as these. I know that the southern ports have had difficulties, however. The delay to the additional checks that were due to be introduced for incoming goods at the start of next year gives us more time as a country to improve the flow of goods.

**Colin Beattie:** Perhaps Ewan MacDonald-Russell can comment on what I said about industry and business absorbing the increased costs of freight and transportation.

**Ewan MacDonald-Russell:** In our industry, there are two elements. The first is that costs are kept down predominantly by competition. Last month, despite the fact that fashion has been a hard-hit industry, fashion prices were down by, I think, 9 per cent in our shop price index, because there has been price cutting by people who are desperate to get some sales. Therefore, competition is putting a cap on price increases and the ability to pass on costs, because retailers are still very much there. To be blunt, that is waning, in part, because the models that are in place have proved to be too difficult for some retailers—some big department stores simply no longer trade.

Costs are being absorbed in other ways. There are fewer shops, there are often fewer workers in those shops and there has been a shift to digital. Digital is not a more profitable platform, but it is a much cheaper platform on which to operate, because businesses do not have the same property costs and can be more tech efficient and productive. That is where some of the costs are going.

However, I do not know how long that can continue with what is left to absorb costs, particularly in the light of increased transport costs, as others have said. Wages are also rising for those in distribution centres because of labour issues, so the ability to absorb costs will go. That does not mean that there will be a massive uplift in prices month on month. I suspect that sticky price theory will kick in, with gradual increases as

retailers see what they can do to keep within the market.

Certain products have simply not been selling over the past 18 months. Fashion sales is a good example. No one has been buying formal wear, because no one has had anywhere exciting to go. Nobody has been buying smart shoes for the office, because we have all been wearing slippers in the house. That has an impact on our ability to manage some of these things. We are not fully open yet. Given that our sales are still below what they should be, businesses are probably not getting the same products. Some businesses kept certain ranges and simply reused things instead of buying a new range, because, at the start of the year, we had no idea whether shops would open at all.

Lots of very unusual things are happening. I hope that those will shake out, but that might have some big consequences for costs down the line.

**Colin Beattie:** At the moment, the retail sector is absorbing additional transport costs, which is likely to continue, perhaps with narrowing margins, until businesses have to increase prices. Is that correct?

**Ewan MacDonald-Russell:** Yes—that is a much more articulate and succinct way of putting it.

**The Convener:** We move to questions from Alexander Burnett, who is taking part remotely, so I hope that he will be able to join us. There will be time at the end of the session for members to ask further questions.

**Alexander Burnett (Aberdeenshire West) (Con):** I have a couple of questions for Andrew Richards and one for Charles Hammond. I note my entry in the register of members' interests in relation to construction.

It is now more than two years since our predecessor committee in the previous parliamentary session, which I was not on, completed a lengthy and thorough inquiry into construction, which culminated in a 92-page report with about 30 recommendations. Given that many of the recommendations address exactly the same problems that are being raised today, would it be fair to say that the Scottish Government has made little progress on them? If sufficient progress had been made, that would certainly have alleviated some of the issues that we face today. Can Andrew Richards comment on that?

**Andrew Richards:** I can indeed. Can everybody hear me and see me this time? I hope that my connection is back.

There has been a significant amount of progress. As a result of Covid, the Scottish Government and the construction industry have

probably never been closer. The construction leadership forum was set up in 2019. Twelve months ago, a recovery plan was produced with almost 100 actions, a number of which have been ticked off or are in the process of being worked through. From our perspective, the relationship has never been better. Most important, the Scottish Government understands the sector better than it ever has done.

Covid highlighted how many Government departments and public sector bodies are impacted when the construction sector is shut down, so the right people in the Government understand the issues.

The biggest issue that we have not quite solved yet is procurement. We are trying hard to move heaven and earth to get into the equivalence of median pricing and what have you, in order to stop the race to the bottom that is killing the industry—it is almost killing the hand that feeds it. Ultimately, all those extra warehouses and other facilities that are going to be required for renewables have to be built. We need a very buoyant and healthy industry to help deliver those and all the other net zero carbon initiatives.

A huge amount of progress has been made, although the issue is nowhere near having been fixed. I think that some of it is not fixable by the Scottish Government; it is a global issue, as I highlighted, and we are having to operate within that.

The short-term issues that we are trying to overcome are in current projects that are fixed term and fixed price, whereby clients have very little manoeuvrability to be able to help out on cost and time pressures. That is certainly hurting a hell of a lot of the industry. The vast majority are small and medium-sized enterprises in the supply chain.

The new projects that are under development are having considerable issues when it comes to budgets because, essentially, quite a number of materials have increased in price by about 30 per cent when it is averaged out. That 30 per cent increase is roughly about 10 per cent overall, taking into account the fact that construction pricing is about not just materials but labour and other things. Ten per cent increases in construction costs cannot be borne by an industry that has margins of only 1 per cent.

There are some difficulties there. There is a real need for increased current and new budgets. However, we have engaged hugely with the Scottish Government and, in particular, its directorate for economic development. Dermot Rhatigan, Sharon Miller and Elisabeth Stark have been excellent in trying to get to the bottom of what, if anything, they can do to assist.

**Alexander Burnett:** I am delighted to hear that. One of the specific recommendations was on improving relationships, so it is good to hear something positive on that.

You mentioned again issues of supply and procurement. Earlier, you spoke specifically about radiators. What other opportunities have you identified for the production of products closer to home, and what can we do to deliver those opportunities?

**Andrew Richards:** That has been looked at. The difficulty is that, if we are looking at demand from a purely Scottish perspective when we are putting manufacturing facilities in play, there is not enough demand for construction—whether that be of affordable homes, office buildings, hospitals, or schools—to create facilities that service only Scotland. Over the years, quite a number of manufacturing facilities have closed down because they were not profitable. It was more profitable and better from a perspective of lowest cost to get bricks, blocks, structural timber et cetera from elsewhere.

Ultimately, it comes down to money. If we really want to drive the circular economy and manufacturing in Scotland, there has to be a recognition that maybe some components could and should be built in Scotland and that they are going to be slightly more expensive but, from the perspectives of value for money, the circular economy and the reinvestment of the Scottish pound, it makes more sense to do it in Scotland. Most of the investment cases for any manufacturing in Scotland are very tight, purely because demonstrating the demand potential in Scotland is tricky. Charles Hammond highlighted that the Scottish economy is smaller than that of other countries and, currently, if we go on lowest cost, it makes more sense to import things than to try to create them ourselves.

**Alexander Burnett:** Thank you—I certainly agree on that.

I have a final question—

**The Convener:** Sorry, Mr Burnett—I am going to bring in Maggie Chapman for a supplementary on that question, and then you can ask your question of Ewan MacDonald-Russell.

11:15

**Maggie Chapman:** I am sorry to cut across you like that, Mr Burnett.

Andrew Richards talked about the circular economy. I am thinking of some kind of local content requirement, not only to shorten supply chains but—importantly—to catalyse local manufacturing. Should the Scottish Government be looking at something in that space to ensure

that we have the drivers in place to support local manufacturing and—if demand is the issue—to drive up demand for it?

**Andrew Richards:** Yes, absolutely. We have been asking the Government for assistance there. There are some slight difficulties with interpretations of European law, in respect of what can be asked for in tenders and what can be done to encourage local involvement. Different countries take different approaches to the same law. Under the current approach in Scotland, it is very difficult to be specific in that regard, but nobody is giving up. We, as an industry, are not giving up—and neither is the Scottish Government—on looking at that as a route to encourage the very thing that you describe.

**The Convener:** I will bring Mr Burnett back in.

**Alexander Burnett:** Thank you, convener—I very much agree with the comments from Andrew Richards. If there was additionality and environmental costs were priced effectively, we would not be looking at some of the lowest-cost imports.

My final question is for Charles Hammond. You mentioned the importance of developing economic zones around trade ports. How disappointed were you to hear that the Scottish Government rejects joint working on UK free ports? How will that affect sales?

**Charles Hammond:** It was disappointing, as it always is, when the Scottish Government and the UK Government are not able to reach an agreement. That is a general disappointment. We have already launched the Thames free port, which is quite an exciting venture, so we understand how the model works. We are already starting to get inquiries from interested parties, who will—undoubtedly—make and distribute goods down in the south-east of England.

There is great potential in the Firth of Forth in particular to create an economic free port-style zone that attracts the type of incentives that the UK Government has talked about. We will need to wait and see what form that takes—I have no detail on it—but we are still extremely keen to promote some kind of trading and free port zone in the Firth of Forth, in whatever form it takes.

In terms of ambition, our preliminary assessment—I will leave you with this figure—indicates that a Firth of Forth free port or green port zone could create around 50,000 direct and indirect jobs.

**Michelle Thomson (Falkirk East) (SNP):** Good morning. I want to address some questions to Charles Hammond. You commented earlier that Scotland is “peripheral” to Europe. With regard to comparative shipping figures—I do not know how

up to date these figures are now—there were reports that Reykjavik in Iceland, which has a population of about 350,000, shipped as much as Grangemouth. What are the current comparable figures, and what might be the reason for that?

**Charles Hammond:** The reason for that is that Iceland, in order to trade, has to ship everything. In Scotland, quite a lot of our trade is with England—in fact, it is around 40 or 45 per cent; that was the last figure that I saw. There is obviously an easy way of transporting goods to England, which is usually by road or rail. By definition, because of our geographic connection to England within the UK, we will end up shipping less than average. I will give you a stat to support that: 95 per cent of goods worldwide are shipped, but in Scotland the percentage is down at around 75 per cent. That is probably the reason.

**Michelle Thomson:** With regard to the performance of all the ports that you own, where does Grangemouth fit relative to the others? What ranking would you give it?

**Charles Hammond:** Although 55 per cent of our business is down south, with 45 per cent in Scotland, Grangemouth is Scotland's largest port, so on that basis I would say that it is number 2. It is extremely important not only for the Scottish economy but for our group for it to be successful. We want to see that grow.

**Michelle Thomson:** In terms of the stats for your group, where does Grangemouth fit in all the measures that you would apply—particularly, I imagine, around profitability? I do not mean in relative terms to Scotland's economy, but in relative terms to the group.

**Charles Hammond:** I would give the same answer: it would be number 2 within the group.

**Michelle Thomson:** I just wanted to clarify that.

**Charles Hammond:** That is for volumes, revenues, et cetera.

**Michelle Thomson:** Where stuff is shipped out of some of your other ports down south, do you have a sense of the percentage of leakage?

**Charles Hammond:** We sometimes ship Scottish goods down to the English ports from which they get exported. We have feeder connections with both Felixstowe and London Gateway. Most of Scotland's goods going to the rest of the world other than Europe will have to be transhipped to meet the larger vessels that call at Felixstowe, London Gateway or Rotterdam.

There are also rail services that move goods down to the deep-sea ports and down to Teesport. We have set up our own rail service and rail terminal at Grangemouth. Our market share is about 40 or 45 per cent, and there is certainly

scope to increase that market share. Obviously there are other container ports in Scotland, such as Greenock, and there are other ports in the UK that handle Scottish exports, sometimes with assistance from us and sometimes in competition with us. It is difficult to put a figure on the leakage but, if you were to ask me whether we can grow our market share at Grangemouth, I would say that yes we can, through greater investment, greater efficiency and more warehousing.

**Michelle Thomson:** You must have sensed the point that I was coming on to. I was going to ask what you would need to do in order to move Grangemouth to number 1. In particular, what structural issues would you seek to overcome?

**Charles Hammond:** Grangemouth is serving Scotland's economy, which will be smaller at the moment than that of the south-east, which Tilbury serves. Sometimes it is a question of population.

If we are talking about growing Grangemouth in isolation and moving it forward, I would mention investment by ourselves, which we are doing; creating an efficient trading zone, with great incentives around Grangemouth; and making our operations more data efficient, which we are also currently working on. Those are the three things that I would highlight.

**Michelle Thomson:** Just to finish off on this point, with reference to the current structure of the owning company, does the level of debt leverage limit investment?

**Charles Hammond:** No, it does not. Our shareholders are long-term pension funds. Effectively, we are generating funds to pay people's pensions. They are perfectly happy to invest in any proposition in the business, either directly or through long-term private placement bondholders. There is no capacity issue for investment in our group.

**The Convener:** We have a few minutes left so, if the panel would like to mention anything that they have not been able to say this morning, they can do so now. *[Interruption.]*

I am sorry—I see that there are a couple of supplementary questions.

**Maggie Chapman:** Thank you, convener—I am sorry to jump in again like this.

My question is probably most appropriately directed at Andrew Richards, who talked about the race to the bottom and the shift in risk from the public sector to the private sector, and about the need for investment in the construction industry more generally. What could the Scottish Government do to mitigate some of that shifting risk? I am thinking about some of the broader issues around driving up demand, such as the need for retrofitting and house building. Is there

space for a national construction company, or something like that, which would allow us to focus and target investment and therefore limit the risk shift that you describe?

**Andrew Richards:** The Scottish construction industry derives 50 per cent of its income from public sector procurement. A welcome amount of money is being spent, which the industry then has to deliver on. As well as the economic value that is created by spending that money, the added value, such as the social benefits that are achieved from new hospitals, schools and so on, needs to be fully considered, too.

The big ask is that the demonstrable pipeline continues, and that it becomes more and more demonstrable in terms of what the public sector genuinely wants the construction industry to deliver. First and foremost, that is what needs to happen. We need a pipeline of projects that allows the industry and its supply chain, and all the other manufacturers, to know and understand what is coming forward and in what form. That will enable us to train the appropriate people, whether they are in manufacturing or on site, to ensure that they have the right skills. A retrofit skill is completely different from a new-build skill, because of what you are trying to do.

The other big ask concerns the fact that, as much as these huge swathes of money are being put into construction, we need to ensure that they are being directly used. That comes back to the point about the circular economy—[*Inaudible.*] It is about not just putting money into construction, but doing so in the right way that encourages the right behaviours. We have not quite managed to get ourselves into an agreed position on that yet, partly because of the complexity of it all. It is not because there is a lack of will on the part of either party. All the elements—genuinely trying to drive the economy and do stuff that helps to drive transformation and fair work, as well as investing huge amounts to ensure that people provide the right apprenticeship opportunities and what have you—need to be part of the procurement process.

At present, irrespective of whether we are talking about central Government or devolved local authorities, there is still a tendency to stick to what has been done for years, which is to go out and get the cheapest tender possible, and look after the public sector coffers in the best way possible. In our view, that approach is so narrowly focused that it becomes a bust. It might suit a local authority's specific needs, but there are wider implications. In doing that, we are killing the industry further and not encouraging transformation. A huge amount of digitalisation is needed in the industry, but the money is not there to facilitate that, because of the drive for procurement in the way that we currently do it.

**Jamie Halcro Johnston:** I am sorry to jump in at the end, but I have a question for Martin Reid. He talked about the shortage of available HGV drivers, which is a problem across Europe. I am looking at some of the figures that we have in our papers. The salary for an HGV driver has reduced in comparison with salaries for those in comparable jobs, such as supermarket cashiers.

As I said, there is a large issue with a shortage of drivers across Europe. If the job of HGV driver was added to the shortage occupation list, why would the UK, and Scotland in particular, be an attractive destination for people to come and work in? There are additional costs for travelling to and living in Scotland. What sort of numbers would you expect, in the event that the job was added to the list?

11:30

**Martin Reid:** The numbers could be anything. There are no logistics positions at all on the shortage occupation list. In view of the numbers that I gave earlier, that seems crazy, because there are shortages not just in HGV driving but right through the sector, so, just by the law of averages, we should have at least one position on that list. However, at the end of the day, that will not necessarily be the panacea that we had hoped for because, basically, Europeans are finding it easier to live and work in other parts of Europe now, so there is no guarantee that they will want to come back. One reason why we want HGV drivers to be on the shortage occupation list is that it is another avenue. As I said at the start, no single magic bullet will cure the issue; we need a number of solutions.

I return to the point that Charles Hammond made about the promotion of the industry through the Government. That means the UK, Scottish, Northern Irish and Welsh Governments. We are all in the same position, so we need to look at the rhetoric that comes out when talking about the industry. In a lot of news releases, trucks are portrayed as big dirty and smelly things; however, that is no longer the case. Since the Euro 6 engine came out in 2013, the industry has dropped its emissions by about 75 per cent, which is more than any other industry. We need to show that. We need all levers to be pulled to try to get more people in.

We as an organisation have a national lorry week—it will actually run over a month, but the activities will take place for a week in each country, and in Scotland it will be in the last week of October. I encourage the members of this committee, and any of your party members, to help by sending a 20-second iPhone message just to say that you support the industry, that it should be a career of choice and that it offers a lot of

opportunities and options, just so that we can get that message out through social media and attract people to come in.

The shortage occupation list is a lever, but it is not a magic bullet. We would welcome the pulling of all levers to try to alleviate the immediate problems.

**Colin Beattie:** I have a quick question for Andrew Richards, which is much the same question as I asked earlier. Is the construction industry able to absorb not just the freight and transportation costs—which are, obviously, common to all—but, specifically, the extremely high increases in the price of raw materials? Is the construction industry absorbing those or is it already passing them on to its customers? How is it coping?

**Andrew Richards:** The answer is, I guess, a bit of everything.

Current projects that are already procured but are still to be built were, in essence, procured on fixed-term and fixed-price contracts. The industry is taking a lot of pain and angst on those. Unfortunately, there are a few casualties off the back of that, with companies going into administration et cetera.

For projects that are currently in procurement, specialists such as architects and designers and construction specialists are trying hard to mitigate the cost increases by designing out some of the more expensive materials. They are also designing out some of the materials that are not expensive but that are subject to an availability issue, to try to get as much deliverability as possible. That sometimes means getting rid of the nice-to-haves and leaving the buildings that are being created as need-to-have types of structure. That mitigation requires public sector procurers and construction industry teams to work very closely.

However, a 10 per cent increase in overall construction costs—a 30 per cent increase in the cost of materials—cannot be taken on by an industry that mostly earns 1 per cent margins.

**Colin Beattie:** Can I just confirm whether you are saying that the industry is substituting quality with utility, when it comes to the construction that it is delivering?

**Andrew Richards:** Ultimately, that depends on the definition of “quality”. The industry is using existing measures and levers to try to get projects back to budgets that will allow them to still go ahead. I do not think that shortcuts are being taken in how the guys on the ground want to deliver. They are not taking shortcuts when it comes to structural risks in what they build. It is more about the final specification of buildings and

some of the nice-to-haves—gold taps are now silver taps, for example—or areas in which they genuinely still have the same level of quality but not quite at the price that was originally envisaged.

**The Convener:** That brings the evidence session to a close. I thank Charles Hammond, Ewan MacDonald-Russell, Martin Reid and Andrew Richards for attending and speaking to the committee.

That concludes the public part of the meeting. We move into private session.

11:36

*Meeting continued in private until 11:56.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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