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Gordon Lindhurst MSP
Convener
Economy, Energy and Fair Work Committee
Sent by email:
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Dear Convener,

I refer to the publication of the Committee's report, following its Inquiry into BiFab, the offshore wind sector and Scottish supply chain. I remain grateful for the opportunity to present evidence to the Committee during its inquiry, recognising the public interest in the subject and Scottish Ministers' commitment to transparency on the matters raised. I would like to take the opportunity to thank the Committee members for their detailed consideration of what are broad ranging, complex and important issues.

Like the Committee I regretted the decision by the Board of Directors to put BiFab into administration in December but it was a decision that was unavoidable. The Fife and Western Isles yards, along with their workforce, can still play an important role in the future manufacturing in Scotland and I welcome the announcement earlier this month that Infrastrata will provide a new future for the company.

Investment

Since late 2017 when this Government stepped in to support the delivery of the Beatrice contract our commitment to the business very much aligned with DF Barnes aspiration to move the company forward following acquisition in April 2018. However, we were under no illusion of the scale of the challenge that lay ahead to secure work in a commercially competitive environment.

As you will be aware, we committed £37.4 million, which was converted to a 32.4% equity stake and a loan facility of up to £15 million was provided, which supported not just the Beatrice but also the Moray East Pin Piles and First E&P contracts creating over a 1000 jobs across the 3 yards..

Over the period of time of BiFab competed for a number of other contracts both in offshore renewables and Oil & Gas but unfortunately they were not successful. This ultimately led to a change in positioning of the majority shareholder and as a consequence the Scottish

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Government's ability to support the company. Therefore I do not believe there to be contradictions in the evidence, as outlined in the in my session.

As the Committee will be aware from my oral evidence we sought permission from DF Barnes to share the pre-acquisition business plan with the Committee but this was not granted. As this information is commercially sensitive, the Scottish Government cannot share it without that permission.

Guarantees – Contingent Liability

Due to the commercial confidentiality associated with such discussions it exceptionally challenging to hold such discussions in an open environment. The identification of the parties involved and the commercial position of the Scottish Government as well as third party operators engaged in the business in Scotland is highly commercially sensitive. It is therefore of critical importance that any papers shared with the Finance Committee is kept strictly confidential. The release of any material would cause severe detriment. Subject to such considerations of commercial confidentiality, the Scottish Government will constructively engage with any tangible recommendations to improve the contingent liability approval process.

State Aid/UK Competition Law

The UK's new interim Subsidy Control regime came into effect at 11pm on 31 December 2020. The UK must adhere to its obligations under the UK-EU Trade and Cooperation Agreement (TCA) and the UK's other international obligations, including various free trade agreements (FTAs), the Northern Ireland Protocol and obligations arising as a consequence of World Trade Organisation membership (including, in particular, the Agreement on Subsidies and Countervailing Measures (ASCM)). Both the TCA and ASCM specifically prohibit the inclusion of "local content" conditions when awarding subsidies. Support to local supply chains will therefore have to be devised with that in mind. BEIS have published a consultation relating to the design of a new UK-wide subsidy regime, launched on 3 February 2021. The Scottish Government will be sure to have regard to this Committee's conclusions and recommendations when considering its response to the consultation.

Enterprise Agency Investment

I concur with the Committee's view that our Enterprise Agencies have a key role to play to ensure that our supply chain efforts are focussed to maximise economic impact from offshore wind developments in Scotland, and further afield.

All of our Agencies offer services to ensure that they are as competitive as possible when bidding for contracts. Key support provisions include:

- *Offshore Wind Expert Support Programme*, which provides up to 2 days' of one-to-one support;
- *Scottish Manufacturing Advisory Service* providing SMEs with practical support and advice on new manufacturing technology and best practice;
- Worked with developers and Tiers 1's across the sector to promote opportunities through *Meet the Buyer* events.

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- Development and facilitation of the *Forth & Tay and DeepWind clusters*, facilitated by Scottish Enterprise and HIE, creating a network of 650 plus businesses to raise awareness and assistance.
- *Offshore Wind Supply Chain Directory* helping Scottish companies to showcase their capabilities in offshore wind, Scottish Enterprise developed an offshore wind supply chain directory.
- *Internationalisation Support* through Scottish Development International to support their internationalisation ambitions and promote their capabilities to international markets.

Investment in infrastructure

This is a key area highlighted by the Committee and one that I am fully aware of. Through our Enterprise Agencies we have financially support new quaysides at Port of Cromarty and Nigg Energy Park, as well as supporting projects at Port of Dundee and Energy Park Fife. However it is clear that our port infrastructure needs to continue to evolve to ensure sufficient port capacity to support the expansion of the offshore wind sector.

The findings of the referenced Arup Report compiled for Crown Estate Scotland, highlights that as a nation we have good technical capability to support offshore wind in a number of locations but we need to do more to ensure the opportunity is not lost.

To evaluate the report in greater detail a working group (representatives from Crown Estate Scotland, Highlands and Islands Enterprise, Scottish Enterprise, Transport Scotland, Scottish Government energy team) has been created to consider the recommendations contained in the Arup report. I understand that further work is currently underway includes 2 additional commissions now being tendered with the outputs expected by end March 2021 focusing in Port Investment Models for Offshore Wind and Port Enhancements for Offshore Wind.

Contracts for Difference

Over successive Contracts for Difference (CfD) rounds, Scottish Ministers made it clear that the structure of auctions should be amended to place a greater emphasis on the quality of bids, rather than solely the cost. It is worth stressing that the CfD mechanism has driven down the cost of renewable electricity for the consumer, however this has precipitated a race to the bottom with the Scottish supply chain being priced out time and again.

The Scottish Government supported the proposals to separate offshore wind into a separate pot at the upcoming CfD round. This is a step which will benefit the development of floating offshore wind – a technology for which Scotland possesses unrivalled potential – and allow the domestic supply chain to tap into the opportunities arising from the buildout of this technology.

The Committee is right to focus on the Supply Chain Plans element of the CfD process, however I would be remiss not to mention the negative impact of transmission charging on the economic viability of projects in Scotland. Scottish Ministers remain concerned that the Transmission Network Use of System (TNUoS) charging regime, in its current form, will continue to create fewer opportunities for the Scottish supply chain to benefit from contracts as Scottish projects struggle to compete with projects South of the border. Indeed, the current TNUoS charging regime undermines both the Scottish and UK governments' decarbonisation targets and will hinder the growth of subsidy free renewable generation.

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Therefore, I welcome the Committee's recommendation that it is vital that UK CfD reform is vital to ensure that Scottish firms and workers may benefit fully from these substantial opportunities.

Supply Chain Plans

In his response to the UK Government the Minister for Energy, Connectivity & the Islands welcomed the majority of the proposed changes to Supply Chain Plans set out in BEIS consultation on changes to supply chain plans and the CfD contract. In particular, we are pleased that BEIS intends on introducing a new Operational Condition Precedent (OCP) within the CfD Standard Terms and Conditions requiring the submission of a Supply Chain Implementation Report certificate to the LCCC. BEIS will give applicants the opportunity make amendments to their Supply Chain Plans via Updated Supply Chain Plans however it is right that UK Ministers have proposed that those applicants whose Supply Chain Implementation Reports (and their follow up Reports) are rejected should have their CfD contract terminated.

This Government believes this sends a strong message to the sector that UK Ministers will hold applicants to their Supply Chain Plan commitments and, more importantly, ensure that applicants exhaust every possible opportunity to utilise the domestic supply chain for their project.

I firmly believe that Devolved Administrations should be included in the Supply Chain Plans monitoring process and, to that end, we welcome the UK Government's willingness to share the contents of Supply Chain Plans with the Scottish Government. We expect this offer to be extended to Updated Supply Chain Plans and the all-important Supply Chain Implementation Reports. The inclusion of Scottish Ministers in this process will provide the Scottish Government with an accurate view of the intention of developers with regards to their use of the domestic supply chain, and will allow Scottish Ministers to take targeted action to benefit Scottish suppliers seeking to tender for contracts from upcoming projects.

ScotWind leases and Supply Chain Development Statements

The Committee notes Crown Estate Scotland's view that securing work for the Scottish supply chain cannot be a consideration when awarding licences. However, given Scotland is no longer bound by EU state aid restrictions to the same extent as prior to EU exit, the Committee calls on the Scottish Government and Crown Estate Scotland to urgently review the Supply Chain Development Statement (SCDS) process with a view to strengthening local content requirements and monitoring powers.

On the 11th February 2021, Crown Estate Scotland announced a review of the ScotWind process to take account of the shifting dynamics in the UK electricity, following the announcement of The Crown Estate (UK) Round 4 leasing process. This review aims to consider the most optimal pricing structure which both maximises the return for Scottish public finances and enables the development of Scottish supply chain.

As has been outlined previously to the Committee, Crown Estate Scotland is not legally able to require local content as part of ScotWind Leasing. Crown Estate Scotland's legal advice is that this remains the case following the UK's exit from the EU. Crown Estate Scotland has engaged extensively with all interested groups throughout the formulation of ScotWind

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Leasing, and remains committed to engaging and discussing the implementation of the SCDS with the Committee and any other interested stakeholders.

The Committee will be aware that this Government has been calling for some time on the UK Government to reform the Contract for Difference process and make greater use of Supply Chain Plans within the process, rather than allocate contracts solely on price, removing a perceived loophole to ensure greater use of domestic renewable energy supply chains.

We therefore welcome the UK Government's recent consultation on the use of Supply Chain Plans and urge them to use this an opportunity to make the changes necessary to ensure more work for the domestic supply chain.

Environmental and fair work considerations

The transition to net zero emissions will transform our society and economy, therefore the manner of our transition will be crucial. As the pace of the transformation increases, the need for a collaborative just transition becomes ever more important. The 2019 Climate Change Act enshrined in law our commitment to a just transition to net zero, one in which wellbeing, fair work and social justice are prioritised and no-one is left behind. Our commitment to these principles is unwavering. Collectively, we must plan and prepare, so that these transformational changes are harnessed to provide good jobs, tackle inequalities, improve our environment and support a thriving, wellbeing economy.

The Scottish Government has been clear in its commitment to securing a just and green recovery, which prioritises economic, social and environmental wellbeing. The National Mission for good, green jobs in our recent Programme for Government and the capital investments the Scottish Government have made for the net zero transition will stimulate demand for green jobs in the economy. Our skills policies including the Transition Training Fund and the Young Person's Guarantee will help people to access those good, green jobs.

Intervention Strategy

Elsewhere in this reply the proactive investments that we have made to drive growth and support the development of infrastructure both directly and through our Enterprise Agencies have been referenced. This represents the majority of investment made by the Scottish Government.

In terms of reactive intervention, the Committee will be aware of the Scottish Government's position on ensuring that businesses critical to achieving our industrial policy are supported, outlined in our Economic Action Plan 2019/20. It is important to note that these investments are unusual, limited in number and, due to the nature of these transactions, decisions have necessarily been taken on a case by case basis.

Where a business faces difficulties that cannot be addressed by a market response, and the business is critical to our economy, or is a long term strategic asset, we consider options for support. Individual cases are considered on their merits, including their contribution to the wider National Performance Framework, and support is only offered following detailed due diligence. Should financial support be offered, this must meet the tests for State aid/subsidy control and any other legal requirement and is on the same basis as a commercial investor. That includes details such as the amount of the investment, the expected return and the duration over which the lending takes place.

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The Scottish Government remains committed to financial transparency as part of our Open Government Action Plan, however this needs to be balanced against the need for commercial confidentiality in order to protect both Scottish Government and our counterparty's interests and to ensure that the Scottish Government can operate as a credible party to any future transactions.

In support of providing greater clarity, these transactions are reported to Audit Scotland and published in the Scottish Government's annual accounts, where possible, with suitable supporting narrative and Ministers keep Parliament and relevant Committees informed at an appropriate juncture.

As part of our work to continuously improve our approach in this area we have developed a set of high level principles and guidance for practitioners which draws from a number of sources including the SPFM. This has been recognised as an improvement by the Auditor General and officials will be seeking a meeting to discuss what further steps it may be possible to take in recognition of the need to learn from previous experience and to seek to continually improve our approach in this space.

Scottish Offshore Wind Energy Council

The Scottish Offshore Wind Energy Council's (SOWEC) primary function is to deliver robust and collaborative leadership to the offshore wind sector in Scotland and maximise the economic returns from Scottish offshore wind projects. This aligns with the ambitions of Scottish Ministers but also recognises the role that the sector has to play in ensuring that these ambitions are realised.

The Council's activities are centred around the following five workstreams:

- Developers
- Supply Chain and Clusters
- Innovation
- Skills
- Barriers to the Deployment of Projects and Route to Market

Each of these workstreams are led by an industry representative with extensive expertise in the subject matter, although, given the scale of the challenge that the supply chain faces, the Supply Chain and Clusters workstream is led by one representative of the supply chain with support being provided by an official from Scottish Enterprise and Highlands & Islands Enterprise respectively.

Significant funding from Crown Estate Scotland (£300,000) for 2020/21 has allowed the following suite of short, sharp pieces of work to commence:

1. Independently led Strategic Investment Assessment of the offshore wind sector in Scotland;
2. Review of the impact that Transmission Network Use of Service (TNUoS) charges have on the economic success of offshore wind projects;
3. Report on future approaches to applying Habitats Regulations Assessment (HRA) derogation provisions in Scotland;
4. Report on routes to improve the transparency of contracting strategies in offshore wind projects; and

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5. Reports on Scotland's floating offshore wind supply chain capabilities and the feasibility of repurposing oil & gas platforms for hydrogen production.
- All of these pieces of work, with the exception of the Strategic Investment Assessment – which I will come on to – and one element of the reports outlined under point 5, are expected to conclude in March 2021.

I share the Committee's disappointment that the Scottish Offshore Wind Strategic Investment Assessment has not concluded yet. However I have no doubt that Professor Sir Jim McDonald, who is leading the Assessment, will want to ensure that outcome gives clear direction to the offshore wind sector in Scotland.

The assessment is now well underway and I understand that the Executive Committee has initiated the data collection phase with a view to presenting findings in the Spring. The Scottish Offshore Wind Energy Council has committed to considering and taking forward the recommendations of this assessment and, to that end, each of its working Groups will align their respective programmes of work with the assessment's key themes and recommendations.

UK/SG Joint Working Group

As mentioned earlier the Committee will be aware that InfraStrata plc purchased the assets of BiFab on 12 February and, trading under the Harland & Wolff name, has secured the existing jobs at the Methil and Arnish sites. The Joint Working Group that we convened with UK government to explore options for the former BiFab sites has met several times since December and stands ready to engage with the new owner and better understand their intentions for the yards, including in relation to renewables supply chain opportunities.

Floating technology

As the Committee notes floating offshore wind presents an opportunity but acknowledges the challenges, if developers do not work with the local supply chain.

The economic benefit of this technology will arise from achieving early mover advantage. This means that the Scottish supply chain must be fully prepared, with the capability and capacity required to deliver floating offshore wind at commercial scale and this also requires action on the part of UK Ministers to provide a commercially attractive environment for the sector to flourish here and to capture the market lead.

The delivery of Oil and Gas UK's Roadmap 2035, which seeks to effectively decarbonise offshore production of oil and gas in the UKCS, presents an exciting opportunity for Scotland to grow floating wind capacity and develop a successful supply chain to build and service it. To ensure that Scotland maintains momentum in this area, Scottish Enterprise has commissioned the Offshore Renewable Energy Catapult to undertake a study on the *Strategic Infrastructure, Capability Assessment and Developments for Floating Offshore Wind*. This would be a significant study focusing on:

- Identify gaps and development requirements to activate Scottish ports in floating offshore wind
- Prioritised investment needs in the Scottish ports and fabrication yards to maximise CAPEX spend in Scotland
- GVA, direct, indirect and induced jobs

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- Increased ability of Scottish companies to win business in floating wind.
- First mover advantage and export opportunities, particularly in the Republic of Ireland, which has great ambitions for offshore wind, including floating wind, but limited yards and ports that can support development of these.
- Alignment of the local supply chain to the floating offshore wind potential.

The report is due to be completed in July 2021 giving a clear steer on how Scotland can capitalise on the floating opportunity.

Employment opportunities

The Climate Emergency Skills Action Plan (CESAP) was published in December 2020 and can be found on Skills Development Scotland's website here [climate-emergency-skills-action-plan-2020-2025.pdf \(skillsdevelopmentscotland.co.uk\)](https://www.skillsdevelopmentscotland.co.uk/plan-2020-2025.pdf). The CESAP is central to our ambitions to create a future workforce that can support our transition to a net zero economy. We remain committed to both supporting the Just Transition to a net zero economy and ensuring the skills within Scotland's workforce underpin and support that transition.

The Climate Emergency Skills Action Plan sets out the importance to position skills to form as part of a systematic response to changing conditions, while retaining skills and expertise in this labour market. The re-deployment, and where necessary re-training, of workers in this particular industry will be key to service replacement demand over the next decade and to meet the labour and skills needs of a growing renewables sector. The CESAP is currently in the beginning of the implementation phase in which both immediate and longer term actions will be considered and delivery processes established.

We are working with the industry to plan how to support workforces to transition to these new job opportunities, ensuring no one is left behind and particularly in relation to timelines and timing for transferability of skills. Sectoral research is already underway, through the Energy Skills Alliance and the Scottish Offshore Wind Energy Council's Skills Group.

It is also evident that many of the skills, expertise and technologies held within the industry will be crucial in the development of net zero solutions at scale. The Scottish Government's £62 million Energy Transition Fund, announced in summer 2020, will aid this process. The aim of this fund is to protect existing jobs and create new jobs across Scotland, by opening up opportunities through energy transition and harnessing private sector funding as companies move from oil and gas to low carbon and renewable investments.

I trust this information is helpful.

Kind regards
Fiona Hyslop

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