



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy, Energy and Fair Work Committee

**Tuesday 23 April 2019**

**Session 5**



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**ECONOMY, ENERGY AND FAIR WORK COMMITTEE**

**13<sup>th</sup> Meeting 2019, Session 5**

**CONVENER**

\*Gordon Lindhurst (Lothian) (Con)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

\*Jackie Baillie (Dumbarton) (Lab)  
\*Colin Beattie (Midlothian North and Musselburgh) (SNP)  
\*Angela Constance (Almond Valley) (SNP)  
\*Jamie Halcro Johnston (Highlands and Islands) (Con)  
\*Dean Lockhart (Mid Scotland and Fife) (Con)  
\*Gordon MacDonald (Edinburgh Pentlands) (SNP)  
\*Andy Wightman (Lothian) (Green)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Bill Elkington (JV Driver Group)  
Rhoda Grant (Highlands and Islands) (Lab)  
Andrew Jamieson (ORE Catapult)  
Audrey MacIver (Highlands and Islands Enterprise)  
Andy McDonald (Scottish Enterprise)  
Sean Power (DF Barnes)  
Pat Rafferty (Unite Scotland)  
Nick Sharpe (Scottish Renewables)  
Peter Welsh (GMB Scotland)

**CLERK TO THE COMMITTEE**

Alison Walker

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Economy, Energy and Fair Work Committee

Tuesday 23 April 2019

*[The Convener opened the meeting at 10:04]*

### Decision on Taking Business in Private

**The Convener (Gordon Lindhurst):** Good morning and welcome to the 13th meeting in 2019 of the Economy, Energy and Fair Work Committee. I ask everyone to turn any electronic devices to silent so that they do not interfere with the business of the meeting.

We have Rhoda Grant MSP visiting today—I welcome her to the committee.

Agenda item 1 is a decision on taking business in private. Do members agree to take items 3 and 4 in private?

**Members indicated agreement.**

**The Convener:** I may have to go to another committee meeting very briefly during the course of the meeting, in which case the deputy convener, John Mason, will take the chair.

## BiFab, the Offshore Wind Energy Sector and the Scottish Supply Chain

10:05

**The Convener:** Today, we have a round-table evidence session, which is a format that allows people to come into the discussion on points on which they have something to say. In the interests of hearing as much as possible from our guests today, I ask members to keep their questions fairly brief. If anyone wants to come in, they can indicate that by raising their hand—there is no need to press any buttons; the mikes will be switched on and off at the sound desk.

We intend to start by looking at the issues that have arisen in relation to BiFab and the opportunities surrounding it. Then we will look more generally at the Scottish supply chain and consider issues relating to contracts for difference and the Moray east wind farm. Finally, we will look at future opportunities and consider issues that arise more generally.

I will ask each of our guests to introduce themselves and say briefly who they are and what organisation they are from. I have already mentioned that Rhoda Grant MSP is here. Perhaps we could start with our guest Peter Welsh and then go round the table.

**Peter Welsh (GMB Scotland):** I am from the GMB Scotland campaigns and communications department.

**Andy Wightman (Lothian) (Green):** Sorry, convener—do you want members to introduce themselves as well?

**The Convener:** Members can introduce themselves as well.

**Andy Wightman:** I am an MSP for Lothian.

**Nick Sharpe (Scottish Renewables):** I am the director of communications at Scottish Renewables.

**Jackie Baillie (Dumbarton) (Lab):** I am the MSP for Dumbarton.

**Audrey MacIver (Highlands and Islands Enterprise):** I am the director of energy and low carbon for Highlands and Islands Enterprise.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** I am a Highlands and Islands MSP.

**Pat Rafferty (Unite Scotland):** I am the Scottish secretary of Unite.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I am the MSP for Midlothian North and Musselburgh.

**Dean Lockhart (Mid Scotland and Fife) (Con):** I am an MSP for Mid Scotland and Fife.

**Andy McDonald (Scottish Enterprise):** I am the interim director of energy and low carbon at Scottish Enterprise.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** I am the MSP for Edinburgh Pentlands.

**Angela Constance (Almond Valley) (SNP):** I am the MSP for Almond Valley.

**Bill Elkington (JV Driver Group):** I am the chairman and founder of the JV Driver Group of companies, which now owns BiFab.

**Sean Power (DF Barnes):** I am the vice president of DF Barnes, which is a JV Driver Group company on the east coast of Canada that BiFab reports to.

**John Mason (Glasgow Shettleston) (SNP):** I am the MSP for Glasgow Shettleston.

**Andrew Jamieson (ORE Catapult):** I am the chief executive of the Offshore Renewable Energy Catapult. Our primary remit is to drive innovation in the offshore renewables sector.

**The Convener:** Thank you. I am an MSP for the Lothian region and the convener of the committee.

I will start with a couple of questions about BiFab. Perhaps Bill Elkington or Sean Power could answer them in the first instance. How many people are currently employed by BiFab? How many people work there?

**Sean Power:** In the Fife region, we have a minimal force of about 30 people working for us right now. Those are mostly management people, with a couple of union people, I think. We have been doing a lot of training and preparation work with the workforce there. I am happy to say that there are about 85 people working up in Arnish—we have been able to get that plant working again. We are still working really hard on the Fife region.

**The Convener:** You say 85 people. Are they all permanent staff or are there some agency workers?

**Sean Power:** I would have to take advice on that but I am pretty sure that they are all permanent staff—yes, they are.

**The Convener:** Do you know how many people were employed there at its peak?

**Sean Power:** The maximum we ever had at Arnish before JV Driver owned it was about 150 people.

**The Convener:** Do you think that you will get back up to those numbers?

**Sean Power:** That is certainly the intention. In Arnish, as well as for BiFab in general, our intention is to take advantage of some of the renewables projects—offshore wind projects—in order to stabilise the company. We will then diversify and get back into offshore oil and gas decommissioning and so on, so that there is a stable workforce in Arnish and not one that goes through peaks and valleys.

**The Convener:** In 2017, was the company possibly looking at going into administration?

**Bill Elkington:** Yes.

**The Convener:** If you look at things in the longer term, can you say why that was?

**Bill Elkington:** In 2017, prior to its difficulties, we were looking at acquiring the company. What occurred in 2017 was really a perfect storm. There was a significant amount of change in the Beatrice contract—an up to 25 per cent increase in the weight of those jackets—and, unfortunately, the president at the time, John Robertson, passed away.

In our due diligence on the company, we determined that it was going to run out of funds—and inform Scottish Enterprise and the Scottish Government—and that it would not be able to complete the contract, and that then did happen. The company was unable to settle the change and when John Robertson passed—and with him most of BiFab's negotiating capability and relationships—the company was put into a very poor position.

After we took over BiFab, we helped the company to resolve the issues on the Beatrice project and it did eventually complete the contract, but not at the value that should have been unlocked. Unfortunately, running out of cash in 2017 put the company in a very poor position.

**The Convener:** What has been done to secure the future of the company to ensure that that sort of situation does not arise again?

**Bill Elkington:** We determined a number of issues in BiFab. First and foremost, we have instituted a training programme with staff to improve project control, so that it is more in line with the way that JV Driver does things. We have also instituted safety training—our safety programme is being implemented very successfully up in Arnish; I see a lot of improvements there.

Project control—running the costing side of the project and knowing exactly where you are on that, especially in amongst change—is the key change.

**Sean Power:** Prior to us owning BiFab, it had 25 years of success. It had a bad project with a tough client; that happens in this business. We understand what happened and we helped support the company and fix the problem. We are changing what went wrong, but it is still a solid company.

**The Convener:** Has that support involved looking at securing future work and orders for the company?

**Sean Power:** Since we purchased BiFab, we have been trying to secure more work for the two yards in Fife and—with some success—for Arnish. These days, I pretty much live in Scotland; all our resources from eastern Canada are now focused in Scotland, because we want to ensure that we bring more work to the yards. The negotiations have been much longer and less fruitful than we thought they would be. That said, there are still other contracts on the horizon. We have been working really hard to get contracts.

**The Convener:** Have you been successful?

10:15

**Bill Elkington:** Not at this time, but let me give you the lay of the land a little bit. The east Moray project was awarded to Lamprell. Its previous project had been worth US \$225 million and Lamprell had lost US \$80 million, which had resulted in a lawsuit. That was settled and Lamprell received 45 jackets from GeoSea on a non-bid basis.

In the next chunk of work that we bid for, we were the lowest bidder, but we then went into recycle mode for the engineering, procurement and construction contract and the bidders were asked to create a joint venture, which was very strange, given that we were in the middle of the process and had already bid for the work. That joint venture had risks attached to it that were not sustainable from a commercial standpoint and we indicated that we could not take part in it and take on those risks. Smulders had done a lot of work with the parent company and it accepted the risks—or rather, it negotiated over six months; we do not know what it accepted in the end.

That procurement cycle—where we bid for the work and were the low bidder but then did not get awarded the work; and instead the information was shared among the bidders and we were asked to create a joint venture—was very different from any cycle that we had seen before. The work went to a company that does a significant amount of work with the EPC in Europe; unfortunately, we did not win that work.

We lost the Kincardine work to a company called Navantia, which carries a loss of 35 per

cent of its revenue—it is a Spanish, state-owned company, which for every £100 of work that it carries out, loses £35, so it is not a commercially viable operation. Since we have come to Scotland, we have learned a lot about state aid rules and we are not sure how Navantia fits with those rules given that there are so many things that we have talked to Scottish Enterprise and the Scottish Government about that we are not able to do while remaining compliant with rules on state aid.

Therefore, right now, we are concerned about having to compete against businesses that lose money. Our bid was 10 per cent above Navantia's, which still means that our cost structure was 25 per cent below Navantia's—were it not losing 35 per cent on every contract.

**Peter Welsh:** For context, it is important to consider BiFab before the problems that it encountered in November 2017. The contract for the Beatrice project was to manufacture 26 turbine jackets, which was supporting an estimated 1,400 core workforce and agency jobs across the three yards—the majority of the jobs were agency. The level of employment that the contract supported gives the committee a glimpse of the potential levels of employment that the trade unions are looking to get back to, dependent on the success of future contracts.

It is important to see where we were and where we are now, so that we understand the challenges and learning that we need to take from recent bids in order to get back to that situation—if that is possible.

**Andy Wightman:** I am interested in following up with Unite and GMB on the commitments that they believe were made in relation to BiFab's role in offshore fabrication work on the Kincardine project, in particular. What commitments were made and who made them?

**Peter Welsh:** I do not know about any commercial understandings between the employer and the Scottish Government, based on the investment that the Scottish Government has made in the yards. However, I can refer to the section 36 consent letter for the environmental planning process for the Kincardine project, or Kincardine Offshore Windfarm Ltd—KOWL—as it was known.

Page 32 of Marine Scotland's consent letter touches on the "economic benefits" of the project. The letter says:

"economic benefits are material issues which must be taken into account as part of the determination process."

Page 33 says that the environmental statement

"makes a commitment to construction of the substructures which is expected to be undertaken within a Scottish port

facility and this is likely to include a significant level of ... support ... at a regional/UK wide level."

If that was the understanding of how it would operate in the consent letter, why did that commitment not come to pass?

**Andy Wightman:** The comments were made in a consent letter, which has nothing to do with the commercial implementation of a project; they relate to the consent for the development itself.

**Peter Welsh:** I am not privy to the commercial details, as I am sure you will understand. However, given that there was an understanding in Marine Scotland that there would be worker value from the project, and given that that value has not emerged, it is reasonable to ask why that is the case. Why do we have such commitments in the consent process if they cannot be delivered?

**Andy Wightman:** We can follow that point up with Marine Scotland.

**Pat Rafferty:** It is reasonable for the Scottish people to want to understand why such a consent letter was given. Consumers in Scotland pay a levy, through their electricity bills and other bills, for renewables to be put into Scottish waters, so it is understandable that such documentation was provided. Given that people are paying for the project, they expect some of the manufacturing to be based in Scotland. I understand, in principle, why the commitments were made, but whether they are legally enforceable is another question.

**Gordon MacDonald:** I am looking for clarification. I have been reading through our committee papers to try to understand the relationship between different organisations and companies and how contracts were awarded, and I came across a company called Cobra Wind International. In relation to the Kincardine project, how did that company fit into how contracts were awarded?

**Pat Rafferty:** Sean Power might be better placed to answer that question, but contracts for difference are awarded and then tier 1 and tier 2 companies emerge from them.

**Sean Power:** Cobra was the tier 1 contractor for the Kincardine project and would have been our client, had we been successful.

**Bill Elkington:** In the wind industry, there is the developer, the tier 1 contractor and then subcontractors or tier 2 contractors. Cobra, which is owned by the developer, won the work on the Kincardine project. The work was then tendered out, and Navantia won the award with a bid 10 per cent lower than ours. What is bothersome for me is that the Scottish taxpayer subsidises CFDs and a commitment is made that 60 per cent—or a certain amount—of work will be done in Scotland,

but there is nothing to hold companies to such commitments.

In Newfoundland, where DF Barnes does work, we have local benefits agreements, so, when a company plans to develop an offshore resource, it makes commitments to the Government in Newfoundland that it will do a certain amount of the work in Newfoundland. If that does not occur and the commitments are broken, the company is fined a value. One developer decided not to do some of its work in Newfoundland, and it cost the developer \$150 million. In most jurisdictions, developers either honour their commitments or pay some form of penalty if they do not.

The Scottish Government and the UK Government are doing a fantastic job in developing wind power and, over time, lowering the cost of wind with the 8 gigawatts of capacity that have been installed, yet they are getting no direct benefit on the infrastructure on some of the projects. That is a travesty, which needs to be addressed through regulation or Government intervention of some sort.

**Gordon MacDonald:** Just to be clear, are you saying that, as Cobra Wind International is owned by the developer, there is a lack of transparency? From Companies House, we can see that the company was set up only a number of months before the contract was awarded, and it had a share capital of £100. That is a bit surprising. Is enough due diligence taking place on the companies that bid for contracts?

**Bill Elkington:** Do you mean, is enough due diligence being done by those giving the consent?

**Gordon MacDonald:** Yes.

**Bill Elkington:** Someone from the Scottish Government should answer that.

**Sean Power:** It would be hard for us to tell, as that would have been done before we were in the picture.

**Peter Welsh:** It is important to put this into context. Cobra Wind International is either part of or closely aligned to the ACS Group in Spain. The shipbuilder Navantia is 100 per cent owned by the Spanish state and is currently sitting on £390 million-worth of debt. The five foundations for the Kincardine project that Navantia will manufacture represent 1.25 million man hours of work and 15,000 tonnes of steel. That is the extent of the work that we are competing for but are not getting.

For Scottish projects, Kincardine is more important as a symbol than for its size, in comparison with other projects such as Moray east. It is for floating offshore wind, which potentially is next-generation technology in the industry. I have seen the Crown Estate reports that say that floating offshore wind is forecast to



provide £33.6 billion of gross value added, supporting 17,000 jobs, by the middle of the century. The project was an opportunity for Scotland to get to the forefront of an emerging industry, but that work will now be done in Spain.

Coming back to the Marine Scotland consent letter, there are questions that need to be asked. What were the expectations of ministers with regard to employment? Why did the commitments and consent notice not come to pass? What do we need to learn and do to ensure that that scenario is not repeated in the future?

**Pat Rafferty:** From where we are sitting, it does not look as though due diligence has been taking place in the awarding of contracts. As Peter Welsh said, with Moray east, there is DEME and Smulders and, with Kincardine, there is Cobra and Navantia. We are strictly abiding by European legislation, yet that seems to be ignored by the Spanish and others. We have to question what is happening. It is really concerning for us. We have been told many times that Scotland is the new Saudi Arabia for renewables, but if we continue with how contracts are being awarded, we will certainly not be; instead, the infrastructure will be built in Saudi Arabia and shipped here. We need to make sure that that does not happen.

**Andrew Jamieson:** I echo some of Peter Welsh's earlier points.

Kincardine is a relatively small but nonetheless important project because it pioneers floating wind technology. We all want skills to be transferred from the oil and gas sector that Scotland has long enjoyed the benefits of, and we want to transfer more and more into our future prospects for offshore wind. Floating wind is the answer in the medium to longer term; currently, it is more expensive to do than the cheapest best option. Credit needs to be given to the people doing the Kincardine project for showing the market the way forward. There are questions to be asked about where the orders went—I am not taking that point away from anybody.

It raises the point that there are different technology types out there that all need to be looked at. Are we looking at monopile construction? Are we looking at jacket foundations? Are we looking at float and sink concrete based foundations or floating wind foundations? There are lots of different options in the market to be considered in the future, but we lack a strategic overview of where the market is headed.

10:30

What should the manufacturers invest in in the medium to long-term so that they get it right and do not end up running around in circles and doing

things twice? Other countries have already made those decisions, which is why they have scale that tends to outpace anything that has happened in the UK, not just in Scotland. They might well come unstuck because they might well find that the technology chooses to move to something else in future.

The ultimate thing for me is to truly examine how our esteemed colleagues at BiFab and others improve the level of confidence in what they need to invest in in their yards to get the scale to be able to compete with what is happening naturally overseas.

**Bill Elkington:** I agree that floating wind is a game changer for the future, but the difference between the technologies does not really matter for us doing the fabrication. We cannot compete commercially with companies that are allowed to lose 35 per cent of their revenue if the work continues to go offshore.

If you look at their tax rate, you see that they are making thousands and thousands of jobs in Spain and cutting off the income tax that they get from the workers at what it would cost them from a tax perspective. None of that is happening in Scotland. As time goes on, the Scottish industrial complex will be hollowed out and work will keep having to go offshore. We recommend that we look at the bidders on such projects, whether they have state aid, and whether they should be pre-qualified and reviewed by a regulator of some sort to see whether they abide by state aid rules. That is the only thing that will change the outcome of those offshore companies that are supported by their Governments to this extent. We will never be able to compete with those companies on any of the technologies if that is allowed to continue.

**John Mason:** That is exactly what I was going to ask. If there are allegations around state aid and unfair subsidies in other countries, whose job is it to challenge that? I know that it has happened here, and Glasgow City Council and others were challenged about state aid. Does Scottish Enterprise have a role in this? Should it raise the issue with the European Commission?

**Pat Rafferty:** That is a good question. The Scottish Government and Scottish Enterprise should have a role to play in that. It could also be challenged by companies such as BiFab or even, for that matter, by trade unions.

**Peter Welsh:** The short answer is that it is the job of all of us to challenge that.

**Bill Elkington:** In other jurisdictions, when this type of competition is in the mix, we have seen how the regulatory regime sets up either a bid depository or a qualification process, so that all bidders are on an even playing field.

We have no problem with the facilities here in Scotland. With what we have in Fife and Arnis, we can compete with anybody in the world, if the companies are not losing 35 per cent or more of their revenue on a planned basis.

**Andy McDonald:** If there is evidence of state aid breaches, it is up to us collectively to challenge them. The challenge is to find evidence. There is no question but that, as Bill Elkington said, we have openly advised the company on how to stay within state aid rules. Given the work that we have been doing with the company, its bids are state aid compliant. However, on international competition, the company and others could challenge breaches, if they wished, and if there is evidence of them. I am not in a position to say that there is, and we are not the regulatory body that puts these contracts in place.

**Jackie Baillie:** Forgive me for cutting to the chase, but the dogs in the street know that there are state aid breaches in Spain and we can point to companies in Spain that are being given an advantage that companies here do not get. I understand that it is everybody's responsibility to challenge such things, but I am quite a simple person and I cannot help but wonder why we are not doing what is done in Spain, to create that level playing field. Have Scottish Enterprise and Highlands and Islands Enterprise considered that?

**Andy McDonald:** I am sorry, but I am not quite clear what you mean. Do you mean in the context of whether we are in a position to somehow subsidise the bid, or to challenge the state aid?

**Jackie Baillie:** It is clear that other Governments are subsidising bids. Although it might be productive to challenge that, surely the quicker route is to do what other countries do, which clearly must be in keeping with state aid rules, because nobody has yet challenged them.

**Andy McDonald:** My apologies, but, to my mind, that is not the position of Scottish Enterprise. We would have to be guided by the Government, of which we are the economic development agency.

**Jackie Baillie:** You provide the Government with advice too, do you not?

**Andy McDonald:** We do.

**Jackie Baillie:** What would your advice to the Government on this issue be?

**Andy McDonald:** We are not in a position to change state aid rules or to breach them. We have explored how we can support the company within the state aid rules. The support that we have provided thus far has been within those rules, to allow the company to stay within the rules, so that it is not challenged.

**The Convener:** If other countries are doing things in a certain way that is within the state aid rules—because they are not allowed to go outwith the rules either—and those countries seem to be succeeding, why are we not doing so? Is that not being looked at, to see whether we can do it, too?

**Andy McDonald:** If that is within state aid rules, we will certainly look at how it could be done.

**The Convener:** Are you doing that?

**Andy McDonald:** We have looked at how to help the company get its costs to a point where it can be competitive. As Bill Elkington and Sean Power have said, without the Spanish company's ability, basically, to operate at a loss, the company here is competitive.

**Andy Wightman:** The clear answer is that we do not know if the state aid rules are being followed or not.

**Andy McDonald:** That is my point.

**Andy Wightman:** The prima facie case is that they are not being followed; they are being breached. It is everybody's responsibility to challenge that, but ultimately the body that has the resources to take a state aid case to the European Court of Justice is the Government—either the Scottish Government or, probably, the UK Government. Have Scottish Enterprise or Highlands and Islands Enterprise provided any advice to ministers on the likelihood of success of any challenge that they may bring?

**Andy McDonald:** I do not know the answer to that question, I am afraid. I can check with colleagues.

**Andy Wightman:** What is your view on whether state aid rules have been breached?

**Andy McDonald:** I have not seen evidence that state aid rules have been breached. Nobody has provided me personally with evidence of that and I cannot comment on others' views.

**Andy Wightman:** Is it news to you today that the Navantia bid was making a loss of 35 per cent, or did you know that before?

**Andy McDonald:** Personally, I did not know that, but I cannot speak for my colleagues and the team that worked with BiFab.

**Andy Wightman:** So, that is news to you today.

**Andy McDonald:** It is news to me personally but, as I said, I do not know about my colleagues who worked directly with the company. I have not been involved in working directly on the company stuff—that has not been my role to date. I was asked to come to the session because of the broader issue.

**Andy Wightman:** I understand that.

**Andy McDonald:** I can ask whether the information was known. The other point is to know whether the loss is as a result of a breach of state aid rules, which is part of the question, or whether it is because of the structure of the company.

**Andy Wightman:** I understand that BiFab is an account managed company.

**Andy McDonald:** Yes.

**Andy Wightman:** Given that we are providing state support to a private company, it seems reasonable that, if that company is being disadvantaged by a breach of state aid rules, a view is taken by the Government agency that is supporting the company, and that appropriate advice is given to ministers in Scotland and the UK on whether the agency believes that a state aid rule breach has taken place. If, in due course, Scottish Enterprise could correspond with the committee on its views on that matter, I would be interested to hear what it had to say.

**The Convener:** If there are further points that witnesses would like to make to the committee, but it is not possible to make them in the time that we have, I ask that they write to the committee after the session.

Before we move on to other members' questions, I invite Audrey MacIver to comment from Highlands and Islands Enterprise's point of view.

**Audrey MacIver:** We absolutely ensure that any support that is provided to any company that we engage with is provided within the confines of state aid rules because we understand that, if there is any challenge in that respect, the risk is not to Highlands and Islands Enterprise but to the company, and we would never want to put a company in that position.

On evidence gathering and the intelligence that we are getting on the contracts that are being awarded, the learning that we are receiving through the more recent contracts is not new to me today, but it is relatively new to us. We are working with the Government and Scottish Enterprise to really understand the nature of that and on how to respond collectively to support the company and the broader supply chain in offshore wind.

**Jamie Halcro Johnston:** Is there a risk that if, as has been suggested, we were simply to ignore the state aid rules, that would lead to further undercutting of prices? If there is a feeling that the state aid rules have been breached, have BiFab, the unions or the enterprise bodies sought legal advice that might give a clearer indication of that, or at least provide some kind of legal ground?

**Sean Power:** We do not want to leave the impression that BiFab has been out there by itself

without Government support or advice over past months. The Government and Scottish Enterprise have been 100 per cent supportive of us, and we have had long discussions and long meetings about the challenges. Scottish Enterprise has helped where it could. Our ask of Scottish Enterprise and the Government has never been to match the subsidy that Spain gives, which would probably be a mistake. What we ask for is some way of ensuring that when a developer makes commitments, it is regulated to stick to them.

**Bill Elkington:** Yes—developers should be regulated to stick to commitments, and companies that do not live up to state aid rules should be excluded from the bidding process. Members can look up Navantia's financials and see that, year after year, it loses 35 per cent of its revenue. Would it qualify? If we were losing 35 per cent of our revenue and the Scottish Government or the UK Government was subsidising us at 35 per cent, it would be pretty clear from the advice that we have from Scottish Enterprise and others that we would be in contravention of state aid rules. When developers are selecting tier 1 and tier 2 contractors, bidders should have to show that they abide by all state aid rules. If there was some form of regulatory bid depository, the Government would be able to see that.

I do not recommend going down the rabbit hole of trying to match subsidies. On the flip side, I would recommend controlling who is bidding. If bidders do not live up to the requirements of state aid, they should be excluded. We could then get a bunch of people back to work.

**Rhoda Grant (Highlands and Islands) (Lab):** Can we turn that on its head? Given that many contracts need Government consent or planning permission, and some contracts are let by the Government, surely we could make the regulations or the Government contract stipulate that it must be shown that the company adheres to state aid rules and that there is no dubiety whatsoever. Could we use the powers that we have? I am not saying that we should not go to court to ensure that companies abide by state aid rules, but are there things that we could put in place very quickly that say that companies that do not, or are not seen to, abide by state aid rules should not be let contracts?

**Sean Power:** We agree with that.

10:45

**The Convener:** I think that the question was whether anything can be done quickly to bring about that result.

**Bill Elkington:** One action would be for developers to commit to living up to the consent

letters, which are really local-benefits type of agreements.

Also, in May 2019, more contracts for difference will be let. I can see no reason why, in relation to those consents, you could not enforce bidders for the projects meeting all state aid rules.

**The Convener:** That would have to be followed up and checked, with enforcement through the courts, if need be.

**Bill Elkington:** Yes.

**Dean Lockhart:** What financial support have the Scottish Government and the enterprise agencies given BiFab over the past two years? What conditions were attached to that assistance?

**Bill Elkington:** It is a matter of public record that, prior to our acquiring BiFab, support was provided to the company in 2017 and April 2018 to the tune of about £25 million.

**Dean Lockhart:** Was that in the form of a loan? Was it equity-linked assistance? What shareholding does the Government have?

**Bill Elkington:** The Government's shareholding is a commercial arrangement. I do not think that I am the right person to answer that. It is also a confidential matter, and we have a competitive position to maintain.

The funding was provided to BiFab prior to our acquisition of the company. We bought a majority of the company as a going concern.

**Dean Lockhart:** What are the main conditions attached to that financial support?

**Bill Elkington:** In what respect?

**Dean Lockhart:** What are the terms of repayment? Does the Government get a seat on the board? Does it get input to the company's strategic planning?

**Sean Power:** We will not go into the details of the conditions or our financials, at this point. However, the money was provided under market conditions, as advised by third-party accountancy firms. The repayments will be based on market conditions. At this time, they are treated as debt. Other than that, we will not go into the financials, because there would be a competitive disadvantage to displaying that information to all our competitors.

I think that that answers your question. Was there something else?

**Dean Lockhart:** Does the Government have a shareholding in the company?

**Sean Power:** Yes.

**Dean Lockhart:** What is its shareholding?

**Sean Power:** That is not determined—it depends on the drawdown of money. Obviously, it would be a minority share, but the amount is not determined.

**Dean Lockhart:** Right. What influence does the Government have on management of the company? Does it have a seat on the board? What role does it play in relation to the company's plans?

**Sean Power:** The Government does not necessarily have an official position on our board, but it attends board meetings.

**Andy Wightman:** I understand that Parliament was told last year that the Government has a 28 per cent shareholding in BiFab based on its existing loan facility.

**Sean Power:** That could rise—

**Andy Wightman:** It could rise to 38 per cent.

**Sean Power:** Yes, that is right. The Government's shareholding could rise to that amount.

**Colin Beattie:** We have heard a fair bit about state aid. I want to have a wee look at competitiveness beyond that.

We have received evidence that the Scottish share of the offshore and wind fabrication market is only about 10 per cent, that the North Sea oil and gas fabrication market is at the same level and that the share of the North Sea decommissioning market is about 15 per cent. Those seem to me to be pretty pathetic figures, given the opportunities that we are being told exist in the markets.

We have heard about state aid in other countries and how it might impact on competitive advantage or disadvantage. Is state aid the only thing that is impacting on Scottish competitiveness, or are there other factors that need to be taken into account?

**Bill Elkington:** Two of the BiFab yards have the bones of being world-class facilities. Especially in Methil, some investment is required to make the yard world class. We have talked with Scottish Enterprise.

I have toured yards around the world and done a lot of work. We had a joint venture in Korea and we have worked with Chinese yards, US yards and Canadian yards, so I know that the bones of world-class facilities exist at Methil and Arnish. The Burntisland facility is not quite as close to par as the Methil one. However, Methil needs some infrastructure spend over time to allow easier access to it from a logistics perspective so that it can be the loading and offloading point for all offshore wind. Because the yard is so close to the fields, that is a logical perspective.

There are other issues. For example, the yard can get very muddy because it rains occasionally, so it needs to be concreted, and it needs cranes. We have offered to do a tour with Scottish Enterprise and others of yards that we have worked on around the world, to show how we could have a world-class facility in Methil. One of the things that attracted us to BiFab is that it is very close to having world-class facilities, but it needs a little work and a little help.

**Colin Beattie:** You talked about getting Scottish Enterprise involved. Does that mean that you hope for further funding from the Scottish Government to achieve that?

**Bill Elkington:** We do not own the Methil yard—we lease it from Scottish Enterprise. We are the tenant, so we need to work with our landlord, so to speak, on what type of improvements we can do.

**Colin Beattie:** I will take that as a yes.

That deals with BiFab, but what about the competitiveness of other yards and facilities in Scotland? As I said, I want to set aside the question of state aid, because that is a particular issue that I hope we can eventually get our hands on. What else impacts on competitiveness and future prospects? Scottish Enterprise or HIE might like to comment, because they are very much part and parcel of that.

**Nick Sharpe:** As you know, Scottish Renewables represents 260 member companies working in all parts of the renewable energy industry, of which offshore wind is just one. Ahead of today's meeting, we held extensive conversations with our members, as we do constantly, and a lot of consistent messages have come through. Some of our members are in the supply chain and some are developers. Beyond state aid, there are a number of known issues, but as far as we are concerned, those issues are fixable. It is possible for Scottish and other UK yards to be competitive in offshore wind. I will talk briefly about the issues; if you want to go into a bit more detail later, we can do that.

The first issue is historical lack of investment. Bill Elkington pointed out clearly that money has not been invested in the BiFab facilities, which has left BiFab at a competitive disadvantage compared with yards that have moved ahead, which are primarily in Europe. That is a lot to do with how offshore wind contracts are tendered for. I could go into a bit more detail about the tier 1 structure—the EPC contract structure—that Bill Elkington spoke about, but the point is really that yards in other countries have invested when we have not, and those yards have moved ahead. The fundamental difference is that they are now capable of doing process manufacturing of large

pieces of fabricated steel 24 hours a day, 365 days a year to a quality and at a cost that we are, by and large, not capable of at the moment, because of the lack of investment in UK yards in general.

Colin Beattie asked about better examples in Scotland and in the UK more widely: they do exist. From our membership, CS Wind in Campbeltown is held up as a good example of a company that has taken outside investment at a similar level to the Scottish Government's investment in BiFab and turned round the way in which it produces very large pieces of steel. It makes turbine towers. It improved its process to the extent that it doubled productivity in a year, between 2017 and 2018. That has really impressed the industry, as I have heard from conversations that I have had in the past couple of weeks. We can talk more about that. There are certainly things that can be done, and the issues are fixable.

**Peter Welsh:** There is no doubt that we need investment. The question is where it will come from and how much it will be. Other people are probably better placed to answer that and to say what is feasible. However, more than such investment, we need an industrial strategy, which there has not been, hitherto. We need a strategy for offshore wind and probably more broadly for the whole renewables sector, because there are still projects coming down the line. I have seen media reports that suggest that we are coming to the party late in the day. That is true, but the industry is not past it—far from it.

We are also told continually that the renewables sector has the jobs of the future. If Scotland is going to compete for its share of those jobs, we need the right investment conditions and the right strategy. It is incumbent on all of us to provide that. That is the challenge that we need to set out from today and take to the summit next month for Scottish Government ministers, the UK Government, the industry and the unions. An industrial strategy is needed so that we can see what the future looks like and what can be achieved. Up to this point, that has been lacking.

**Audrey MacIver:** I will be a bit parochial and talk about infrastructure investment in the Highlands and Islands. Over the past decade we have witnessed more than £170 million of investment being made in key ports, harbours and infrastructure sites. It has been a mixture of public and private investment. I highlight the £59 million investment in Nigg Energy Park Ltd, which was led by Global Energy and included just over £5 million from Highlands and Islands Enterprise. If you were to visit that site today, you could not fail to be impressed by the scale of activity there. Siemens is currently operating out of Nigg Energy Park in

the build-out of the Beatrice offshore wind project, which is near completion.

Other examples close to that include the Port of Cromarty Firth Ltd, which is currently in phase 4 expansion. That is predicated upon securing the contract for build-out of the Moray east project. There are areas where investment is being made; the benefits from that in terms of contracts being secured are starting to be realised. I appreciate that the work is in the build-out phase and is not necessarily for high-value manufacturing on a long-term sustainable basis, but it is a start.

It is about building a cluster of activity and building momentum. To look ahead in terms of an industrial strategy—picking up from the offshore wind sector deal—we are working with the industry, local authorities and the Government on the cluster approach. We are considering a north cluster that includes the locations that I mentioned and which also very much includes the broader supply chain. It is worth highlighting that in Wick we have the operations and maintenance facility for the Beatrice project. That £20 million SSE-led investment is doing wonders for the town. It is estimated that more than 100 jobs will be created there over the lifetime of the project.

We appreciate that there are real challenges in getting the high-value work and jobs that we aspire to, but we want to acknowledge that there are also successes.

11:00

**Colin Beattie:** You did not comment on competitiveness.

**Audrey MacIver:** Apologies. On competitiveness, the example that I was going to highlight was CS Wind, but Nick Sharpe covered very well the improvement in productivity that CS Wind has undergone. Despite that, the company still has challenges in competing in what is a commodity market and a global market for towers. We are working with CS Wind and others to look at tools that are at the disposal of the enterprise agencies, such as the Manufacturing Advisory Service, and to see how companies can drive efficiencies in their processes, whether they do that through increased automation or increased output.

On other areas of productivity, on not just the infrastructure side but the companies side, through HIE's account management approach, which is mirrored in Scottish Enterprise, we work intensively with companies to try to understand what improvements can be made.

Companies are already picking up orders from the offshore wind market, particularly in marine services and project management. We are

working with such companies on how to grow that share of the business.

**Angela Constance:** Mr Sharpe, you said that the issues are fixable. Will you give us your top picks of issues to be fixed and say how they will be fixed and by whom? Will they be fixed by industry, the Scottish Government or the UK Government?

**Nick Sharpe:** Thank you for the question. You are right to mention those three, and there are probably more: the supply chain has a role to play, as do unions.

The historical lack of investment, specifically at BiFab, can be fixed. It is not necessarily an issue that just requires the spending of money; it is about a mindset change.

That has really come through from our discussions with industry. Companies that have managed to compete in offshore wind, where they were not competing previously, have really moved forward. Smulders, which is a Belgian company, has a site in Wallsend, in Newcastle, which is held up as best practice. Smulders has invested not just money but time, knowledge and management practices, which has enabled that yard to do things that it would not have been able to do previously.

The investment of not just money but time and knowledge is required. Our hope is that DF Barnes will bring that wider knowledge and take BiFab beyond where it was previously.

There are also issues to do with financing and bonding, which we have not yet talked about. Contractors across all industries face those issues, but I will talk briefly about how they affect the offshore wind sector. An offshore wind project is a very, very large infrastructure project. For example, Beatrice is currently the largest private infrastructure project in the UK, at £2.6 billion. The companies that develop schemes cannot do so off balance sheet; they do not have the funds to do so. They must go out to the investment market to get the funds.

Investors are entirely focused on risk, and as part of the process of mitigating risk they want to work with people who have done similar projects, on a similar scale, in the past and who have the manpower, if you like, to deal with sometimes hundreds of contracts at once. That is why they very often ask developers to give over that risk, in effect, to a tier 1 contractor, as we have seen with Kincardine and Cobra Wind International, and with Beatrice.

What is often neglected is the finance element. If there is a role to play, it is to make the financiers more comfortable with the risk and to present to them the correct impression, which is that the lack of sight of a pipeline of offshore wind in the UK is

broadly solved now. We know that we will have to more than double the offshore wind that we have by 2030, so there is now a pipeline of predictability. The finance community needs to understand that. If we can deal with how the finance community views risk and how it views investing in Scottish projects, there is mileage to be made.

As a shareholder in BiFab and in Scotland plc, Government has a role to play. It is a job for everyone, but we will see contracts being awarded at a sizable scale only when a lot of those elements come into play together.

**The Convener:** Andy McDonald and Bill Elkington want to come in, before we move on.

**Andy McDonald:** I had an add-on to the answer that Audrey MacIver gave, concerning the rest of Scotland's ports, and I want to pick up on a question that Dean Lockhart asked about further investment, in connection with Bill Elkington's points about the site in Fife.

Scottish Enterprise is effectively the landlord of the energy technology park in Fife. Last year, we invested in hard standing infrastructure and piling works along the quayside as part of the support as DF Barnes came on to the site. We are now in discussion with the company about what additional works might need to be done on the physical site, and—this picks up on Nick Sharpe's point—what might need to be done in terms of process, things inside the company and various areas of support.

In terms of the broader industry—this is partly in response to Colin Beattie's point—for the past few years we have supported a focused support programme for companies that are looking to build a way into engagement with the offshore renewables sector and the wider offshore energy sector, particularly following the downturn in the oil and gas sector, when there was an opportunity to engage companies in that area.

We have put around 200 companies into our expert support programme, which is partly funded for a couple of days of free support, after which companies can engage further and receive four days of support beyond that. Around 57 companies have gone through that support programme this year. At the end of the programme, companies that have taken up the support have been successful; over the past six months, three companies have gone on to win around £35 million-worth of contracts.

We also work with all the developers—and have done for many years—to try to sit within the structure of their purchasing and procurement departments to understand the opportunities that may come out, and to help them to understand what the Scottish supply chain looks like.

To bring the two elements together, we have run a large number of events, many of them in partnership with colleagues in Highlands and Islands Enterprise, around the opportunities. Towards the end of last year, we held an event with Inchcape and its developers, which more than 100 companies attended and which involved 60 or 70 one-to-one meetings with the developers and our tier 1 appointee companies. The event aimed to increase understanding of where the opportunities might lie and to create a bridge to address the challenge of working out what people need to understand about how to work with each other in that space. Then there is the broader company support.

In terms of the physical infrastructure and the ports, we supported work in Dundee some time ago, and more recently the Aberdeen city deal has funded quite a bit of work in the new harbour in Aberdeen. A lot of those investments are connected to the potential for future commercial opportunities, some of which will be related to offshore renewables. In the same way as Wick and Fraserburgh have benefited from the longer-term operations and maintenance planning for the oil and gas fields that are in proximity to them, we are working with the developers in anticipation of being able to do similar exercises for the longer-term operation and maintenance of the fields that are being constructed or are due to be constructed further down the east coast of Scotland and into the Forth.

**Bill Elkington:** On Colin Beattie's question about competitiveness, our Kincardine bid was second to Navantia; it was 10 per cent higher. Navantia loses 35 per cent of its revenue a year. Its cost structure is above ours, but with the losses that it takes year after year, it is very difficult to compete with.

With regard to Nick Sharpe's comment about Smulders, the Moray east work is mostly being done in Europe, not in the Smulders yard, which only does final assembly. In fact, on that project, we were the low bidder and had a lower price until the tier 1 contractor retendered the work and asked for a joint venture.

So, yes, Scottish companies can be competitive. We need to invest more in the yards to make them more competitive, but it is difficult to compete in an area in which others from outside are recycling bids or losing money.

**Colin Beattie:** On that point, you have alleged a number of times that state aid rules are perhaps being flouted in other countries. Do you have actual, documentary proof of that? Do you have anything that could be used as evidence? I am not talking about it being used in a court of law, necessarily; I am merely talking about something that we can get our hands on.

**Bill Elkington:** I suggest that you read their financials. I do not understand state aid rules to the same extent as the experts in Government, but I would ask you to explain how a company can lose 35 per cent a year, be funded by an opposing Government and still be in compliance with state aid rules.

My final point is that the finance and bonding element that Nick Sharpe brought up is a serious issue. The developers are trying to shift their risk from the developer to the tier 1 contractor, and then the risk is shifted from the tier 1 contractor to the tier 2 contractor. That creates bonding and financial guarantees that are extremely onerous for a private commercial enterprise to take on. It is much easier for companies that are controlled by the state or which are backed by a sovereign wealth fund to accept those bonding and financial guarantee risks, because they have the entire state behind them. It is difficult for a commercial enterprise to accept such risks.

**Andrew Jamieson:** Angela Constance asked what the solution would be in terms of what needs to be done and who should pay for it.

As we have heard today, there is a lot of history behind how our industry is constructed, and we are where we are. Leaving aside the state aid issues—although they need to be explored—I suggest that we take the view that there is competition in other countries and that we ask ourselves whether we can get out there and, as a nation rather than as individual yards, whether we have the key component parts that are required to compete with other countries on a level playing field, assuming just for a second that such a thing exists. That suggests that we need to look more deeply into the scale of infrastructure that is required in terms of quayside equipment, cranes, big heavy machinery and the welding equipment that is used in the fabrication processes. We also need to think about whether we have the necessary skills—I assume that we do—and the necessary people in the workforce who can provide those skills in the long term, remembering that we are going from one-off oil and gas-style production to serial production, which involves a very different way of approaching things. There are a number of key things to take into account, and I am not sure that we have a big picture of what it will take to enable Scotland or the UK to compete with those other countries.

As part of the recently announced sector deal that Audrey Maclver mentioned, my company has proposed a programme to help support the growth of the indigenous supply chain in the United Kingdom. The industry has agreed to fund that to the tune of £100 million over 10 years—that is £10 million a year. Some of that will involve benefits in kind, so, in terms of hard cash, the funding starts

at £6 million a year, which is not a lot when you spread it across the UK. However, with that £6 million, we are looking at two or three different things.

First, for those in the supply chain, we are looking at how efficiency can be improved. As part of that, we would talk to BiFab about what we can do to provide some answers with regard to the way forward.

Secondly, we are finding ways of getting those who are not in the supply chain into the supply chain. That involves finding ways to lower the barrier to entry and considering the traditional issues that the industry has long suffered from with regard to not understanding what the next product is going to be. Those companies might have products and innovations that would help manufacturers such as BiFab move forward.

The sector deal was announced very recently. In recent weeks, we suggested to the industry council—the ultimate sponsor of the sector deal with the UK Government—that we undertake a UK capacity and capability study to look at the bigger questions that we are all talking about: what are we competing with externally to the UK and what steps would be required to enable us to be competitive? We undertake to look into that, working with industry colleagues.

11:15

My answer to Ms Constance's question is that there will be a role for the industry developers in some way. For example, can they be clearer about the pipeline of orders that they have got and expect to get in the future and whether that involves monopiles, jackets or whatever? I take into account what Bill Elkington is saying about that perhaps not making much difference, but it will make some difference. We need to understand that better. There is a role for the supply chain and what it is going to invest in; there is also a role for the public sector in providing other assistance to get there.

I see strong willingness within the industry to have as much UK and Scottish indigenous content as we can possibly muster. We cannot forget that it is a highly competitive market—the companies are all elbowing each other in the face to win contracts for difference. Historically, they have been less inclined to share information and learning. The sector deal offers an opportunity to pull more collaboration into the sector. There will still be competition, which has served us well, as shown by the prices on offer—ultimately, it is a great thing for electricity customers. We need a lot more collaboration across the industry and the public sector in order to move forward on some of the bigger questions.



**The Convener:** We will hear briefly from Pat Rafferty before going on to questions from John Mason on contracts for difference, which Mr Jamieson has just mentioned. We have limited time to cover everything.

**Pat Rafferty:** I will make a general point. It is worth reflecting a wee bit and thinking back to 16 November 2017, when we had thousands of people marching down the Royal Mile in an effort to save their jobs, communities and the yards in Fife and Arnrish. To give it credit, the Scottish Government stepped in to make sure that BiFab did not go into administration and that we still had the yards—as did JV Driver and DF Barnes.

The concern is that we ensure that we still have JV Driver and DF Barnes competing in the marketplace and that such companies do not feel that they are flogging a dead horse or that they are not going to get anywhere because they are not competing on a level playing field. Much of the purpose of what we are doing is to get an understanding of where the failings are and where lessons can be learned to create a more level playing field for the likes of DF Barnes, which has made a commitment to Scotland.

It feels like we are putting Hamilton Accies up against Barcelona. We need to get ourselves in shape so that we are fit for purpose and can compete for the contracts, rather than getting elbowed out of the marketplace altogether and losing companies such as DF Barnes.

**John Mason:** As the convener has said, contracts for difference have been mentioned, but I would like to explore that a bit more. I am not an expert on the technical terms, but our briefing tells us that the strike price for Moray east offshore wind farm is £57.50 per megawatt hour and the price for Hornsea is similar, but the price for Triton Knoll is £74.75, which is a lot higher. How much is that a factor in the equation? Does it mean that prices are being driven down unrealistically and therefore that the tier 1 and tier 2 contractors have to go for the very lowest prices they can get, no matter what?

**Nick Sharpe:** It is probably worth explaining a little bit about CFDs, how they came to be and why we are where we are. Until 2017, renewables were supported by the renewables obligation scheme, which built the onshore wind capacity in Scotland. The move to a competitive auctioning system mirrors what is happening around the world. The cost of renewables is being driven down and that is a global trend, not just a UK one.

The UK Government has chosen in effect to lock onshore wind and large-scale solar, which are the two cheapest forms of renewable energy, out of the market since 2015. Its manifesto said that it wants the consumer and the UK to have the

lowest energy prices in Europe. When I started at Scottish Renewables five years ago, we wondered whether offshore wind could ever get down to £100 per megawatt hour. As John Mason rightly said, Moray east is down to £57.50 per megawatt hour, which is truly incredible.

The price journey of offshore wind was supported by innovation to a large extent. We have seen much larger turbines, which are much more efficient and mean that we get more power from the same resources. All that has led to costs for offshore wind being very low.

**John Mason:** I want to press you on that point. There seem to be parallels with the construction industry, which we are also doing a study on. There is an argument that, because we concentrate so much on price in the construction industry, it reduces the leeway that people have for innovation and for supporting local companies and that kind of thing. Is that also an aspect of what we are talking about here?

**Nick Sharpe:** The UK Government's decision to concentrate on price for the consumer is something that the industry just has to work with. Our members must submit competitive bids to get the contract for difference. If they do not get the contract for difference, the project will not be built and there will be no supply chain benefits—there will be no project.

There are two points to make about innovation, which Andrew Jamieson can speak about in much more detail. It is the role of the offshore renewable energy catapult to push innovation into offshore energy, so I will leave that to Andrew.

The sector deal is also a really big thing for industry. I know that colleagues across the UK have worked with the UK Government for a couple of years on that. Scottish Renewables certainly stepped up, because we wanted Scotland to have the best possible representation in that sector deal. Parts of that are about driving innovation and an accord was signed by the UK Government and industry.

If costs are lower, it is obviously more challenging to find the space and the bandwidth to do innovation, but it is still happening, and it must keep happening, because the ambition is for costs to continue to fall.

**Bill Elkington:** I agree that the worldwide cost of wind, particularly offshore wind, is dropping by close to 50 per cent. However, these are \$3 billion projects. For example, Beatrice was \$2.84 billion.

The UK Government sector deal is looking for 60 per cent local content. According to the data that I have seen, Beatrice had 4 per cent Scottish content. How will we get to 60 per cent when we are at 4 per cent today? If the difference between

a fabricator like us and a fabricator like Navantia is 10 per cent, that is 0.4 per cent of the total development. I do not think that that will swing the offshore cost significantly. I am confused about the foundations and the piles that can be built in the UK and Scotland going offshore for such a small amount. The cost of the turbine is the main cost and that is where other Governments have put in substantial research. That work is being done primarily in Europe and Asia. It will therefore be very difficult to get to 60 per cent without concentrating on the foundations and the piles and so on.

**John Mason:** I will move on to local content if no one has anything specific to say about contracts for difference.

We will develop the question about local content. We understand that there is something called the Moray east supply chain plan. That seems to have certain targets and I presume that the idea was to create more local content. We have had difficulty finding out some of the detail, because it has been redacted. For example, within that, it seems to say:

"The wind turbine supply contract is expected to deliver"—

the percentage is taken out—

"local content."

It also says:

"The jacket substructures contract has the potential to deliver up to"—

the percentage is redacted again—

"local content."

It goes on to say:

"The onshore electrical works and OSPs contract is expected to deliver"—

again, the percentage is redacted—

"local content."

I am reiterating the question that was raised: how can we get up to 60 per cent local content, especially if we do not know the detail?

**Peter Welsh:** The Moray east project is worth £2.6 billion and will deliver 950MW. In 2014, consent was given for 100 turbines, which will provide power for 40 per cent of Scottish households, or 950,000 homes. The consortium that is financing it is made up of EDPR of Portugal, Diamond Green Limited of Japan, which is a subsidiary of Mitsubishi Corporation, China Three Gorges and ENGIE of France. The EPCI tier 1 contractor is DEME/GeoSea.

Lamprell will manufacture 45 jackets at a value of £160 million. Smulders will manufacture 55 jackets. The press release from Smulders stated

that the value of that contract was €250 million, and the company will manufacture the jackets in yards in France, Poland, Belgium and the north-east of England. To put that in context, I note that the Beatrice project manufactured 28 jackets and supported 1,400 jobs, so we can make a best guesstimate about the number of jobs that will be supported by the fabrication of the jackets at Lamprell and Smulders.

Earlier, we spoke about the green shoots at BiFab—the manufacture of the jacket piles at Arnish. If I am right, the contract is worth about £26.5 million and supports 82 jobs. That is 1 per cent of the project value. That is the extent of the problem when we talk about local content. If we want 60 per cent local content, let us look at what is happening in the Moray east project and ask why it is happening.

**John Mason:** That is what I wanted to ask. Are the targets that we are setting not ambitious enough? Are the targets not being broken down? Once we set targets, are they too vague? The suggestion earlier was that we are not enforcing anything in this country. Is that the problem?

**Peter Welsh:** I can tell you what I know about the competitors. You should all have the brief on Lamprell before you. Lamprell is in a joint venture with Saudi Aramco. You can see the breakdown of the investments that are going into its joint ventures with the Saudi Government. That gives a glimpse of the competitive environment in which we are trying to get a toehold. That is the scale of the challenge.

If there is a specific question that you want to ask, I might not be able to answer it, but I will try.

**John Mason:** Are other countries managing to get more local content in the plan?

**Peter Welsh:** Other countries are getting our content.

**John Mason:** I get that. That is part of the question. I am looking at it the other way round. Perhaps subsidy is an issue, so let us leave that aside for now. The suggestion was made earlier that other countries put a more specific point in the contract and then they enforce the contract, whereas we have left it too vague. Is that part of the problem?

**Peter Welsh:** Perhaps more learned people around the table might be able to answer that.

**Andrew Jamieson:** That is an important point. However, we must recognise that, for decades, other countries have run their industrial strategies very differently from this country. We are making valid points, but we are talking about an entire approach from regional and national Governments, which are doing things very differently. Culturally, I do not think that that suits

current thinking in the UK or Scotland. We just do not do it. Other countries have been doing it for decades. I cannot comment on whether that leads to state aid or anything else. It is just a very different way of running manufacturing sectors, which we have seen change rapidly since the 1970s. That is what we are up against.

**John Mason:** Are you saying that, in other countries, the Government sees itself as partly responsible for the manufacturing sector, but in the UK the approach has been hands off and has been about letting manufacturers get on with it themselves?

**Andrew Jamieson:** I am not blaming the current UK Government, but my experience since going into industry in the 1980s has been that everything has been down to markets. We can compare that with the position on the European continent, where people have been more content to make strategic investments in whichever sectors they have wished to support. All I am saying is that that is the scale of what we are up against. It is not something that we could suddenly fix for just one part of the electricity industry. It is a very different construct.

11:30

**Sean Power:** However, in another sector, Scotland has led the way. In eastern Canada, we have a small offshore oil and gas industry. We have admired for years how Scotland has developed its oil and gas industry and become a world leader to a point where it is now exporting its technology and creativity around the world. I do not think that Scotland needs to look any further than the success that it has had in offshore oil and gas to see examples of how things have worked well.

**Andrew Jamieson:** Indeed.

**Bill Elkington:** Further to that, I note that the regulatory regime in Newfoundland copied the Scottish regulatory regime, but we added local benefits agreements that the developers would have to live up to.

I want to make another point. In the first round, we were the lowest bidder for the Moray east project. That bid was then recycled until we were no longer the lowest bidder. In other jurisdictions, there is a bid depository whereby the bids are submitted to an agency and then shared confidentially with the developer; we know where we sit and bids do not get recycled.

The people who work for us at Arnish are very good. The people who work in Fife have the capability, and our role with our union counterparts is to make them as competitive as possible. We have been expending time and energy in sharing

what we have done in North America. We now have a facility in North America where we are doing work on a sixth-generation rig that has never been done in Canada before. We can work with our unions to make such things viable. However, we need to have a better regime so that there is more fairness and the local benefits can be achieved.

**John Mason:** You said that in Canada there is an insistence on local content and there can be penalties if that does not happen. Where should that be introduced in the chain? Is it at the CFD level?

**Bill Elkington:** Yes. The consent letter needs to be binding. The contract or commercial agreement needs to be binding such that those commitments are lived up to and, if they are not, there are financial penalties for the developer.

**Andrew Jamieson:** UK ministers have made it very clear to the industry council as part of the sector deal that if local content—or indigenous content across the UK, because it is not always local—does not match what the industry has said is its ambition, there will be consequences for how they support the industry. The CFD routing has been a strong mechanism for showing that there are going to be future rounds of contracts, so we should all be taking heart that there is going to be a pipeline of projects coming through, but UK ministers have made it very clear to the industry that, if they do not see the growth in local content, that will get switched off.

**Andy Wightman:** Just to be clear on that point, there are, as I see it, three main routes by which Government can seek to implement the local content agreements that you are talking about. The first is the landlord lease—the landlord is the Crown Estate, which is leasing the sea bed. The second is the planning consent that was mentioned earlier by Marine Scotland—it can be done under the electricity consents regime. The third would be the contract for difference. Are you clear that the contracts for difference bit of the agreement would be the best place to do that, as opposed to the other two routes?

**Bill Elkington:** I am not clear on that, but I am sure that there are people in the UK and Scottish Governments who can figure out which one has the most teeth and does not create any state aid issues. However, we see that other countries that have trade agreements with multiple countries fit those types of arrangements in with them.

**Andy Wightman:** And those countries possibly join those things up.

**Bill Elkington:** Yes.

**Audrey MacIver:** I highlight that Crown Estate Scotland, which has been consulting on its next

ScotWind leasing round, has indeed been taking a view on socioeconomic impact as a factor in lease awards.

**Andy Wightman:** The Crown Estate may be considering that as a factor; similarly, the UK Government is saying that it might change its policy, as Andrew Jamieson said. The question is whether it is proposing to put anything binding in contracts.

**Audrey MacIver:** I do not know.

**Andy Wightman:** It is one thing to weight a competitive agreement in deciding whether someone should be awarded a contract; it is quite a separate matter to make sure that once a contract is awarded, the criteria that went into securing that award are adhered to. If the Crown Estate takes into account socioeconomic benefit and therefore a company gets a lease because it says that it will create X socioeconomic benefit, there has to be a means of making sure that the promises and commitments that were made—the basis on which that lease was awarded—can be implemented, and there have to be sanctions if they are breached. That is the point that I am making. That is surely fair.

**Audrey MacIver:** Yes, absolutely. I guess that it is about how binding those statements are.

In the journey of a project from lease award to consent to securing a CFD, it is probably at the point of the CFD when there is a slightly greater degree of certainty that a project will proceed with the current project partners. For the projects that we are aware of, from the time of awarding the lease to progressing with the projects, the make-up of the developers changes quite considerably. Perhaps more enforcement would be applicable towards the tail end of the process, when there is more certainty about the nature of the contracting.

**Jackie Baillie:** I want to stick with contracts for difference and, in particular, the submission of supply chain plans. It looks to me from reading our briefing that those are submitted very much at the pre-registration stage and I am wondering what work is done with them. What scrutiny is done at pre-signing allocation and at the start date of project delivery? Are any conditions applied, or is it just at that very early stage that a supply chain plan is put in place?

Does anybody know the answer? Andrew Jamieson?

**Andrew Jamieson:** This is absolutely not my forte at all—I am afraid that I cannot give advice on it with any authority.

**Jackie Baillie:** Given what John Mason said about the lack of detail in the one example that we have—most of it is redacted—it could be a high-level, general document that comes right at the

beginning of the process and then no further attention is paid to it. Do the people from Scottish Enterprise or HIE know?

**Audrey MacIver:** Particularly with respect to Moray east, going back to 2009, HIE engaged with the developer to try to shape that supply chain plan. Similarly, colleagues in SE were working with the other developers and Scottish Water. The aim was to ensure that they were very much aware of the Scottish capability and to encourage a broader look at the supply chain as opposed to just using the established or preferred suppliers. That is about helping to shape the plan. What we have not been able to do is to enforce how it is rolled out. However, clearly, that is where market forces come into play. It is about what commercial decisions have had to be made.

**Jackie Baillie:** I do not want to mischaracterise the position. Is it correct to say that you have helped to shape how that would look, but the companies have gone on and done something completely different?

**Audrey MacIver:** They have had to follow normal contracting procedures.

**Jackie Baillie:** Okay. Andrew, you specifically said that the Government takes a very dim view of this. I forget your exact phraseology, but I think you said that the Government would crack down on it. Has it done so at all yet, in any project?

**Andrew Jamieson:** Again, this is not my forte, so I am not aware of what might or might not have happened privately between individual companies and the Government.

There are a few things here. As I said, I am not an authority on the position of the local content plans that need to go into the bidding process in order for a company to win a contract for difference, but there are a few other things to take into account. Not that long ago—five or seven years ago—offshore wind prices were out of the market altogether, so there was a huge question mark about whether the sector was worth supporting. The industry has been working extremely hard to prove that it can get costs down to levels that are competitive with those of other technologies as we seek to green our economy and the generation supply in the UK. We should not ignore the fact that that is a success for the UK.

We have mentioned the sector deal, and it is worth while to keep on mentioning that because it is the new line in the sand. Now that we have got into a competitive position, there are still a few things to deliver. We need to deliver at very low prices, and how we can get to those is ultimately a challenge for the supply chain.

From what I can see—I am giving you circumstantial evidence rather than evidence from a specific project—there is a far stronger willingness across the development community to recognise that its role in taking the industry forward is much greater than what it had to do in the highly competitive stages. At that point, a project was designed, usually in a darkened room and in an emergency, and those involved said, “Hands up—who wants to build this project with me?” After that, the project went out to tender and the cheapest bid won. The first port of call would be the UK supply chain. If it did not have the capacity or the capability, the person would say, “Well, I tried”, and that was the end of the engagement. That is beginning to change. People are recognising that, for the longevity of the sector and to hit low prices again and again, we have got to look at things differently.

I am not saying that we are ready right now or that we have fixed everything that happened in the past. I am saying that, as we look to the future, we need to do things differently and more robustly to support the supply chain in the UK.

**Jackie Baillie:** I am clear about that, but the question is how we get there. We are clearly not there at present despite the UK having had a wind industrial strategy in place since 2013. I am curious to know from you and the trade unions whether, in calling for an industrial strategy, you are talking about a revamp of the UK one. It says,

“BiFab is a leader in jacket foundation supply”,

and it mentions roles for Scottish Enterprise and Highlands and Islands Enterprise and supply chain plans. All of that reads very well. Are you talking about a Scottish industrial strategy that would feed into that? Clarity on that point would be helpful.

**Andrew Jamieson:** It is both. On lessons learned, I was going to mention how quickly the UK Government's support for onshore wind eroded because it was not seeing the jobs that meant that it could, at a political level, say, “This justifies why we want to grow this industry.” The offshore wind market is heeding that very strongly and doing its best to put actions in place, but I think that it will take some time for the full effect to come through.

**Sean Power:** A lot has been said about competitiveness. If there is any impression that we moved in here and bought BiFab with the expectation that, whether we were competitive or not, we would win contracts, I want to dispel that. We have a responsibility to be competitive. That is what we do around the world: we win contracts because we are competitive and successful. What we are suggesting here is that the playing level is not level. If there is a level playing field, it is up to us to be competitive.

As Nick Sharpe pointed out, a number of things are happening at BiFab. We understand serial manufacturing. We do it in other places in the world. We have experts in project management and lean manufacturing at BiFab right now, and they are leading the training. We understand that we need to be competitive. We just need a level playing field. That is our point.

11:45

**Bill Elkington:** Let me say more about the local benefits side. We work in various countries all over the world, and one of our companies is a technology company that provides technology to large infrastructure projects, most specifically in oil and gas. We work in Nigeria, and we have to have a local partner because local benefits agreements are in place. In the middle east, where we are competing against Lamprell, we need to have a local partner to work on projects in the United Arab Emirates and Saudi Arabia in order to be able to deliver world-beating technology to those countries. In the UK, there is no framework around local benefits for a resource that is really for the benefit of the people here.

**The Deputy Convener (John Mason):** As you can see, I am now in the chair, temporarily at least. We do not have a huge amount of time left, so I ask people to keep their questions and answers succinct.

**Nick Sharpe:** On Bill Elkington's point about the 4 per cent Scottish content for the Beatrice project, I will ask SSE to clarify the issue for the committee because, as far as I understand it, that is simply not true.

Jackie Baillie asked about engagement with the supply chain in general. While researching for this meeting, we found that there is a lot of support and good feeling for BiFab specifically and for Scottish content generally in the industry in Scotland. Companies have gone above and beyond to put work BiFab's way, and in some cases have invested in the company. In 2010, SSE invested £11 million for a 15 per cent stake. Cost is not the only thing at play here—it is not the be-all and end-all. I take DF Barnes's point that it is competitive. There are other things at play here. Let us not underestimate the damage that was done by the events of 2017 or the dint in industry confidence that was created. There is a job of work to do to rebuild that confidence, and the industry is watching closely what is happening in Methil, Burntisland and Arnish, because it wants to invest in BiFab and in Scotland. It is saying, “Just give us the evidence.”

**Jackie Baillie:** I am conscious that no one really answered my question. Is anybody round the table aware of any company that has either

had its contract terminated or been fined because it has not fulfilled its supply chain plans? Nick Sharpe represents most of the companies.

**Nick Sharpe:** Like Andrew Jamieson, I am not an expert on that part of the contracting.

**Jackie Baillie:** Nobody is.

**The Deputy Convener:** If anyone wants to reflect on the question or discuss it with colleagues, you could come back to the committee in writing. That applies on any matter that has come up today. By all means send us further information.

**Gordon MacDonald:** I have two questions—I will make them quick, bearing in mind the time constraint. We have heard a lot about the potential for state subsidy in other countries and the lack of local content. What role do European Union regulations play in contracting for developments? Are any changes required to provide a more level playing field? Is everything perfect?

**Nick Sharpe:** My understanding is that the key EU regulations that have led to the development of our industry in the UK are those on the climate change targets. They have driven the direction of travel. We want to tackle climate change and in Scotland we have an incredible renewable energy resource—we are the windiest country in Europe. Our industry is using that resource to bring economic benefit to Scotland. Beyond that, state aid, for instance, is a matter for Government.

**The Deputy Convener:** Do you want to try another question, Gordon?

**Gordon MacDonald:** Perhaps my second one will get a better response. The UK Government strategy appears to be to let the market decide. Can the UK Government regulate and dictate the proportion of work that is carried out in the UK? If so, why has it not chosen to do so?

**Peter Welsh:** My response to that would be, “Why not?” We have talked about contracts for difference and gone into the wider debate about renewables subsidies, but a point that has not been made is that we are paying for all of this. Where is our share? We come back to that question. We are told that these are the jobs of the future, but not enough of them are coming to Scotland or, I dare say, to the rest of the UK.

**Andrew Jamieson:** I politely remind the committee that the industry has succeeded massively in reducing costs and becoming competitive, which is a great thing from a customer perspective. From an industry growth perspective, there is no question but that the industry is looking much harder at how we can grow indigenous UK content in ways that we simply have not done previously. I can only reiterate to you what I have heard directly from

ministers speaking to us at the industry council, which is that they expect us to succeed on that front. The mechanisms that the UK Government is thinking about still need to be explored.

**Bill Elkington:** My comment is similar to Peter Welsh’s. The people of the UK and Scotland subsidise these projects. In most other places in the world where we work, where the resource is owned by the country and when there is major capital expenditure to utilise and harvest that resource, there is typically some form of local benefits agreement. Therefore, I, too, would say, “Why not?”

**Pat Rafferty:** I want to pick up on Nick Sharpe’s point about the damage that was done to BiFab in 2017. BiFab is now under completely new management—the old management is not there, and it is clearly now managed by DF Barnes and JV Driver. Is the message not getting through to the sector that there has been a fundamental change?

**The Deputy Convener:** I think that that was a question more than an answer.

**Pat Rafferty:** It was, kind of.

**The Deputy Convener:** I am happy to take a comment on that. Do you want to say something, Mr Sharpe?

**Nick Sharpe:** I just want to reiterate what the renewable energy industry is doing. The average fossil fuel power station in the UK today is more than 30 years old, so we have to replace that ageing generation infrastructure. Doing that with renewable energy is the only way that makes sense if we are to meet our climate change commitments. In 2017, the turnover from our industry in Scotland was £5.5 billion, and the industry employs 17,700 people. The benefits are not just economic; they are environmental, and we all benefit from that. It is worth making the point that there is a lot more at play than just economic benefits; there are environmental benefits and wider social benefits as well.

**Dean Lockhart:** I want to come back to the wider question of how we can realise the potential in the renewables sector generally and what lessons we can learn from recent history. BiFab is just one example of a challenge that the sector has experienced. A couple of years ago, we saw the failure of Aquamarine Power and Pelamis Wave Power, at significant cost to the taxpayer. What lessons can we take from the previous problems? What are the enterprise agencies doing differently and what is your strategic approach to avoid the mistakes that have been made in the past? The question is also directed to Nick Sharpe.

**Nick Sharpe:** GMB rightly made the point that, on offshore wind, we are late to the party but we are by no means too late. It is important to bear that in mind. As we have heard, the sector deal sets out a path to double offshore wind capacity by 2030 and to more than triple the number of jobs in the industry. Contrary to what we heard earlier, the majority of the value in an offshore wind project is actually in the operations and maintenance of the project. Running a large wind turbine out at sea is intensive in terms of man hours and equipment. Maintaining and operating wind turbines is a far greater chunk of the value of a project than actually building the wind turbines, and Scotland and the UK are already doing well at capturing those benefits. In fact, the UK content of offshore wind is up above 45 per cent at the moment.

However, if we are to reach the 60 per cent target in the sector deal, we really need to make inroads in manufacturing. We will not reach that target unless we innovate and grow our manufacturing base. In offshore wind, the target is there and it is for Government and industry, who signed the deal, to deliver that. We are confident that we can do so.

On renewables more widely, Scotland has done very well on decarbonising its electricity supply. We have two nukes running, and Peterhead is on and off. By and large, that is it, apart from renewable energy. At the moment, we are running at above a 70 per cent share of energy consumption in Scotland.

What we have not tackled to date is heat, which accounts for 55 per cent of the energy that we use, and transport, which is probably another fifth. Heat is a far more domestically focused area. As has been demonstrated today, the breadth and global reach of the offshore wind sector are significant, but we are just beginning to address the heat challenge. The Scottish Government has a target that 50 per cent of all our energy—for electricity, heat and transport—will come from renewables by 2030. That target is in place and the industry is ready to deliver it, so let us do so.

**Bill Elkington:** On the point about the failure of companies, I point out that Harland and Wolff also failed in Ireland. The UK overall is seeing one fabricator after another fail. The reason for that goes back to the fact that they are competing against companies that can lose money on every bid, and we will continue to see that. If we do not put people back to work in Fife soon, we will start to lose the capability there to build on that in the future, in which case the only opportunity will be to go offshore.

**Dean Lockhart:** I want to ask the enterprise agencies about the lessons that we can learn from past failures. What new approach are you taking to avoid repeating the mistakes of the past?

**Audrey MacIver:** I reiterate that renewable energy remains a priority for Highlands and Islands Enterprise, not least because of its employment potential, but also because of the reach of its benefits throughout our remote and rural areas, including our islands. As well as trying to maximise the economic benefits from large-scale generation, we have a strong focus on test and demonstration.

The failures of Pelamis and Aquamarine were mentioned. In response to such failures, our subsidiary Wave Energy Scotland has tried to learn lessons from how we supported wave technology. A different approach was established at the end of 2014. A few years on, we are really making progress on convergence and potentially viable technology, which is a focus.

We are also very aware of the move towards more decentralised energy provision and the matching of supply and demand. We are working hard with technology providers, integrators and our communities on how they play into that space.

There is now a greater understanding of the maturity of the offshore wind sector. Over the past decade or more, as an agency that works with industry, Government and intermediaries, we have learned a lot about what we are trying to achieve and how we have perhaps not got to where we want to be. There was a reference earlier to our success in the oil and gas sector. Looking at the maturity of that sector, it is arguably relatively recently that it has recognised the importance of its supply chain. The operators, who are akin to the developers in the offshore wind sector, recognise the importance of their supply chain in risk mitigation. We want to encourage that and work with developers and tier 1 companies on developing the UK supply chain in order to mitigate risks as they develop the offshore wind sector.

Our developer engagement is already really strong, and we will continue to work hard with developers. We are now in a position to ask much more intelligent questions. We must be totally honest about how things might play out on contracting, and we must also work with tier 1 and tier 2 companies more constructively.

As we move forward, the step change for Highlands and Islands Enterprise on offshore wind will be about having a cluster development approach. We believe that there is an appetite for that and a will to be more collaborative in the sector. We are witnessing that with the players who are round the table. Indeed, a meeting of a cluster co-ordination group is taking place today. We hope that that approach will develop better projects and products, improve overall productivity and grow the members of that group and the supply chain with which we will engage.

12:00

**The Convener (Gordon Lindhurst):** I think that Andy McDonald wants to comment.

**Andy McDonald:** I am conscious of the time so, to a large extent, I will just say “ditto” to what has been said. We are in lockstep on support for and learning about the wider industry.

The other element is that there is an important role for us as economic development agencies. This mirrors and echoes some of Andrew Jamieson’s comments about the sector deal, which we have fed into and helped to inform. We are taking lessons from the oil and gas sector on the emergence of new technologies and the importance of using them to support the industry base through collaborative research. We support the energy technology partnership, organisations such as the oil and gas technology centre and the power networks demonstration centre, and all the bodies—such as the national manufacturing centre for Scotland that is to be established—that are about engaging companies in achieving research and collaboration that can be commercialised. Our function is then to help to get that into commercial play.

Martin Whitmarsh’s report, which helped to inform the work on the sector deal, indicated that, in the space for the UK and for Scotland, one of our big opportunities is in new and innovative technologies. We have a lot of offshore expertise in the oil and gas sector and we are working hard to transfer as much of that as possible to the offshore renewables sector where that is appropriate.

**Jamie Halcro Johnston:** I have a brief follow-up question. It is more of a statement, really. We have talked about the confusion over state aid. In some areas in the Highlands and Islands, there is a feeling that we missed out on the opportunities of onshore wind. We now have the huge potential for offshore wind coming up. Will we ever be able to have a competitive supply chain if we do not resolve the issue of potential state aid? Is there now a role for industry or the Government to achieve agreement on identifying whether there is a level playing field and what might be done to compete there?

**The Convener:** Perhaps Peter Welsh would like to respond to that statement.

**Peter Welsh:** What I have to say will add to it. Ahead of today, we have said that this should be a starting point for what we do in the future. Something tangible has to come out of the summit next month. In order to focus people’s minds on the issue, as part of a broader industrial strategy, which we have discussed and agreed on, we need to understand what investment we need, how we

can support infrastructure and how we can look at the rules on procurement and planning.

However, the situation now is that the yards in Fife are empty. They are being maintained by a skeleton staff. Our priority is to ensure that we can compete for the high-value manufacturing posts that are currently going abroad. The work is being done in the Persian Gulf and northern Europe, and not in Scotland. The Government and the Parliament need to drive pace and purpose in the sector by working with unions and industry to ensure that we create the conditions that will allow us to compete and get jobs and value back into those yards and prosperity back into those communities.

**The Convener:** As there are no further questions from members, we will conclude this evidence session. I thank everyone who has given evidence today.

12:03

*Meeting continued in private until 12:43.*



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