



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 24 November 2020

Session 5



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ECONOMY, ENERGY AND FAIR WORK COMMITTEE

36th Meeting 2020, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

COMMITTEE MEMBERS

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

*Maurice Golden (West Scotland) (Con)

*Rhoda Grant (Highlands and Islands) (Lab)

Alison Harris (Central Scotland) (Con)

*Richard Lyle (Uddingston and Bellshill) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Matthieu Hue (EDF Renewables UK)

Allan MacAskill (Kincardine Offshore Windfarm Limited)

John Mason (Glasgow Shettleston) (SNP) (Committee Substitute)

Jane Morrison-Ross (ScotlandIS)

Nick Sharpe (Scottish Renewables)

Graham Simpson (Central Scotland) (Con) (Committee Substitute)

Jim Smith (SSE Renewables)

Pamela Stevenson (Fife Council)

David Waite (University of Glasgow)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 24 November 2020

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning and welcome to the Economy, Energy and Fair Work Committee's 36th meeting in 2020. Apologies have been received from Alison Harris and Willie Coffey; John Mason attends as Willie Coffey's substitute and Graham Simpson attends on Alison Harris's behalf. I welcome back Gordon MacDonald, who returns to us.

Under agenda item 1, does the committee agree to take items 4 and 5 in private?

Members *indicated agreement.*

Covid-19 (Impact on Businesses, Workers and the Economy)

09:00

The Convener: Item 2 is on our inquiry into the impact of Covid-19 on businesses, workers and the economy. The committee published its interim report for the inquiry on 13 November. We are now focusing on different geographies and areas, and today we will look at urban areas. We have up to one hour for the evidence session.

Our witnesses join us remotely and I welcome Jane Morrison-Ross, the chief executive of ScotlandIS; Pamela Stevenson, service manager for economic development, business and employability at Fife Council and vice chair of the Scottish Local Authorities Economic Development Group; and David Waite, research fellow in Policy Scotland and urban studies, from the school of social and political sciences at the University of Glasgow.

I say for our witnesses' benefit that some committee members are in the committee room with me and some join us remotely, like the witnesses. When committee members ask questions, it will help if the witnesses indicate that they wish to respond by raising their hands or typing R in the chat box on their screen. We will not have time to hear from all the witnesses about everything, but they are welcome to write to us after the meeting with further comments.

We turn to questions. What impact has Covid-19 had on Scotland's cities, town centres and office areas—places where people normally work but have not been doing so because they are working from home? Have sufficient actions been taken to deal with the issues that have arisen from Covid for town centres and city centres?

David Waite (University of Glasgow): Thank you for inviting me today. Fundamentally, city economies rely on social interaction. Cities are based on the idea that physical proximity provides benefits in economic production and consumption. When that world is turned upside down—as in the period that we are living through—that is problematic for cities.

There are questions that many urban economists such as me are posing. We are confronted with a number of short-term dislocations, such as people not returning to offices or doing so only slightly—they are being discouraged from returning at the moment. That has implications for businesses that rely on passing trade from such activity. In the short term, the effects on how city centres work are profound.

In the long term, we are confronted with the problem of whether the behaviours will set in for longer. To put it simply, in a bad-case scenario, if it is a long time before we get out of the realm of social distancing, firms and workers might decide to avoid contact for a longer time, which would have long-term scarring effects on urban economies.

Those are the big issues that economists are concerned about for big cities such as Edinburgh, Aberdeen and Glasgow.

The Convener: Graham Simpson wants to come in on some of those points before our other witnesses add their comments.

The sound desk operator will operate the mics in the room. I ask our remote witnesses to leave a few seconds before they start speaking to give broadcasting the opportunity to connect them to the room.

Graham Simpson (Central Scotland) (Con): What do the witnesses think about the medium to long-term effects on town and city centres? I used to work for a newspaper in Glasgow city centre and my former colleagues are now pretty much all working from home—that expensive office is now almost deserted.

Once we are through the pandemic, companies will have decisions to make. Some companies will decide that home working can carry on to some degree and that they do not need to spend a lot of money on expensive city centre offices because their staff can work from pretty much anywhere in the world. Will there be a medium to long-term effect on offices in town and city centres, and if so, what is the solution?

The Convener: Pamela Stevenson wants to come in and Jane Morrison-Ross was nodding her head during that question.

Pamela Stevenson (Fife Council): To continue what David Waite was saying, we know what the current impact is and that, as a short-term measure, people want to work from home and are trying to stay away from crowded places. What are some of the solutions from an economic perspective? In relation to reform and recovery, we are asking what the new role of our town centres is beyond retail and hospitality. How do we diversify the uses of buildings? How do we use more buildings for enterprise touch down and as flexible spaces? Can we develop new housing in town centres? How do we start to work with national agencies on place-based remodelling of our town centres? How can we reduce our streets and expand the green space and town squares?

There is lots of information to come out of all that and there are opportunities ahead. Our town centres are in a bad position just now, particularly

the commercial aspects of the cities, so we need to work together to consider the opportunities for revitalising and remodelling our cities and town centres.

Jane Morrison-Ross (ScotlandIS): I agree with what has been said so far. We are seeing a pattern across our industry of companies re-evaluating the way in which they work and looking to move towards more flexible models that have benefits. The knock-on effect is that many companies are considering downsizing their office premises in city centres. The overwhelming feeling is that companies still want a physical hub, but we will see a change in the size of hubs that companies retain as they move towards more flexible approaches.

Graham Simpson: I am not sure that we got any kind of vision there of what the witnesses think is going to happen. Clearly, if companies decide to downsize, that may have a major effect, certainly in city centres and some town centres. There will be fewer people working in those places, which will affect the economy—that is happening already. In the medium to long term, those buildings have to be used for something. How will we get people into town and city centres and keep the economy going in those areas?

David Waite: Mr Simpson's point is important and the prior remark was germane as well. It is difficult to be predictive at the moment. A lot of companies are trying to assess to what extent they will have to change their behaviours. Office for National Statistics data shows that before the crisis, home working was a small, niche practice in terms of the UK's workforce. It is remarkable and perhaps a sign of resilience in the UK and Scottish economies that people have shifted to home working to the extent that they have in the past months.

From what I can tell, a lot of firms are giving mixed messages about what will happen to their commercial property holdings and so on, and what they will do with them. In the short term, pre-vaccine, the idea of blended working is coming in, whereby people might be in the office two days a week and work from home three days a week. Obviously, that would mean some presence in city centres, but they would still not be the vibrant city centres that we were used to prior to Covid. We will almost have to hold fire to a degree and try to make city centres as liveable as we can and, as was remarked previously, make green spaces from them and make them attractive destinations for people to interact in.

Understanding how firms will interact is challenging. We must remember that we have a sort of getting-by economy at the moment, whereby people are doing things out of necessity to keep things going. That does not necessarily

mean that firms see that as optimal or the best way of running their organisations. We know that there are benefits from face-to-face interactions in terms of innovation, for example. Such interactions will still be important for many firms and reflect the value of workers being close together. Many firms will still treasure that and see it as important in the long term.

The Convener: Gordon MacDonald wants to follow up on one or two points that have been made before going on to other matters.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Before I ask my questions, I want to continue the discussion about the impact of Covid on city and town centres. KPMG's Retail Think Tank report, published in the past month, said:

"The direction of change that the UK retail sector is heading in has not diverged due to COVID-19, but it has accelerated the need for fundamental structural changes and innovation in the ways retailers operate and reach their customers."

What are the witnesses' views on that?

Secondly, with companies re-evaluating whether they require the same level of footprint in the city centre, what opportunities does that give other independent retailers and what is the possibility that populations that have been driven out of city centres over decades will be able to repopulate them if office space is converted back into homes? Pamela Stevenson touched on that earlier; do you want to start, Pamela?

The Convener: Pamela, can you hear us?

Pamela Stevenson: Yes, but I notice that David Waite wants to respond.

The Convener: Committee members will sometimes directly address a witness on a point that they have raised earlier, so the witness does not need to go through the convener to answer it. Gordon MacDonald mentioned that you previously touched on one of the points that he raised. However, if you prefer David Waite to come in just now, we can come back to you later.

David Waite: The shocks to retail have been pronounced, for city centre retailers in particular. We know from the chief economist at the Bank of England that online channels for retail have increased significantly through the Covid shock, and it is expected that that increase will be sustained to some degree.

09:15

The question is what kind of retail we will have in city centres. It may not look as it did before, which is a big challenge. Again, I cannot predict too much what it will be like; a lot depends on the course of the pandemic and how it affects people's

willingness to travel to city centres. Retail volumes in city centres are fundamentally shaped by the proximity of office workers, university students and so on, who all provide essential demand for those shops. The ability to get those people back into city centres will be fundamental. The question might be not whether there is retail in city and town centres, but what kind of retail we might see there.

Jane Morrison-Ross: I concur completely with what has been said. In retail, we are seeing a huge boost in online trading and e-commerce, which grew by 168 per cent in the United Kingdom in the initial stages of lockdown. There is still a huge amount of opportunity to grow that area, as Scotland's market share as part of the UK is woefully behind where it should be.

Given the percentage of microbusinesses and small and medium-sized enterprises in multiple sectors in Scotland, I welcome the latest steps that are being put in place to look at how we can digitally enable small artisan producers and microbusinesses in multiple sectors. That will be key to recovery and economic growth, not as an alternative to physical premises but as an additional channel for those smaller businesses to make use of.

Pamela Stevenson: I will follow up on what David Waite and Jane Morrison-Ross said. Since Covid, we have seen small artisan businesses coming together to set up digital platforms for trading online. Through our local economic agencies and Business Gateway networks, we have been supporting businesses throughout the pandemic to adapt and repurpose their retail and hospitality capabilities so that they can continue to trade.

We are starting to see businesses working through platforms such as Shopappy and others, and they are working together to look at supply chains, procurement and distribution. We do not have answers on what retail will look like moving forward. I know that the physical presence may not necessarily be there, but there could be some sort of supply-and-demand local distribution capabilities that could lead into hubs across Scotland and link in with some of our trade development work. We have seen some fantastic examples of retail businesses converting and adapting to digital capabilities in order to trade online.

Gordon MacDonald: We have already touched on the fact that there has been quite a movement to digital—Jane Morrison-Ross mentioned a 168 per cent increase in sales in that area. How is that reflected in employment in the sector? Have more jobs been created or sustained? What is the situation?

Jane Morrison-Ross: We are not seeing a drop overall in the demand for skills in the sector. At the latest survey, the majority of companies in the industry—around 70 per cent—were still optimistic and were still predicting additional head-count growth.

We are seeing additional demand across other traditional industry sectors as businesses look for additional digital skills to help them make the pivot that Pamela Stevenson talked about. That covers everything, from demand for first-class computer science graduates from some of the more traditional technology industries through to digital skills for the web and e-commerce and customer relationship management skills—the fundamental building blocks that funds such as digital boost are currently trying to support in non-technology industries. We are still seeing a shortage of skills and a demand for skills.

Gordon MacDonald: It is great to see that so many indigenous companies are moving on to the digital platform. In addition, we have the skill set in Scotland to attract companies to come here. How well are we doing in that respect? The Californian company UserTesting recently announced that it is going to employ 70 people in Edinburgh. Is that a one-off, or are more companies coming to Scotland to get the benefit of our highly skilled employees?

Jane Morrison-Ross: A significant number of companies are still coming to Scotland. You gave a great example—another recent example is Elcom. Some of the emerging technology sectors such as geospatial data and the space sector are increasing, and are encouraging companies to come here. Spire Global is a great example—it is building more satellites in Glasgow than in any other European city. We are definitely still seeing that demand, partly because of the access to skills from our university and college sectors, and partly because Scottish Development International and Scottish Enterprise have invested in creating an infrastructure that is supportive and welcoming of those companies.

Through some of the recent events in which I have been involved with SDI, we have seen that companies are still very interested in making the move to Scotland over the next six to 12 months.

The Convener: If there are no more comments from the witnesses on that area, we will move on. We are under a bit of time pressure and a lot of members want to get in. I will bring in Richard Lyle, who joins us remotely.

Richard Lyle (Uddingston and Bellshill) (SNP): We have already touched slightly on some of my areas of questioning.

The report of the advisory group on economic recovery, “Towards a Robust, Resilient Wellbeing

Economy for Scotland”, recommended a “pivot” to a more regional model of economic development to drive place-based recovery and solutions. Is that pivot happening? What actions would you like to see?

Jane Morrison-Ross: Yes, it is happening. The launch of organisations such as South of Scotland Enterprise, and the work that is going on in the Highlands and Islands, are supporting that.

We need to ensure that we have in place national infrastructure to support that pivot while having the regional depth of knowledge across each industry sector and geographical area that can really enable the growth of businesses in those areas. There has to be a combination of the two. From where we stand, we certainly see that depth of expertise coming to the fore across multiple regions.

Richard Lyle: I will ask Jane Morrison-Ross a further question, although the other witnesses can come in, too. More generally, what should be done to promote economic recovery from the impact of the pandemic? What should be done to support the digital sector—we have touched on that—as part of Scotland’s economic recovery?

Jane Morrison-Ross: There are two answers to that. First, the digital sector has been remarkably resilient. An overwhelming number of our members—70 per cent—are predicting growth and are optimistic about the future. In general, they are currently more concerned about clarity on an exit strategy and understanding the impact of Brexit than about Covid-specific restrictions.

That is partly because the industry has had additional opportunities to provide services and supporting products to other industry sectors. That second part is key. Every business is now a digital business, partly as a result of the need to recover but also because of the need to grow. The situation over the past eight months or so has massively accelerated the uptake of digital technology in practically every sector. Initiatives such as digital boost and the potential new fund—which I understand is being looked at with the United Kingdom Government—to provide additional support to small and medium-sized enterprises across those sectors to make the step change to use enabling technology are critical. Digital boost is fantastic, as it provides companies with support to access technology.

Part of the layer that has been identified as missing, which we would agree with, is the expertise to enable people to understand what to do with that technology and how it applies to their business, whether they are a small artisan cheese producer or a manufacturing company in the Borders. Companies need that expertise, and that issue is now being addressed.

David Waite: The regional pivot point is interesting and was obviously made quite strongly in the Higgins report. In some ways, we are seeing it and we are not. Following the enterprise and skills review in 2017, regional economic partnerships were set up. In essence, they try to provide a forum in which national agencies and local authorities can discuss local and regional strategic priorities. That is a promising step and I hope that they will be effective in that role. On the other hand, local authorities still do not have a huge armoury of levers with which to shape local economic change. That is still an issue that could be thought through and discussed.

The digital economy point is important. Although I do not have the same depth of sectoral knowledge as the previous speaker, I will point out a couple of issues. First, on the production side, the Logan review has rightly been lauded for setting out a good pathway for thinking about the digital sector. We also have to think about who is using digital, which has been described by some academics as the new sanitation of our time for urban areas. Therefore, stable wi-fi and access to information and computer technology will be increasingly important for a number of workers.

Richard Lyle: What is Fife Council doing to promote that?

Pamela Stevenson: It is a good question, and I agree with the previous speakers.

This is a difficult time and, to be truthful, we are still dealing with the rapid response to Covid to support businesses, for which it is a very distressing time. It is therefore important that we focus on that while still looking at the short to medium term of our reform and recovery programmes.

In relation to how we dovetail with the national approach, it is fundamental that we work with our national agencies. We have fantastic examples of working closely with Skills Development Scotland, Scottish Enterprise and SDI to look at skills development and how we support businesses to retrain, reskill and adapt. We are looking at multiskilling to ensure that we can stop redundancy and unemployment during the current conditions. We are also looking at how we work with young people who are starting to leave school and college to ensure that, through the Department of Work and Pensions and our youth employment opportunities, we help them to get into businesses, to support those businesses and the individuals.

It is also about starting to look at what jobs are out there and helping businesses to understand sustainability and the use of low-carbon products and services to grow. It is about supporting businesses to look at investment in low-carbon

infrastructure and longer-term efficiencies, which we are starting to see some evidence of.

Jane Morrison-Ross referred to digital connectivity. There are fantastic examples on that from across Scotland, not only in advanced manufacturing but in financial technology firms. Many indigenous little entrepreneurs have adapted and repurposed their businesses, and it has been fantastic to see so many start-ups during this time, which we simply did not expect in the current conditions.

One thing that we have been doing this year in Fife, as part of our renowned culture of enterprise programme, is to re-adapt our enterprise and education programmes into all Fife schools. We have managed to convert all of them to digital delivery approaches, which has involved improved working with CodeClan and colleges, to ensure that we can virtually engage with schools to help them to understand the economy, enterprise and education. Some of the other activities are around data-driven innovation and working with universities to help businesses, which I will not go into much, as Jane Morrison-Ross referred to it. The development and on-going support from the Scottish Government for our gateway networks and digital boost has been second to none and we need more of that, as the demand is great.

On engaging with businesses through Covid, we continue to look for opportunities to understand the barometer of where businesses are. We are looking at workforce upskilling, remodelling and adaptation, and at new trade and market opportunities, such as how businesses take existing products and put them into new markets. Through Covid, we have sometimes found fantastic examples of businesses taking existing products and putting them into a whole new sector, particularly in supporting the national health service and helping the Covid response.

Another area is refocusing on procurement. On town centres, which have been referred to, we are looking at better planning and regulation and ensuring that there is more input from place making and planning charrettes.

One big area from an economic perspective is investment-led growth, on which we work closely with Scottish Enterprise and SDI. How do we ensure that we have fit-for-purpose employment land and investment in infrastructure to support inward investment and the adaptation and growth of our indigenous businesses? We are in distressing times, but there are some fantastic opportunities ahead and opportunities for more creative thinking about how we can deliver local economic development.

09:30

Richard Lyle: That gives us a lot to think about. Thank you.

The Convener: Given our limited time, if witnesses want to go into detail, it might be helpful if that were done in writing following the meeting.

Maurice Golden (West Scotland) (Con): My question is for the whole panel, but perhaps we can start with David Waite this time. We have talked about recovery, but what are your thoughts on a green recovery in general and how the Scottish National Investment Bank and city deals will feature in that recovery?

David Waite: There is a lot of discussion about the green recovery from local authorities all the way up to multilateral organisations. The argument is that our recovery from the crisis cannot simply sow the seeds of the next crisis—that is quite a potent argument. A green recovery might take a range of forms. Do we need to look at a green industrial policy that would really focus on the transitions process? How do we prioritise infrastructure investments that have green objectives and where those objectives play a more central role? Are we following through on the win-win promises of the retrofit agenda, which it is argued will help with jobs in the short term and lead to energy efficiencies in the long term?

If we look across the piece, city deals have been evolving since 2014, so they are quite different in nature and in the projects that comprise them. In some of the latter deals, we can see some green objectives coming through.

There are also important policy questions about how we use the sustainable development goals to frame our thinking about the green recovery. We are seeing that more and more, for example in Bristol's recovery plan and, following the work of the climate working group last year, there is murmuring in Glasgow about using sustainable development goals as a guiding light for the green recovery.

It is early days for the Scottish National Investment Bank, but one of its core missions is the green recovery. There are many things pointing in that direction.

Jane Morrison-Ross: I agree with David Waite's comments. We are seeing an increased focus across industry on how digital technologies and the associated supply chain can pivot to start tackling some of the climate challenges. The run-up to the 26th conference of the parties—COP 26—has helped that focus. The recent countdown to 26 event, which was run across all the innovation centres and Scottish Enterprise, brought a huge amount of focus to that.

Recently, Skills Development Scotland commissioned a study on the skills that are needed for climate technologies and for companies to start to access those skills at a practical level to tackle some of the issues. What is needed next—we have been discussing this with the Scottish Government's new green deal team—is practical information and advice for companies to start to make a difference at a tactical as well as a strategic level.

There is a significant amount of expertise in Scotland and, as Pamela Stevenson mentioned, there is a lot of innovation that could be pivoted and refocused to start to address some of the climate challenges. The collaborative element of that is particularly important, including with organisations such as CENSIS, the Data Lab, Digital Health and the Scotland 5G Centre, and with broad academic and industry partners.

Pamela Stevenson: I do not have too much to add to that—David Waite and Jane Morrison-Ross have covered most of it. Our main focus is on how we help business access the expertise to be more innovative around efficiencies, sustainability and low-carbon capabilities, how we collaborate and some of the decarbonising transport and energy industry projects that we can undertake in our local areas and regions to help the supply chain opportunities.

Maurice Golden: What are your thoughts on what Fife Council is doing? Do you have examples that you can highlight for the committee?

Pamela Stevenson: Absolutely. I will not reference names as such, but we work with companies that are very fleet maintained. In partnership with bodies such as SE and Zero Waste Scotland, we help such businesses to explore low-carbon efficiencies and opportunities to establish clean growth visions for their fleet, transport and other logistical capabilities. Working with other partners such as the green team at the Scottish National Investment Bank, we help businesses to consider how they might fund infrastructure projects that will assist not only their business but, in the case of big employers, their supply chains, too.

We have industry action investment plans with big businesses in Fife such as Forth Ports, Shell, Babcock and Amazon. We are also working on our own infrastructure projects such as the Levenmouth rail link, the delivery of the Fife sustainable energy and climate action plan—SECAP—and how the council might explore electric vehicle charging points in its investment programme. A similar approach is taken across lots of local authorities in Scotland.

Maurice Golden: Thank you. That is very useful.

Colin Beattie (Midlothian North and Musselburgh) (SNP): We are all aware that a number of support schemes, such as the furlough scheme, are said to be protecting employment. However, are we doing so, or are we simply delaying unemployment by pushing it into the future? I have seen a report that around 230,000 or 240,000 people in Scotland are currently on furlough. Are we just delaying what will inevitably come through as mass unemployment, or are such schemes an effective way of carrying us through this period?

Jane Morrison-Ross: I will answer that initially. However, I can speak only for the industry sector of which I have some depth of knowledge.

We found that only a small proportion—less than 20 per cent—of companies in the technology industry took advantage of the furlough scheme early on in the lockdown period. For most of them, that was a precautionary step as they assessed the impact of Covid-19 on their supply chains. We have not seen a significant number of redundancies or lay-offs as an impact of Covid or furlough. Furlough has been used more as a precautionary tool but, again, I stress that that is perhaps the case only in the technology industry. I understand that, in other industry sectors, furlough has been a much more important tool for keeping businesses afloat.

Our cross-sector advisory group, which is made up of Scotland's key sectors, found that in certain sectors—retail and hospitality are the two that come to mind—furlough was instrumental in keeping some businesses going. There have been significant impacts and redundancies, but furlough has played an important part in helping companies to survive when they would not otherwise have done so.

Colin Beattie: Does anyone else have a view on that? Are we facing a cliff edge?

David Waite: The issue of so-called zombie jobs is important. The general consensus is that furlough has been vital in enabling a number of firms to hold on to their head counts. A few months ago, there was talk of various cliff edges and of there being significant unemployment levels as we came into the winter. The view now is that, to a large extent, we have been saved from that. Obviously, there are more challenges ahead, but furlough has helped firms significantly.

However, one labour market challenge that relates to furlough is that, for those who are losing their jobs, the availability of vacancies is really sluggish at the moment. If someone loses their job, being able to go into a new one is a real challenge at the moment. Many commentators make the point that policy efforts should be put into measures such as retraining processes and

helping people to move into new occupations. It is crucial for us to consider who is hiring and putting out vacancies.

Colin Beattie: Has there been a particular impact on young people in the labour market?

David Waite: There is evidence, for instance among claimants in Glasgow, that young people are one of the groups that are rapidly moving into universal credit, so there are significant concerns for young people across Scotland. That is accentuated by the fact that shocks in a young career can have long-term scarring effects. The incidence of periods of future unemployment and scarring on future wages is shown to be impacted by periods of unemployment when people are young. The concern for young people is right and valid.

Colin Beattie: I am not getting a feeling from the panel that it has a view on what happens when furlough finishes, which was one of the key aspects that I wanted to explore. Everybody seems to be saying that furlough is good and that it has protected jobs, certainly in the short term, but what happens when it finishes? What will we face then?

Pamela Stevenson: That is a good question. I apologise, but we do not have a crystal ball for that. As David Waite and Jane Morrison-Ross said, furlough has been extremely important. We assumed that there might be a cliff edge in October, but that did not happen—we have not seen the figures coming in. Local authorities are working closely with Scottish Enterprise and Skills Development Scotland, through the Scottish Government's partnership action for continuing employment redundancy programme, to ensure that, for businesses that are considering redundancies, we find opportunities to add value through redeployment.

What do we do now with businesses that have people on furlough? We are out there working collectively to try to ensure that those businesses are adapting, repurposing and looking at leaner processes and opportunities to multiskill. We need to ensure that, when we get to the end of March, rather than delaying the inevitable, those employees get back into business. From an economic perspective, we are getting out there and working with businesses to identify what they need now to adapt their business models.

The Convener: We have to move on, because another three committee members have questions.

Rhoda Grant (Highlands and Islands) (Lab): The advisory group on economic recovery recommended the creation of a Scottish jobs guarantee scheme; the Government has

implemented that and called it the Scottish young persons guarantee. The group said:

“The scheme should offer secure employment, for a period of at least two years, to 16-25 year olds, paid at the Living Wage, with access to training, apprenticeships and the possibility of progression. It should be delivered locally, with brokerage of opportunities between employers and jobseekers; but it should be set within a coherent national framework.”

What are the witnesses’ views on the scheme? What steps should be taken to ensure that it is effective and that there are no barriers to success?

Pamela Stevenson: I can talk only for Fife at the minute. Again, Fife has a good relationship with our national agencies. We are striving to ensure that our employability proposition is a collaborative partnership approach that starts from the grass roots and gives a pipeline of progressive capabilities for individuals. We will be working closely with all partnerships and businesses to ensure that that is not just a short-term measure but one that provides a career journey pathway for those individuals.

Jane Morrison-Ross: We are working with Skills Development Scotland, the DWP and the youth guarantee team to get the message out to industry—our industry and the cross-sector groups that we work with—that the scheme is available. It is a very effective way of bringing young, energetic people into a business and helping them to grow into a role. It is an enormously useful tool. That, coupled with the increased focus on various apprenticeships that businesses can source, is really important in helping to close the skills gap in our industry. On average, we have 13,000 vacancies a year, and we are only seeing that increase with the current cross-sector demand for digital skills. As long as we get the message out there to the right companies and the right parts of industry, the scheme has significant potential.

09:45

Rhoda Grant: David Waite, do you have anything to add?

David Waite: I have nothing to add to my previous comments, except to reiterate the point about the importance of provision for young persons in the labour market. I will leave it there.

Rhoda Grant: Okay. I will leave it there, too, if we are short of time.

John Mason (Glasgow Shettleston) (SNP): I want to ask about the business support that the public sector provides. Scottish Enterprise, Highlands and Islands Enterprise, South of Scotland Enterprise and Skills Development Scotland have already been mentioned, and the

Scottish National Investment Bank is also coming in.

I will start with Ms Stevenson. Have those agencies been too focused on Covid or not focused enough? What about the future? We want to continue with our long-term plans as well as reacting to Covid.

Pamela Stevenson: That is a good point. I have been in conversations about that issue this morning. To be truthful, we are still focusing on some of the requirements of the immediate response to Covid business support funding, and we have to do that because so many of the businesses that have been affected need our support.

However, at the same time, we are still looking at the recovery programme and at how to ensure that businesses adapt so that they can engage and sustain as we move forward. Lots of work is being done to ensure that business support is still being given. Some of the immediate team are still working on the Covid response, but it is important that we are looking at advanced manufacturing and digital skills capabilities, access to finance and particularly the upskilling of the workforce and opportunities for supporting the unemployment process and the young persons process.

There is not one answer. So much is happening that, in truth, it is overwhelming, but we have to be fully engaged in the process.

John Mason: You said “we” quite a lot in that answer, and I do not know whether that means the council together with those other organisations. I know that you wear a few hats. I do not expect you to be too critical of SE or anyone else, but how do you feel that those organisations are lined up with what the council is thinking? It is early days for the SNIB. How is it looking at the situation?

Pamela Stevenson: Through the Scottish local authorities economic development group, we are working nationally, alongside Scottish Enterprise, to start to look at what recovery will look like, based on the Scottish Government’s objectives and the AGER Higgins report.

However, at the local economic level, local authorities are heavily focused on the Covid response while still having to look at what it means to be working with our national agencies at the regional level. We are positive and we are trying to ensure that we can share best practice across Scotland to work with our national agencies.

John Mason: Perhaps I can move to Jane Morrison-Ross. Do you feel that you are getting a joined-up approach from the public sector on business support, or are the different agencies looking at things differently?

Jane Morrison-Ross: In general, we have found that there is a very joined-up approach and we have very much welcomed the interactive approach. We have found that all the public sector agencies involved have been keen to come directly to industry to ask what is needed, from the point of view of recovery and when it comes to looking ahead post-Covid, and not stopping planning for innovation. That has been helped by the Scottish technology ecosystem review that Mark Logan produced, which has helped to move the focus a little bit post-Covid. For us, the balance has been pretty much on point and the direct connection and communication is hugely welcome.

John Mason: Mr Waite, do you also see a joined-up approach from the public sector?

David Waite: I am not as close to the policy coalface as my colleagues. However, one important point is about how we might take a regional approach—this goes back to the first question that was asked—because we know that different areas of Scotland will be impacted differently by the crisis. It is really important that we think about whether we can come up with regionally sensitive industrial policy or support to help business bases grow back, because how Aberdeen, Glasgow and Edinburgh deal with the situation and their responses might need to look quite different. This is a good test for the regional pivot that the Higgins report called for.

Andy Wightman (Lothian) (Green): Earlier, David Waite mentioned that local government has limited powers to shape economic development. Can he elaborate on that a little? Does Pamela Stevenson feel that her council has had the powers that it needs to shape the economic response to Covid?

David Waite: That is an important point. There have been welcome steps; for instance, city deals give a focus on spending on localities, which gives direction to local spending priorities.

One of the questions was about the extent to which revenue-raising powers might, to a greater degree, come within the gift of local authorities, so that local authorities can make investments—and take risks on them—in order to stimulate economic development. There has been less progress in those areas but, prior to Covid, there were ongoing discussions in Edinburgh about the tourism levy. Therefore, there might be a case for a discussion about where fiscal autonomies lie within Scottish local authorities.

Pamela Stevenson: To respond specifically to Andy Wightman's question about empowerment during Covid, I have been encouraged over the past seven or eight months by how much the local authority economic development departments

have been able to respond and react positively and timeously to support businesses. The 32 local authorities have come together across Scotland to work more closely than ever with the Scottish Government. Therefore, I am very encouraged by how well the local authorities have stepped up to support businesses through Covid and been able to empower local economic development. There is a lot to do, but we have had a great opportunity to work with the Scottish Government in the past seven or eight months.

The Convener: If Colin Beattie wishes to come back in, we might have a couple of minutes to allow that.

Colin Beattie: If there is time, I will explore further the digital sector, which we touched on. I want to explore what the labour market situation is like in the digital sector, because my impression is that it is buoyant. Given that we are all working digitally, I would have thought that the sector would be scooping up all the resources possible to make that happen and to expand. However, Jane Morrison-Ross said that there was also a precautionary element, in that people were on furlough.

Jane Morrison-Ross: In the early stages of lockdown, some companies used furlough as a precautionary planning tool, because they were not sure at that point of the impact on the industry as a whole or on their supply chain. There was more of an impact on business for the very small percentage—around 3 per cent—of companies that specifically supplied retail and other hard-hit sectors. That has changed over the past eight months, and the majority—almost 50 per cent—of respondents to our most recent survey were predicting a head count increase of up to five people by the end of this year. Therefore, the industry is generally buoyant and still going for growth. In our most recent survey, 70 per cent of respondents were still optimistic about the last quarter of 2020 and the first quarter of 2021 and expected an increase in profit and sales for their businesses. Therefore, apart from a small precautionary move at the beginning, the industry is comparatively very buoyant.

Colin Beattie: Is it the case that not all information technology companies are benefiting from the fact that we are mostly working remotely? Can you give us an idea of which ones are struggling in that environment, as well as those that are taking advantage of the situation and prospering from it?

Jane Morrison-Ross: Some of the larger suppliers, which typically have staff working on clients' premises, also struggled in the earlier stages. We worked with the Scottish Government on the return to premises guidelines for the technology industry, which helped enormously,

because companies were able to have people return to their premises.

Again, in the earlier stages, the major impact was on companies that supply digital products and services specifically to the hospitality and retail sectors. Many of them have now recovered, as more retail organisations have started to look at trading online and developing products and services that can be sold online. Obviously, the hospitality industry is still suffering more significantly than many others but, again, suppliers that focused on hospitality have now broadened their customer base and looked at pivoting of products and services to supply other industries.

Therefore, we have not seen a significant loss of companies in the industry, above and beyond that which we would have expected through natural attrition and retirement. Our membership base, which we had assessed in the early stages, continues to increase rather than drop off.

There has also been significant growth in start-up companies during the Covid situation and, over the past three months, we have recruited about 40 additional new start-up members. The rate of start-ups in the technology sector in Scotland has doubled over the past eight months, so there is still significant growth.

Colin Beattie: That is interesting; thank you.

The Convener: That concludes this evidence session, and I thank all the witnesses on our panel.

09:56

Meeting suspended.

10:00

On resuming—

Scottish Offshore Wind Sector Inquiry

The Convener: Welcome back. Agenda item 3 is our inquiry on BiFab, the offshore wind sector and the Scottish supply chain. Our witnesses join us remotely. I welcome Jim Smith, managing director of SSE Renewables; Nick Sharpe, director of communications and strategy at Scottish Renewables; Matthieu Hue, chief executive officer at EDF Renewables UK; and Allan MacAskill, a director of Kincardine Offshore Windfarm Limited. Some committee members are with me in the room and others join us remotely. I ask witnesses to wait a few seconds before speaking to allow broadcasting colleagues on our sound desk to turn your microphones on.

I will start the questions. You do not all have to respond to every question. In the process of their questioning and discussion with you, committee members may interject and ask further questions, so there is no need to wait for me, as convener, to let you back in. Furthermore, following the evidence session, you can submit in writing any further thoughts that you might have or want to develop on what we discuss today.

What benefits, economic or otherwise, are offshore wind developments bringing to Scotland? What are the possibilities for the future, bearing in mind the UK Government's very recent announcements? You can raise your hand or type R in the chat box to indicate that you want to respond. Nick Sharpe is indicating that he wants to speak.

I am afraid that we cannot hear Nick. Perhaps the sound desk can do something about that.

Jim Smith also wanted to come in, so we will try him while we try to resolve the sound issue for Nick Sharpe.

Jim Smith (SSE Renewables): Can you hear me, convener?

The Convener: Yes. Thank you. We can hear you.

Jim Smith: I will use Beatrice wind farm as an example. It is currently Scotland's largest wind farm, although it will soon be overtaken by Moray East wind farm. We estimate that Beatrice wind farm will bring in about £1 billion to the Scottish economy over its lifetime, which demonstrates that offshore wind developments bring real economic benefit to the country. Clearly, we would like to be able to do more, which I am sure will be part of our discussion this morning. However, even at current levels of UK supply, it brings a huge benefit to the

country. Our recent decision to progress the Seagreen offshore wind farm will bring similar benefits to the country.

The Convener: One billion pounds sounds like a big figure, certainly pre-inflation. Can you quickly tell us where that £1 billion to Scotland comes from, a bit more specifically?

Jim Smith: I might not have all the numbers broken down exactly; I would be happy to submit them in writing to the committee. A significant part comes through the construction phase, obviously. Beatrice managed to procure some of the foundations from Scotland. There are significant works onshore to do with the grid connection, and there are a number of smaller suppliers. Wind farms operate for 30 years or more and most of the costs associated with the operation are borne in Scotland.

The Convener: I suppose that that is one of the things that we want to hear about. If parts are sent offshore for construction, the benefit does not necessarily come to Scotland, does it? What basis can we have for thinking that that will change in future, if it has not changed already?

Jim Smith: The Offshore Renewable Energy Catapult carried out work to consider the potential in the UK—not just in Scotland. I think that it estimated that, currently, the supply chain could probably provide about 50 per cent of the content—the value—from an offshore wind investment. Clearly, if we want to increase the percentage, that will require investment in the supply chain across a number of areas.

The Convener: Is it not also about awarding contracts to companies that prefabricate things in Scotland? You said that the current level “could” be 50 per cent, which does not necessarily mean that that actually happens.

Jim Smith: We estimated that over the life of Beatrice it would probably be around 50 per cent.

The Convener: All right. You mentioned one or two things that you could share with the committee. It would potentially be helpful if you did that.

I wonder whether we can hear from Nick Sharpe now. Have you tried unmuting yourself? *[Interruption.]* I think that you have tried that. Sorry. We will get our technical people to assist; I am not sure what the difficulty is.

Are there comments from other panel members about the economic or other benefits that offshore wind is bringing to Scotland?

Matthieu Hue (EDF Renewables UK): I echo what Jim Smith said. Throughout the development phase of our projects, from development to construction and operation, developers seek to

work with the local supply chain. We take a proactive approach to engaging with local communities and local and national businesses to offer them a perspective on where the opportunities lie.

An area that we certainly need to consider is how we develop capabilities, to allow businesses to secure more content than the 50 per cent to which Jim Smith referred. There is work to be done to further develop capabilities to enable Scottish businesses to win contracts through the development, construction and operation of wind farms.

There have certainly been benefits. I can speak about the energy project in which we invested directly, through our tier 1 contractors, in the Scottish supply chain. More can be done in future to develop the local content.

The Convener: I would like to clarify something—it might be my fault for not picking it up. Did Jim Smith talk about 50 or 15 per cent?

Matthieu Hue: He said 50 per cent, unless I am mistaken.

The Convener: Jim Smith can correct us both, if you are.

Jim Smith: That is right; I said 50 per cent.

The Convener: Thank you.

I think that Nick Sharpe has logged out and logged back in again. We will try to bring him in.

Nick Sharpe (Scottish Renewables): Fingers crossed, we will try again. Can you hear me now?

The Convener: Yes—excellent. We can hear you loud and clear. Please carry on.

Nick Sharpe: As a representative of the industry body for renewable energy in Scotland, it is my place to set out the overall picture for offshore wind and the economic benefits that it can bring, as well as to say where we are going in that regard, which is important for today's discussion.

At the moment, we have just under 1GW of offshore wind capacity installed in Scottish waters. The offshore wind policy statement that the Scottish Government published last month agreed that 11GW of offshore wind deployment is possible by 2030. As part of the Scottish offshore wind energy council, we are helping the industry work towards that figure. Obviously, going from 1GW to 11GW represents a large increase. That brings with it enormous potential for economic and environmental impact.

The most recent figures that we have for turnover from the sector are from 2017, when turnover from renewable energy was £5.5 billion,

and offshore wind was providing around 10 per cent of that. If we picture that increase—a more than tenfold increase in the amount of offshore wind deployed in Scottish waters—we begin to get a picture of how the figures that Jim Smith and Matthieu Hue talked about can expand to create something truly impressive.

One of my messages today is that Scottish and United Kingdom supply chain companies are not out of the race. This is a sector that has to grow if we are going to deliver our net zero targets and there are still tremendous opportunities within it.

The Convener: The Scottish Government has hosted some wind supply chain summits. Have any of you attended them?

I see Nick Sharpe nodding to indicate that he has, and I think that Jim Smith has also done so. What have those summits achieved?

Nick Sharpe: One of the reasons why the most recent supply chain summit came together in January was to talk about new methods that the Scottish Government wanted to employ in order to ensure a future for Scottish supply chain companies. That involved something called the supply chain development statement, which I am sure that we will discuss later, as well as this morning's announcement by the UK Government on changes to the contracts for difference mechanism, which will have a similar effect.

Primarily, the output from the summit in January came from the Scottish offshore wind energy council, which is chaired by Jim Smith's SSE colleague Brian McFarlane and the Minister for Energy, Connectivity and the Islands, Paul Wheelhouse. The commitment from SOWEC was to bring together a supply chain review. That process is under way, led by Sir Jim McDonald, from the University of Strathclyde. It will look at capacity in the Scottish supply chain, as well as ways in which industry and Government can help foster success there, as we move towards that figure of 11GW and beyond.

The Convener: Are you saying that what has come out of that summit is an on-going review?

Nick Sharpe: That is my understanding, yes.

The Convener: Nothing else?

Nick Sharpe: There is also the supply chain development statement, but that is probably a separate issue that we can discuss later.

The Convener: Jim Smith, can you comment on what has come out of the summits?

Jim Smith: I would reiterate what Nick Sharpe said. Part of the work was around the supply chain development plans that have been talked about in relation to the upcoming ScotWind seabed leasing rounds. We have been supportive of that. We

have also made it clear that it is important that we must not disadvantage Scottish projects in relation to projects down south. We are in a competitive market and, as long as that competition exists, we need to ensure that we have a level playing field with regard to projects that are being developed in Scotland and those down south.

There are already some significant disadvantages for projects in Scotland, which are subject to higher transmission charges. The water also tends to be deeper, which makes the project more expensive. With the proviso that we do not disadvantage the projects, we are very supportive of the Scottish supply chain development plans.

10:15

The Convener: That might be part of the discussion, but part of the problem is that, rather than coming to Scottish companies, contracts go overseas, well beyond these shores, as opposed to south of the border within these isles. However, we will move on, because other committee members want to come in. I will bring in Maurice Golden.

Maurice Golden: My question, which I will put to Nick Sharpe first, is on jobs that are linked to the offshore wind supply chain. Alex Salmond promised 28,000 green jobs by 2020. Do you have any insight into previous forecasts for the number of offshore wind supply chain jobs in the sector by 2020? I appreciate that, with contracting, job numbers fluctuate, but can you forecast the number of jobs? Is there any data or intelligence on what we might expect, particularly in the offshore wind supply chain in Scotland?

Nick Sharpe: I can absolutely talk to that. The figure of 28,000 green jobs that you mention was taken from a report that Scottish Renewables was involved in drafting, probably around a decade ago. That figure represented the scenario with the highest number of jobs. In fact, the scenario in that report with the lowest number of jobs is what we have today; it is roughly the number of offshore wind jobs in Scotland.

It is important to understand that any projection of future employment is contingent on deployment. We are clear that deployment equals employment. We did some work earlier this year that shows that, for every gigawatt of renewable electricity deployed in Scotland, 1,500 jobs have been created.

What has happened in the intervening decade has not necessarily been to Scotland's advantage. We have seen considerable, lengthy delays in the offshore wind sector's deployment, caused by consenting issues, which took a lot longer to get through Scottish Government than we had hoped, and then by judicial review, which was brought

against Marine Scotland and successfully defended. That probably put us at least three, if not four, years behind the rest of the UK. We have seen English and Welsh offshore wind projects leap ahead; an enormous industry has developed down there. Places such as Lowestoft in Suffolk and the Humber are now fundamental to the largest offshore wind sector in the world, whereas in Scotland we are just beginning to develop that capacity, as I said.

Therefore, it is important to look at what we have deployed compared with what we employ. That report is actually not that far wrong, if you look at its lowest projection.

On where we are going, 2017 figures showed that offshore wind employed 3,400 people in Scotland. The figure is likely to be much higher now.

Nobody has yet discussed the sector deal that was struck between the UK Government and the offshore wind sector in 2018. That has been a really important way of bringing together supply chain companies, the industry and the Government, with a common goal. The original goal was to raise UK deployment to 30GW by 2030, but the Prime Minister recently raised that to 40GW by 2030. That is a really stretching target. As part of that, the industry is committed to increasing the UK content of projects from the current 48 per cent to 60 per cent by 2030.

We will simply be unable to do that unless we have a robust, competitive supply chain in the UK and in Scotland. It will require not just investments in parts of the supply chain in which we do not currently excel, but, more important, a focus on those areas in which we do excel, whose capacity—and export capacity, which we can come to later—we can boost.

The commitment under the sector deal is to support 27,000 jobs across the UK by 2030, with the majority of those being in coastal communities, as well as increasing the representation of women to at least a third.

I hope that that gives you some idea of where we are going in the UK and why what the report hoped for, in terms of jobs, has not been delivered.

Jim Smith: I reiterate what Nick Sharpe said. The number of jobs will be proportionate to the investment in projects. If we think back to 2010, the target for offshore wind that Scotland was talking about at that time was, I think, to have about 3GW in operation by 2020. As Nick says, we have less than 1GW in operation today, which is something like 5 per cent of the UK's installed capacity in offshore wind. We have been somewhat left behind in the past decade, relative to the rest of the UK. There is clearly an

opportunity to catch up. There are two projects in construction that will help, and we hope that there will be more to come. However, if projects are not being built, the numbers of jobs will not be as high.

My organisation, SSE Renewables, does not cover only offshore wind, but in the past 15 years we have increased our employees by a factor of five. We now directly employ more than 1,000 people.

Maurice Golden: In response to a previous question, Jim Smith mentioned transmission network use of system charging. Has that charging regime changed significantly over the past decade? Is it impacting on the generation of offshore wind in Scotland?

Jim Smith: High transmission charges have been an issue in Scotland for a long time. There are constant changes to transmission charging mechanisms. Fundamentally, the issue of high transmission charges is probably, if anything, getting a little worse rather than better, but it has been around for a long time.

Maurice Golden: Do Scottish customers benefit from TNUOS charging?

Jim Smith: It would be difficult to use the word "benefit". The transmission system has to be paid for, and the question is really how we distribute the charges for that between customers and generators. Ultimately, if we, as generators, have a cost, it will flow through to customers in the price of electricity.

I think that the issue that most generation developers in Scotland have is that we pay considerably more than our counterparts down south. As I said, if we end up paying less, someone will have to pay more. The total cost of generation to the UK as a whole will not change.

Maurice Golden: Thanks, Jim. That is helpful.

In the past three allocation rounds of contract for difference, Scottish offshore development's share has fallen. Can you explain why? What can be done to reverse that trend?

Jim Smith: We have talked about TNUOS. The cost is significantly higher in Scotland than it is further south. More broadly, if we look at the projects in Scotland, when Beatrice was built it was the deepest offshore wind farm in the world. That comes with a capital cost and a construction cost. Moray East is the same—it is a jacket structure in a similar depth of water. Seagreen is in even deeper water. All that comes at a cost, whereas the projects that have been built down south to date have tended to be in relatively shallow water and therefore use monopile foundations rather than jacket structures.

In onshore wind, we see a fairly significant benefit the further north we move, because of higher wind resource. You do not tend to see that in the offshore industry. The wind resource for some of the wind farms down south is just as good as the wind resource for Scottish projects on the east coast.

Maurice Golden: Nick Sharpe, what are your thoughts on CFD? How can Scotland get a bigger share?

Nick Sharpe: I can talk to the three auction rounds that we have already had, and to AR4 and AR5, which are coming through. We did some research earlier this year and found that the amount of offshore wind capacity awarded to Scottish projects fell across the first three auction rounds—I think that that is what you were referring to. In auction round 1, 39 per cent of the projects were Scottish. In auction round 2, that figure was 30 per cent and in auction round 3 it was 9 per cent. That is really significant for this discussion; it puts across the situation with deployment and employment. If we are getting only 9 per cent of the projects through from a CFD round, we simply cannot deliver the economic and environmental benefits that this industry wants to deliver for Scotland.

Jim Smith touched on some of the issues that have probably led to that. We have always known that Scottish waters are much deeper and sea-bed conditions much more difficult. We often face rock rather than mud, which makes projects more expensive.

You talked about TNUOS, which is how the transmission network is paid for. We believe that that situation will become significantly worse over the next decade, to the extent that developers in Scotland will be paying tens of millions of pounds more a year than their English counterparts—we can provide evidence on that after the meeting. It is something that we are working on through the Scottish offshore wind energy council, but the grid situation as it stands leads into the way that the contract for difference mechanism works. The CFD was set up in a very different time, back in 2015, when Government focus was very much on the cost of energy to consumers.

As an aside, we must remember that there is only one way for money to flow into the energy industry, and that is through consumer bills. The Government had committed to the cheapest electricity prices in Europe. You might remember that a price cap was Ed Miliband's key policy when he was Labour leader.

The Government invented the CFD and its job is to drive down the cost of power as low as possible in a competitive auction. It has been phenomenally successful. In terms of offshore wind, Beatrice

received a strike price before the first auction round of £140 a megawatt hour. The cheapest project in the first auction round was under £114; in the second, it was £57. In the third auction round, Seagreen 1 received a contract of £41 per megawatt hour.

You can see that that process has driven the cost of offshore wind down to a level that I do not think anybody expected. In 2016, the UK Department for Business, Energy and Industrial Strategy thought that offshore wind would cost £103 per megawatt hour in 2030; the current estimate is £47. Nobody saw that coming. That has led to a lack of money in the system and therefore to a desire to bring down project costs. Jim Smith talked about that earlier.

The grid issue is tied to that through the Office of Gas and Electricity Markets, which has a commitment to drive down costs for consumers. OFGEM does not consider climate change and efforts to cut carbon, as part of its remit. We want to change that.

10:30

The Convener: You are not in the room; you are online, as a number of witnesses are. Are you referring to figures that you have on a screen in front of you to assist you in answering the questions? That is something new that has arisen from the different circumstances that we are working in. We would normally have all the witnesses in the committee room. That is not how things are now.

I am interested in your answer as it is useful for the committee to know whether information is coming from a particular source. We usually know that if someone is sitting in the room with us—or they might send us written information later. You have given us a number of figures.

Nick Sharpe: When I spoke to the committee in 2019, I brought a folder with neatly organised tabs and papers. I could flick through that folder on the desk in front of me. The situation is the same now. I spent a couple of weeks preparing a Word document with the data and I can flick through that. I can provide the committee with references for any of the figures after the meeting, or I can give you a short version of the briefing that I am using.

The Convener: That is helpful. If any other witnesses are referring to documents, it would be helpful if they could share them with the committee. It is important that we know where information is coming from and that we are able to look back at it. We must be transparent, in the reports that we issue, about the information on which we rely. Thank you for being open about that.

We have some time, but not unlimited time, so we will move on to other witnesses.

Rhoda Grant: I have a supplementary question based on an answer that Jim Smith gave. He said that 50 per cent of the supply chain is local. Where are those jobs for Seagreen, Neart na Gaoithe or Moray East? If 50 per cent of the jobs involved in the supply chain are local, where are they?

Jim Smith: I was talking about 50 per cent of the value or content of the supply chain during the life of the wind farm. We gave a foundation contract to BiFab for Beatrice. We invested in Wick as our operational base. The substation and the laying of cable to the shore up in Moray was another part of the investment.

There are numerous smaller supplies from tier 1 suppliers who use local content. I would be happy to provide a more detailed breakdown of the £1 billion of value that I mentioned to the committee.

Rhoda Grant: It would be helpful to get a breakdown and to see where the local 50 per cent of the supply chain is and where the non-local 50 per cent is. We would be able to compare what has been let already and what is a future projection.

Jim Smith: To clarify, it is not necessarily 50 per cent of jobs. It is 50 per cent of value.

Rhoda Grant: It would be good to get a breakdown of that to see the situation clearly.

Jim Smith: That is obviously on a UK basis.

Rhoda Grant: Is it possible to get that on a Scottish basis? Obviously, we are a Scottish Parliament committee and are interested in the Scottish aspect.

Jim Smith: We will be able to break that down.

Rhoda Grant: Do you know off the top of your head what the Scottish percentage is?

Jim Smith: I would rather not guess a number and get it wrong, so I will ensure that we submit it in the document.

Rhoda Grant: Thank you. You will be aware that Unite the union has assessed the offshore industry as

“a spaghetti bowl of vested interest groups with established supply chains of preference.”

Do you recognise that statement and do you agree with it?

Jim Smith: No, I do not. We go out to competitive tender for our tier 1 suppliers. Indeed, on Seagreen, we are using some suppliers that we have not used before. In Dogger Bank, which is our—[Inaudible.]—we hope to make an announcement soon about projects. There are a number of suppliers in there that we have never

used before in the supply chain, and we have already made announcements about those. The statement that you quoted is somewhat misleading because, as I said, we go out to competitive tender and look for the best price that can deliver on the quality that we require to deliver the project.

Rhoda Grant: How do you assess quality if you have not used a company before?

Jim Smith: When we go through a procurement process, we look at a company's experience, what it has done in the past and its accreditations, and we visit it. The company might not have worked for us before, but it will have experience elsewhere, so we can make an assessment based on that.

Rhoda Grant: How does somebody new break into the industry if you assess on work done before in the industry? I think that is what Unite the Union is getting at. You might not always use the same company, but people use a small number of companies because they know that they have been used in the past. How can someone break into that?

Jim Smith: That can be a bit of a challenge, but at the end of the day everyone working in offshore wind is relatively new to the game. The industry has been in existence only for the past 10 to 15 years and has grown rapidly only in the past five or six years. As Nick Sharpe said, when we look at what is ahead, although there is just over 10GW of operational wind in the UK, the target now is 40GW by 2030. That will require significant expansion of the supply chain, which will mean many new players in the supply chain.

The Convener: I am sorry to intervene, Rhoda, but I see that Nick Sharpe wants to come in. In addition, this is perhaps the first time that Allan MacAskill has attended a committee as a witness, so he might want to comment on some of what has been said once Rhoda Grant has concluded her discussion with Jim Smith and Nick Sharpe has made his comments.

Nick Sharpe: I want to paint a picture of the situation that we are in today that is in contrast to Unite the union's statement. It is easy to think of the situation as a David and Goliath one, with large companies not giving projects to small companies, but that is not the case. What I have found through two or three years of looking at the offshore wind supply chain is a great deal of goodwill in Scotland from larger developers towards the smaller companies. Indeed, a tremendous amount has been done by those larger companies to help the smaller companies. The success of the supply chain in Scotland and, indeed, the rest of the UK is a matter for three parties: supply chain companies, Government and developers.

I will give a brief overview of actions that developers are taking to help supply chain companies across the UK and specifically in Scotland. I can send the 1,000 words I have written on that to the committee—I will not go into detail just now. We have talked about the supply chain review that is being done through the Scottish offshore wind energy council. The council also has a supply chain workstream, to which developers in our Scottish Renewables membership are incredibly committed.

A part of the sector deal is the Offshore Wind Growth Partnership, which many members will have heard of. It has committed £100 million to supporting supply chain companies by helping them to foster innovation, boost productivity and increase their competitiveness. That goes to Rhoda Grant's point about how a company that has not worked in offshore wind previously can enter the sector. The industry has committed £100 million to be spent on helping supply chain companies across the country.

Another part of the sector deal is the collaborating for growth programme, and there is the sharing in growth programme, which has been brought in from aerospace to deliver best practice. The sector deal has a people and skills workstream, which looks at the number of people who are employed in offshore wind across the UK and how we can bring across more people from the oil and gas industry as we transition away from it.

Developers support the offshore wind clusters—Scotland has the DeepWind and Forth and Tay clusters, which have between them more than 200 members. Developers are taking a keen interest in them; many meet the buyer and networking events are taking place to introduce supply chain companies to developers that they might not otherwise have met.

The Offshore Renewable Energy Catapult is running the fit 4 offshore renewables programme for supply chain companies. The UK Government is investing £160 million in port infrastructure, which will benefit supply chain companies. Scottish Renewables is also taking steps.

It is absolutely not the case that the supply chain is adrift; a lot is being done to help supply chain companies to compete. We are at the start of the journey and there is a lot more to come.

Allan MacAskill (Kincardine Offshore Windfarm Limited): I have not said much, largely because the discussion has concentrated on big structures, although I have been involved in them. Jim Smith and I were part of building the Talisman two-turbine demonstrator models adjacent to the Beatrice field, which were the precursor of the Beatrice offshore wind farm. Those turbines had a

high level of UK and Scottish content, so significant opportunities arose thereafter.

I cannot comment on what has happened since then—I do not really understand the position in relation to quality and other things—but the opportunity was squandered. I do not know why Scottish companies did not continue to succeed in that industry. I have not been involved in that and I cannot say more. A lot of effort was put in; others would have to comment.

I am now mostly involved in floating systems, which are the future. Just as we pioneered jackets in Talisman, we are now pioneering floating systems at the Kincardine project, which has a significant amount of Scottish content, largely because it is located just off Aberdeen. We are working hard to maximise that and to use the opportunity.

We are the start of the next phase. Jim Smith said that jackets are more expensive; I saw a similar development in the oil and gas business. When I first came to it, everything in it involved fixed structures, which were all that we were going to build. After I came back from Canada, we saw the end of the fixed era and the arrival of the floating era. We will see that happen—as turbines get bigger, we will improve the floating technology and access significantly more of Scotland's acreage over the next 10 or 20 years.

Rhoda Grant: Do we have more expertise in building floating structures? I would have thought that the oil and gas industry's presence meant that we had expertise in all such areas.

Allan MacAskill: We have very little expertise in building floating structures—most that were built for the oil and gas business were not built here. The only such project that I was involved in was at the Talisman Ross field, where the Bleo Holm was used. The hull was built in Korea and towed to the UK, and the topside was put on on the Clyde. However, I think that it was about the last topside to go on on the Clyde.

10:45

Rhoda Grant: Is there a chance that we will lose out on floating structures with offshore wind, or have we got that capacity?

Allan MacAskill: [*Inaudible.*]*—advantages in doing a large amount of the work in and around the ports that we have. We would have done more had the ports been open to us, but they were not because there was not a fit between their capacity and the technology that we were using.*

Rhoda Grant: In what way were the ports not open to you?

Allan MacAskill: They were busy doing other things.

The Convener: We move on to questions from Colin Beattie.

Colin Beattie: Thank you, convener. I have a direct question for the witnesses: why are other European countries beating Scottish bids for the fabrication of jackets, especially as Scotland should have such an advantage, with an established and fairly innovative oil and gas industry?

Does anyone have an idea?

Nick Sharpe: I can take that question. There are many reasons. I would start with first-mover advantage: Denmark built its first offshore wind farm—the first in the world—in 1991. Europe has moved since then to invest in manufacturing and port capacity, but the UK has not. That has been a fundamental failure of industrial strategy at Government level for many decades. We are talking about very large and complex pieces of equipment that have been produced to a very high standard. Ahead of today's evidence session, we spoke to some of our members about facilities in Scotland and how they compare with facilities in the rest of the world. The phrase, "We are not comparing apples with apples" came up. We are talking about a complete shift in size and capacity.

I have the Offshore Renewable Energy Catapult report on fabrication facilities in Scotland in front of me, so I will take a second to read out a sentence from that. It was published just ahead of the supply chain summit in January.

"The best in class fabrication facilities for monopiles and jackets are sited at large ports, with excellent logistics, including efficient goods in and goods out routes and processes for movement of thousands of tonnes of raw materials ...The UK has no equivalent to Esbjerg (Denmark), Rotterdam (Netherlands) or Rostock (Germany)."

As I said earlier, everyone has a part to play in the success of supply chain companies—Government, industry and the supply chain companies themselves. Unfortunately, investments that could have been made over decades, which would have seen the UK being able to compete with European supply chain companies on things like fabrication, simply were not made, and we are left with that apples and oranges situation. That is really unfortunate. Through the routes that I talked about in answer to a previous question, we are doing something about it now, but the fact remains that 3 per cent of Denmark's gross domestic product comes from exporting wind energy products. It has that first-mover advantage, so we will always be at a disadvantage. That is why we should focus on areas where we can succeed and develop green, high-tech, high-quality jobs of the future.

Colin Beattie: Can I take it from that answer that, as things stand, there is absolutely no chance that Scotland is competitive in the market?

Nick Sharpe: No, that is not the case at all, because, for a supply chain company to feed into an offshore wind farm, you are looking for three things: cost, quality and reliability. While researching the supply chain ahead of committee meetings such as this, Scottish Renewables has found that, primarily, quality has not been an issue. Scottish engineering firms are very skilled. We have that experience from oil and gas, even though large structures have not been built in the UK since the 1990s. There has been a discrepancy on cost, but the Offshore Renewable Energy Catapult found in its report in January that we are only 10 per cent to 15 per cent more expensive than European ports, and what comes into play there is very much the goodwill that Scottish companies building in Scotland have for the smaller supply chain companies. Time and time again, we have demonstrated that we will take on board extra cost in return for the benefit of using a local company to carry out work.

We are currently refreshing a publication from last year, which shows almost 20 great examples of supply chain companies that are succeeding here, are globally competitive, and are working in offshore wind not only in Scotland or the rest of the UK but across northern Europe. There are lots of successes, so it is not right to focus only on the companies that are not. However, challenges do exist.

Colin Beattie: Can I just press you a little bit on that? You say that parts of the supply chain are good and effective. However, at this moment, do we in Scotland have the capability to compete specifically on the fabrication of jackets?

Nick Sharpe: During the past few weeks I have done a considerable amount of reading on where we are with jackets. In recent years, Scottish yards have competed fiercely against European ones on such contracts and places such as Belgium and Spain were very competitive. At a previous meeting of the committee on the subject of BiFab, we talked about how state-aid rules had led to that situation. However, it has now changed a great deal.

Yesterday I spoke to colleagues at WindEurope, which represents renewable energy businesses across Europe. They have seen a shift away from Europe towards the far east and the middle east that has been driven by the many forms of contract for difference mechanisms that have been adopted by various countries. The cost of offshore wind has been driven down across the world. It is therefore no surprise that companies in the far east are able to produce such large projects at lower cost. Not only are Scotland and the rest of

the UK now struggling to compete with Europe, Europe is struggling to compete with the far east. For the price of £40-odd per megawatt hour that I discussed earlier for Seagreen, it would be difficult to build those jackets in Europe. If those companies did not go to the far east for jackets, they could not build their projects. If there were no projects, there would be no economic or environmental benefits for Scotland, and that would be really difficult.

Colin Beattie: What is the scale of difference in price between Europe and the far east?

Nick Sharpe: I am afraid that I do not have that figure.

Colin Beattie: Do any of the other witnesses have an indication of that difference, assuming that they agree with Nick Sharpe's assessment?

Jim Smith: I estimate that there is a difference of at least 10 per cent between prices in Europe and those in the far east.

Colin Beattie: That is quite substantial.

The Convener: I am just wondering whether to bring in our colleague Graham Simpson, who is also interested in that area. Perhaps Matthieu Hue, who has indicated a desire to comment, might want to respond to a further question from Mr Simpson.

Graham Simpson: Mr Beattie has rather stolen my thunder with those questions. However, it has been interesting to listen to the discussion, because I am new to this inquiry.

I turn to Nick Sharpe, with whom I used to work in a different sector. What you have said suggests that the issue is partly that, in Britain, the CFD—the money that is in the system—appears to be too low. That might be good for the consumer, but it is too low to enable companies to give more work to British or Scottish companies, therefore they are going elsewhere in the world. They now go to the far east, whereas previously they went to Europe. Is that analysis correct?

Nick Sharpe: That would be a fair assessment.

Graham Simpson: You mentioned earlier that changes to that contract have been announced today. I have had only a quick look at the UK Government's large document. Can you summarise those changes?

Nick Sharpe: I am in a similar position: we have not had long to look at those. I asked our policy team to take a look at the document this morning, and I have some brief points to make.

Through its review of the CFD and the supply chain element of that, the UK Government is aiming to do something similar to what the Scottish Government has done with supply chain

development statements. It aims to bring some clarity to the process and to allow supply chain companies the confidence to invest in things such as manufacturing capability or in upskilling their workers ahead of offshore wind projects being built.

The challenge that the UK Government faces is one that the Scottish Government faced and about which we have been vocal in the past. Building an offshore wind farm can take a decade or more. For example, the Aberdeen Bay wind farm took 13 years from conception to energisation. Those are long periods of time.

It is really challenging to ask companies to make commitments to specific supply chain companies so early in the process, when they are just applying to lease the seabed to build their project. It is often the case that those companies might not still exist when the project is delivered. They might have merged with other companies or have moved into different sectors. The Scottish Government's ScotWind leasing process allows companies to revise their supply chain development statement as time goes on.

There is still an issue with companies being forced to commit to supply chain plans early in the process. We believe that that could create a perverse effect whereby companies low-bar themselves and do not commit to as much local content as they could in that process because they are not sure that they can meet that commitment further down the line. The UK Government has addressed that today in its review of the CFD. It is still promising more detail, but the timescale is critical. Allowing developers more flexibility is important. The UK and Scottish Governments are both battling the same issue.

Graham Simpson: That is useful to know.

Nick Sharpe seems to be speaking for our other witnesses. They may want to say something about why they have not selected Scottish companies to manufacture jackets and piles. Is it all down to price, or do you consider other factors such as working conditions?

Matthieu Hue: Many developers are like EDF Renewables. We definitely seek to work with Scottish and UK supply chains. When we start to develop a project, we are proactive and reach out to companies that might benefit from the project.

Let us take NnG as an example. We started construction earlier this year. We went through a thorough tendering exercise for various parts of the project, from jackets to the offshore substation and the turbines. For each of those contracts, we asked the tier 1 suppliers to consider where they could get some local content. We went further than that in some cases and were specific about where they could find that local content. In the

case of the jacket for NnG, we asked all the potential contractors to work with BiFab to look at the opportunities to work together. What we found—which we have just discussed—is that BiFab was unable to compete on price. The price differential was 10 to 15 per cent of what we see elsewhere in Europe and an even higher percentage of what we see outside Europe. It is a global market.

11:00

In a world in which developers have to compete through a CFD and in which CFDs are awarded to those who offer the lowest price, it is very difficult for developers to accept paying a premium. However, if they are unable to pay a premium, they will not receive the contract and will not be able to develop the project at all.

That does not mean that we are not making an effort in some cases. We worked very hard with Saipem to allow BiFab to secure part of the jacket contract. However, it is not easy—it is a lot of work—and what is missing, effectively, is a competitive supply chain. Without strong investment, the supply chain cannot necessarily compete. We need to consider taking an holistic approach to the opportunities for the Scottish and UK supply chain and where investment would be best targeted. We cannot just pay a premium on an ad-hoc basis to support the supply chain in the long run. What we need is investment and competitiveness that supports winning contracts in the tendering process.

Graham Simpson: Matthieu Hue, you mentioned investment. There has been a lot of Government investment in BiFab. Why has that not worked?

Matthieu Hue: BiFab is more than just a yard. We spoke about port facilities. The fabrication of the foundation is not the only cost to be accounted for by the contractor. In the case of BiFab, the yard was mothballed and we needed to remobilise the workforce and the yard, which cost money. There might have been some investment, but it was not necessarily all the investment required to be competitive against the European supply chain. In this instance, the fact that that activity did not continue resulted in a significant cost to fabricating the jacket.

The Convener: Before Colin Beattie comes in with a supplementary question, Jim Smith wants to comment. Is it just price that is making the difference in who gets the contracts?

Jim Smith: That is the point that I wanted to make. I wholly support what Matthieu Hue said. I wanted to get across that a CFD auction—or certainly the most recent CFD auction—is extremely competitive—so much so, in fact, that

Seagreen managed to get a CFD for only 40 per cent of its capacity. That made the decision about whether to progress the project into construction a really difficult one for us. The only way that we managed to get the 40 per cent was to get to the lowest possible bid price. Any additional costs that would have resulted in a higher bid price would almost certainly have led to our not getting any CFD, and Seagreen would not be progressing at all. We would not be talking about what has or has not gone to Scottish companies; the question would be, “Why hasn’t Scotland won any CFDs for any Scottish offshore wind farms?”

Colin Beattie: This is really a question for EDF in connection with Government guarantees. Why was a Government guarantee so critical? Do other countries supply such Government guarantees, and in what circumstances would guarantees be called in?

Matthieu Hue: It is normal in contracts for jackets that the developer asks for a guarantee that the work will be completed. That was a request not just of BiFab; we ask all our suppliers and contractors to provide such a guarantee so that, if the work is not completed, we have protection. In this instance, the guarantee was coming from the Scottish Government as a shareholder in BiFab—it was as a shareholder that the Scottish Government came in to provide the guarantee. However, the situation was no different from the situation with any other contractor.

Colin Beattie: Do other countries in the EU provide such guarantees?

Matthieu Hue: When a company is awarded a contract, it will be asked to provide a guarantee, and it will then choose the source of that guarantee. The guarantee can be provided through a bank or it can be a parent company guarantee. In the case of BiFab, it was the Scottish Government, as a shareholder in the company, that provided the guarantee.

Colin Beattie: In your experience of other countries in the EU, have Government guarantees been provided in the past?

Matthieu Hue: The simple answer is that I do not know. I can look into that and revert to you with an answer to that question.

Colin Beattie: I think that we would be very interested to know that.

The Convener: It would be helpful if you could respond to that question in writing.

Rhoda Grant: The committee understands that welders in Indonesia are paid £2.80 an hour, which is about a fifth of what they would be paid in this country. If a fair work guarantee was incorporated into the contracts, would Scottish manufacturing companies be treated more fairly?

Matthieu Hue: We certainly need to consider what would work for Scotland. We cannot ignore the fact that the market that we are operating in is designed in such a way that, in the case of a CFD, we have to find a contractor that is capable of doing the work to the required quality at a competitive price. The rules do not oblige us to disregard certain contractors or to factor in elements such as the one that you describe. If they were to do that, we would have to be careful, given that contracts for difference apply not just to Scotland but to the UK in general, that we did not introduce rules that could make Scotland uncompetitive in the UK context.

We must be mindful of the fact that the rules that we use need to provide for a level playing field, so that Scotland is not disadvantaged compared with other parts of the UK. If such a rule were to be applied, I think that it should be applied across the board; otherwise it would be to the detriment of Scotland, which would be unable to win a contract at all. As things develop, however, we will be very willing to discuss a change to the rules and to consider the best ways of accommodating common goals.

Rhoda Grant: Are shareholders aware of the work practices that are used under some of the contracts? The wage that I mentioned is an incredibly low one for the job, and we hear about yards in the middle east that have really poor work practices and poor health and safety standards. Is it ethical for companies whose shareholders may be used to being paid more and treated better to be making money from poor work practices?

Matthieu Hue: I can speak only for EDF, but I think that all developers do the same thing. They will employ contractors that treat people fairly and to the health and safety standard that is required. That is definitely a requirement that we put in our tendering process. We would not contract with the supplier unless it met those requirements—[Inaudible.]—in our tendering process. We have some very strict requirements on health and safety when it comes to working conditions. I will have to get back to you on what specific items might be in our tendering process. However, we certainly cover the aspects that I have mentioned.

Rhoda Grant: That would be helpful. Thank you.

The Convener: It might also be helpful if you could indicate how you follow up to ensure that those standards are met in the contracts that you enter into. It would be helpful to hear from other witnesses on those points.

John Mason: I presume that, if we get jackets from the middle east, China or wherever, there will be a carbon cost to that because of transport and

so on. Is that completely overruled by price, and is that another fault of the CFD?

Jim Smith: We have explained how important price is to winning a contract.

We should not lose sight of the fact that, whether we are bringing steel fabrications, the raw steel to make those fabrications or the iron ore to make the steel to the UK, all of that has to be transported to the UK from other parts of the world. Therefore, there is no carbon-free option. For example, the jackets for the Beatrice wind farm were manufactured by BiFab, and significant portions of those—prefabrications, castings and so on—were procured by BiFab from the far east. I do not know whether procuring from a Scottish, UK or European company avoids that carbon footprint.

John Mason: That is helpful.

State aid is another issue. We sometimes get the impression that both the Scottish and UK Governments are quite nervous about state aid rules and do not want to be challenged on those in comparison with other countries—even other European countries. Do the witnesses from SSE and EDF, or Allan MacAskill from KOWL, have any thoughts on whether our Governments are overly nervous about state aid?

Jim Smith: I think that that is a matter for the Government. It is not for us to comment on.

John Mason: Yes, but we have heard that there needs to be more investment, and I take it that that investment—in ports, for example—could be either public or private. If companies are calling for investment, I would like to know whether it is thought that other countries are investing a bit more supportively.

Allan MacAskill: I have seen the nature of the ownership of ports in other countries. They tend to be differently owned and raise the funds for those investments. That is a different issue; it is not to do with state aid.

John Mason: You are suggesting that, in other countries, the state or local authority owns the ports in more cases, whereas ours are more privatised.

Allan MacAskill: I do not know the answer to that; I am telling you only what I have seen. That is all that I can comment on. Significant investment is made by the ports.

John Mason: We can maybe look at that further. I understand that KOWL has got jackets from Europe—perhaps from Spain—and the suggestion is that those purchases were made from a state-owned company that is loss making, which is like a subsidy. Can you tell us whether that is the case?

Allan MacAskill: I cannot comment on that, as I do not know anything about the accounts of the company that you are talking about. However, several companies are involved in the manufacture of such substructures. We tried hard to find allocations in Scotland and the United Kingdom, but there were none.

11:15

The Convener: We will move on to Richard Lyle's question. Perhaps Jim Smith could comment on that if he wishes to add anything.

Richard Lyle: Part of my question has already been covered. Let us hit the nail on the head. We have been hearing all the get-outs on why there have been no contracts—for example, that there are poor ports, facilities or work practices. Some people say that purchasers simply go on the best price, so BiFab could not possibly win contracts for anything. You might say that that is a ridiculous statement, but it seems to be true.

I ask all our witnesses to say what needs to change if we are to develop a local fabrication supply chain in Scotland. The other aspect of my question has already been mentioned, but I would like to ask it anyway. Can we put a clause in contracts to say that the carbon footprint—by which I mean carbon emissions caused by goods coming from far away—must be taken into account?

I put those questions to Jim Smith first.

Jim Smith: There are still challenges. However, as others including Nick Sharpe have said, there are still opportunities. The industry will only get larger. Not only is there the target of achieving 40GW by 2030 in the UK, last week the EU came out with targets of 60GW by 2030 and 300GW by 2050. The scale of the opportunities is huge.

However, the question is about how we can attract investment into manufacturing. That is one for the manufacturers. Investment will be required, and most manufacturers are looking for some form of Government support to enable them to make that decision. There is no doubt that the market is here, but there is a question about where the money for manufacturing investment will come from. We developers are not manufacturers; we are making significant investment in developing such projects and then building them.

On your second point, on carbon, I reiterate Matthieu Hue's comment. We would welcome a scheme in which carbon accounting for the construction of the project was taken into account, but with the proviso that that would be done across the UK, to ensure that we were competing on a level playing field.

Richard Lyle: We only need to drive anywhere in Scotland to see the number of wind farms that have developed over the past five or 10 years. Why are BiFab and other companies not getting a fair share of that work? Is it because you are going elsewhere? You really need to tell us.

Jim Smith: We have tried more than most to support the Scottish supply chain. You mentioned BiFab. Back in about 2011, we invested £10 million in equity in the company, which we effectively gave away for £1 when it went into administration. We put a further £7 million into BiFab to prevent it from doing so. Earlier in the decade, we stepped in and saved the Wind Towers factory from closure, which kept it going for a while until a manufacturer was able to buy it. However, I know that it has now run into difficulties.

We have tried to make an impact on the Scottish supply chain, but ultimately it will be for manufacturers to do so. As I have said, this message might seem overly simple, but for as long as we have to compete on price we will have no choice but to seek out the lowest-cost supply, otherwise we will not have projects.

Richard Lyle: What are the views of Nick Sharpe and Matthieu Hue?

Nick Sharpe: I can speak to that. The majority of economic benefit from an offshore wind farm comes not from the fabrication of the steel that makes the wind turbine—I will come back to that aspect in a second, when I discuss carbon—but from its 20 or 25-year operations and maintenance phase. We know that Scotland can compete in that area, because we can develop the skills that the rest of the world will need as it decarbonises its economy. For example, SSE has created 100 jobs in Wick, which is not an area in which it is easy to get one—especially a highly skilled, low-carbon job of the future that involves working in the operations and maintenance of an offshore wind farm. We know that the majority of the benefit comes at that point.

The Offshore Renewable Energy Catapult, the Offshore Wind Growth Partnership, the Offshore Wind Industry Council and the Scottish offshore wind energy council are all considering where we should put our efforts. That is why a number of supply chain reviews are under way. Earlier I mentioned the one that is being headed by Sir Jim McDonald and the Minister for Energy, Connectivity and the Islands, which will consider whether we should support the parts of the supply chain that can compete, helping them to grow and export their skills and to drive economic benefit, or whether we should spend money on supporting areas such as fabrication, in which we know that the majority of such work is now done abroad. For instance, there is no monopile manufacturing

facility in the UK. We cannot make monopile, so we would have to start from scratch there. We should ask ourselves whether we want to spend money on those businesses or to support thriving supply chain businesses that are already winning contracts in the offshore wind sector, not only in the UK but in the rest of the world. That is the decision that we have to make. As I have said, the development of the offshore wind sector in Scotland is still at an early stage. We are currently carrying out studies to figure out where the industry and Government public finance should make their investments.

I do not have a figure for the carbon payback period for a wind farm in the offshore wind sector, but the figure for the onshore wind sector is always less than 18 months. We know that no matter how much carbon is generated during the production of steel and transport, the building of foundations and roads, and the setting up of sites, we always pay that back in 18 months or considerably less. The average age of a UK power station is more than 30 years. We have to replace our power infrastructure somehow, but, as Jim Smith set out, there is always a carbon price to pay for building something. For example, if we build a nuclear power station, we use a lot of carbon, so building wind farms that pay back in 18 months or less really is the cheapest and smartest option.

I hope that that is helpful.

Matthieu Hue: Jim Smith and Nick Sharpe have provided good answers. I can only agree with what they have said.

There will be a tremendous amount of opportunity as we go forward. The collaborations that we have put together on the development side—in setting the rules with supply chains so that they understand where the opportunities are, and in articulating with developers how they see developments in technology—will all contribute to Scotland benefiting further from the huge amount of opportunity that is to come.

We can certainly learn from what we have seen, by focusing on getting manufacturers to win contracts. We will not stop trying to do so, but perhaps there is a prize that we can win by working together and targeting the right areas that would most benefit the economy. We all definitely need to focus on that, and the various forums that are in place are trying to do so. There is no magic bullet, but there are a number of elements that we could work on, of which the CFD rules is one. This has been a challenge for all developers. Knowing that we need to be competitive and beat the lowest possible price has limited how much we can do to support local supply chains.

Richard Lyle: Matthieu, EDF said that it would support BiFab by giving it a contract for the delivery of eight jackets for its wider NnG project. Where are we with that?

Matthieu Hue: We worked very hard with Saipem, our contractor for the jackets, to get eight jackets manufactured at BiFab. Saipem agreed with BiFab to the manufacture of eight jackets a year ago. Unfortunately, BiFab has not been able to follow through and provide the necessary guarantee in order to proceed and sign a contract. Although the contract should have been completed some time ago, that has not been the case.

The situation now is that the wind farm needs the jackets to be manufactured somewhere, and at the moment the chances of them being manufactured at BiFab are very slim indeed. That is because we are running out of time and have commitments to our supply chain and wider shareholders to develop that wind farm. If we do not have jackets, we do not have a project. We are now in the unfortunate position in which, although we have worked extremely hard to make it possible, it is looking unlikely that BiFab will manufacture the eight jackets.

Richard Lyle: So another opportunity has been lost for Scotland.

Graham Simpson: I want to come back in on that issue. What does BiFab need to do that it is not doing in order to win that contract?

Matthieu Hue: When we had discussions with BiFab and Saipem agreed to have BiFab manufacture eight jackets for the project, we had requirements in place—as we always do—for the contractor to provide some guarantees so that we are not unduly exposed to risk. Unfortunately, BiFab has not been able to provide those guarantees and we have run out of time and are not able to follow through with BiFab without them.

Graham Simpson: What guarantees do you need?

Matthieu Hue: The guarantees are for the work for the eight jackets. Without the guarantees, we would be taking the risk that shareholders of BiFab should take. The broker would take the risk that a company's shareholders should normally take. Given the risk profile related to BiFab and the fact that the company's shareholders cannot cover it, we are simply not able to go ahead with BiFab at this time.

Graham Simpson: Are you saying that BiFab could not guarantee that it could complete the work?

Matthieu Hue: That is correct.

Gordon MacDonald: We have spoken a lot about CFD contracts. I will not go over what we have already talked about, but I want to ask about the three previous rounds that took place under UK Government ministers.

As part of the bidding process, supply chain plans have to be provided and the three criteria for that are competition, innovation and skills. There is no mention of carbon emissions or security of supply. All of the focus seems to be on affordable energy. As we have heard, the impact of a lack of money in the system is that there is a lack or loss of skilled jobs in Scotland.

Bearing in mind that the UK Government has announced a consultation on supply chain plans, which closes on 18 January, what has to change within supply chain plans to give Scotland a better chance of competing for some of that work?

11:30

Nick Sharpe: As part of our efforts as an industry body to help the supply chain, not too long ago, we convened a supply chain forum and took evidence from our supply chain members. Scottish Renewables has around 45 supply chain members, and we asked them what they needed in order to compete more effectively.

One of the things that was raised, which we acted on, was having a view of what was coming down the line: being able to see what projects were likely to develop at various stages in the future and where they were in their development processes. The UK Government already provides that information through the renewable energy planning database, and Scottish Renewables has been able to analyse that data as it comes out quarterly and break it down. We provide that service not just for our members but for any company in the supply chain. We break the data down into onshore and offshore wind pipeline, to let those companies see what is coming and have more visibility of the pipeline that they need. Therefore, if they want to invest, they know whether there will be a market for their product down the line.

The supply chain forum brought that back to us as the most important thing that we could do. Contracts for difference is a competitive auction process, and it is a closed process; we do not know who has bid into it. Other developers do not know and the supply chain would just be speculating, so that is a powerful way of giving people sight of the pipeline.

Gordon MacDonald: Jim Smith, one of your colleagues, Alistair Phillips-Davies, made a comment about contracts for difference in *The Herald* last week. He said:

"If people want different outcomes in terms of content then people need to find ways of supporting businesses or insisting on certain content."

You have already touched on the fact that we might need some kind of carbon pricing, but should other things be included? I know that I am asking you to read your colleague's mind, but I presume that you have had discussions about that.

Jim Smith: The point that Alistair was making is that, if people are not happy with the result of the process that we have now, but they do not change the process, they will keep getting the same answer, so we need to change the process.

If there was an easy solution to achieve the balance between the lowest price for the consumer and getting more jobs in the country, someone would have come up with it by now. I do not know whether it would be illegal to put a mandatory target on it, but if there was a target, developers would need to achieve it. Ultimately, some change needs to be made but I do not have an easy answer for it. Because the targets for building offshore wind are there in front of us, we know that a lot of offshore wind farms will be built, and we need to get confidence and investment in the supply chain. There are a number of different areas; it is wrong to focus on just one element of the supply chain. With our potential supplier, we are working hard on our Dogger Bank project to make an investment in manufacturing in Scotland. I cannot say much more on that, because it has not happened yet and it might not happen, but we are certainly working hard. Many people have talked about that issue but, unless the rules change, we will keep getting the same answer.

Andy Wightman: I will ask the witnesses for their views on the new ScotWind leasing opportunities and, specifically, the supply chain development statements that are apparently required. Crown Estate Scotland wrote a letter to the committee in July 2020, which said that it had made the decision

"to require all applicants to ScotWind Leasing to submit a Supply Chain Development Statement".

However, the cabinet secretary, Fiona Hyslop, wrote to us in July and said:

"we cannot require or compel developers to provide a Supply Chain Development Statement (SCDS) as part of their ScotWind application, nor can we specify local content".

What is your understanding of the status of those supply chain development statements? We will start with Nick Sharpe, who might have an industry overview.

Nick Sharpe: We have concerns about supply chain development statements. We voiced those at the summit with the former finance secretary,

Mr Mackay, back in January. I can go into it in a bit more detail. From what the committee has heard, I hope that members understand that offshore wind developers are working very hard. I know that that sounds trite, but it is true. The companies giving evidence to the committee today have spent enormous amounts of time trying to make commitments to Scottish supply chain companies. As I said earlier, several projects are under way to that end. As an industry, we thought that the addition of supply chain development statements to the ScotWind leasing process was unnecessary and potentially counterproductive.

As I said earlier, it is hard to make commitments at such an early stage in the process of developing a wind farm. Neart na Gaoithe and Moray East both got leases in 2009-10 and will be commissioned in 2022. Although it is clear that we need that process to speed up, it is very hard for project developers to commit to supply chain intentions at an early stage in development. There is a risk that the supply chain development statements are counterproductive: in respect of reputational damage—setting aside the financial or termination of lease risk that hangs over supply chain development statements—there is a risk that companies will be tempted to lower the bar of their commitment, which is the opposite of what the policy is trying to achieve.

We recognise that early supply chain engagement is very important and can enable a clear investment pipeline for supply chain companies, so we have suggested that developers set out a baseline commitment on their supply chain, as well as a set of high ambition figures, which could give some indication of what might be possible with greater collaboration between the supply chain, Government and industry.

On the whole, supply chain development statements, whatever their guise—at Scottish Government or UK Government level—are a way to bring more clarity to a complex process. It is important to consider the timing issue and, as other witnesses have said, whether we are making Scotland a less attractive place to invest. If companies do not have the confidence to invest in Scotland, we will not have offshore wind farms at all and we cannot deliver those environmental and economic benefits.

We are working closely with Crown Estate Scotland and it has been very receptive and open to dialogue during the process. I hope that that continues.

Andy Wightman: What is your understanding of whether those statements will be required, given that the Scottish Government is saying that it cannot “require or compel” developers to provide such statements, yet Crown Estate Scotland has told us that it will be a requirement?

Nick Sharpe: That level of detail is not within my personal experience. I understood that such statements were now part of the ScotWind leasing process. I can ask my colleagues to clarify that. I understand that the committee is hearing from Crown Estate Scotland in a few weeks and I am sure that the committee could get clarification then.

Andy Wightman: It might be too early in the process, but if your members have experience of the early stages, it would be useful for the committee to have some evidence on how that is developing. Do any other witnesses have comments on that area?

Allan MacAskill: On floating wind, which is the future for Scotland, as a result of our experience with Kincardine, we are addressing the biggest single challenge by chasing the designers. Most of the current designs for floating wind do not work very well in our ports, because they need a depth of 13m and there is a limited number of ports with that facility. We can either fix the ports or we can fix the designs. We are trying to work with designers to find designs that will work in shallower waters and be compatible with more of the facilities that we have on the east coast of Scotland.

Jim Smith: I am not an expert on the detail of the supply chain plans that are being talked about, but the point that the cabinet secretary might have been making is that the Government cannot mandate that a percentage of the supply chain is manufactured in Scotland. The supply chain development plan is for developers to set out what they intend to do, but I reinforce the point that Nick Sharpe made: it is very difficult to talk today about our supply chain plans for when we build the thing, which could be in 10 or more years’ time. The supply chain that we are using in 10 years’ time will probably look quite different from the supply chain landscape today.

The Convener: There are no further questions from committee members, so I thank our witnesses for joining us today.

11:41

Meeting continued in private until 12:37.

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