



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 1 December 2020

Session 5



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Pàrlamaid na h-Alba

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ECONOMY, ENERGY AND FAIR WORK COMMITTEE

37th 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)

Alison Harris (Central Scotland) (Con)

*Richard Lyle (Uddingston and Bellshill) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Alex Rowley (Mid Scotland and Fife) (Lab)

Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Jackie Brierton (GrowBiz Scotland)

Jason Fudge (DF Barnes)

Graeme Galloway (Developing the Young Workforce Dumfries and Galloway)

Stephen Montgomery (Scottish Hospitality Group)

Hazel Nolan (GMB Scotland)

Sean Power (DF Barnes)

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

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament
Economy, Energy and Fair Work
Committee

Tuesday 1 December 2020

[The Convener opened the meeting at 09:00]

Interests

The Convener (Gordon Lindhurst): Good morning and welcome to the 37th meeting in 2020 of the Economy, Energy and Fair Work Committee. We have received apologies from committee members Alison Harris and Andy Wightman. Graham Simpson is attending on Alison's behalf.

I welcome Alex Rowley, who is a new member of the committee, and I take the opportunity to thank his predecessor, Rhoda Grant, for her contribution to the committee's work. I do not know whether Alex has interests to declare—perhaps he has done that already.

Alex Rowley (Mid Scotland and Fife) (Lab): I simply refer members to my entry in the register of members' interests, convener.

Decision on Taking Business in
Private

09:01

The Convener: Do members agree to take items 5 and 6 in private?

Members indicated agreement.

Scottish Offshore Wind Sector Inquiry

09:01

The Convener: We continue our inquiry into Burntisland Fabrications, the offshore wind sector and the Scottish supply chain. I welcome our first panel of witnesses, who join us remotely: Jason Fudge, president of DF Barnes; Sean Power, vice-president of DF Barnes; and Hazel Nolan, GMB Scotland organiser—I particularly thank Sean and Jason for joining us from Canada at what is a fairly early stage in the day.

Our broadcasting colleagues here will control your microphones and cameras, so please allow a few seconds before you speak, so that we can hear everything that you have to say. If you want to speak, please just type R in the chat box on your screen or raise your hand; the clerks will pick that up and let me know that I should bring you into the discussion.

Let me start with a general question. After the recent announcements, what are your views on the future for the supply chain for offshore wind development, for Scotland and Scottish businesses?

Jason Fudge (DF Barnes): Good morning, convener. From our perspective, we can speak about the fabrication aspect, particularly in relation to foundation work for the renewables sector. Obviously, we are quite concerned. The state aid limitations and market conditions in the United Kingdom offshore wind sector are challenging for the domestic supply chain—we have had that discussion numerous times with various officials from Government. Our opinion is that that is one of the primary reasons why BiFab has had a challenging time in the past years, in particular with the renewables sector.

The Convener: If neither of our other witnesses wants to come in, we will move on to other committee members. We have approximately an hour for this evidence session. I do not know whether Hazel Nolan wants to come in.

Hazel Nolan (GMB Scotland): It needs to be pointed out that, in Scotland, almost every offshore wind turbine has been built by a state aid-backed company. That is extremely important because, with BiFab facing potential collapse, ministers know what the realistic prospects are of a domestic supply chain in Scottish offshore wind and of Scotland being the world leader in offshore wind. We have just had two projects amounting to over £7 billion, and not one job in manufacturing will be brought to Scottish shores as a result.

The Convener: We may be having slight difficulties on the technical side of things. Everyone is online remotely apart from two committee members, the clerks and me. We will just have to work with the system. I will bring in Richard Lyle, who is joining us remotely.

Richard Lyle (Uddingston and Bellshill) (SNP): My questions are for Jason Fudge. What investment or financial guarantees were in your business plan when you took over BiFab? Have you met all those commitments? Would you be willing to share that business plan publicly with the committee? How much has DF Barnes invested in BiFab since its acquisition of the firm in 2018? What has that money bought and achieved?

Jason Fudge: Our business plan was set out in great detail, and it was provided to the Government late in 2017 and into early 2018. As part of that business plan, we set out our vision for BiFab, and we set out how we would implement that business plan in conjunction with the Scottish ministers, who were the other shareholder. The business plan's intent was always that the Scottish ministers would be the primary financier of the business. It set out the money that was required as part of the revitalisation of BiFab, and that money was coming from the Scottish ministers. That was agreed between the parties.

There was quite a lot of discussion about the investment that might be required in the yards in Fife and Lewis, which are primarily Government owned, particularly the yard in Methil. We decided and said in our business plan that we would convene an infrastructure working group, and that group began in 2018. It met numerous times and included folks from BiFab, DF Barnes and JV Driver in Canada, the Government and local government in Fife. The group met and agreed on primary infrastructure works that would happen, particularly at the Methil yard. Concreting happened there. It was agreed that that investment would be paid by JV Driver, as was done in previous agreements with BiFab, as part of the increase in rents for the yard.

The infrastructure investment is not the primary reason why BiFab has struggled. That was set out in our business plan. The primary reason why BiFab has had a challenging time with the renewables sector has been driven—Hazel Nolan referred to this earlier—by open market competition, state aid legislation and the fact that we have an ever-increasing scope of competition from state-financed enterprise. We ran into that situation many times with other entities in Europe and see it now in particular with firms from the middle east and Asia.

If we understand the market that BiFab must compete against, we can see that there is no level of investment that could overcome that.

Developers must agree supply chain plans that guarantee a minimum amount of work for the Scottish supply chain. That is what happens in most jurisdictions in which we operate and we view it as a key success factor for supply chains in the Scottish renewables sector.

Richard Lyle: This is a question that I posed last week. If we cannot get a contract because the price here is too high and companies can buy from east Asia or somewhere else, how will we win contracts? How can you, or the Government, ensure that work goes to BiFab? I am sorry if I am straying into someone else's question.

Jason Fudge: There must be supply chain agreements. Those are the basis of major energy infrastructure work here in Canada and in the United States and contracts for executing infrastructure in Africa. Many jurisdictions have local supply chain protection. If we look at land-based projects, such as an energy infrastructure project, in the UK, that work is largely completed in the UK because of the type and location of the work. That type of work requires less supply chain protection than a marine-based project, for which the work can be brought in from elsewhere.

When we first looked at acquiring BiFab as a going concern in 2017, BiFab's competition came at that time from the UK and northern Europe. The scope of that competition had increased by 2018 to include all of continental Europe, and then it expanded to include the middle east. Competition now comes from across the globe, particularly from Asia. Much, if not all, of the current foundation work for offshore UK renewables projects is happening in the middle east and Asia, which have the lowest costs because of cheap labour, state aid and economies of scale. There is virtually nothing that the UK supply chain can do to compete with those companies on price, other than creating supply chain protection for the industry.

We never expected 100 per cent of the work to be done in the UK. We know that the UK does not have the capacity to do 100 per cent of the work, particularly on foundations. However, a reasonable amount of that work could have been executed in the UK, had there been the appropriate agreements with developers.

Richard Lyle: It was suggested last week that Scotland does not have the facilities.

Why does DF Barnes think that the Scottish Government should provide the financial guarantee for the Neart na Gaoithe project? What prevents DF Barnes, or its parent company, JV Driver, from providing that guarantee? Are you suggesting that Government should provide the guarantee?

09:15

Jason Fudge: When we took over the business in 2018, the first thing that we did was to add BiFab to our global bonding facility. That was not easy. I was involved in that process, which took many months. BiFab was in a challenging financial and commercial situation and was in effect an unbondable business. We worked closely with BiFab's management and with our bonding provider to get BiFab on to our global bonding facility. We provided the first insurance and guarantees for the project for 150 pin piles for Moray East. That was largely executed on Lewis.

Sometime towards the end of that project, an annual review undertaken by our bonding agency reviewed the commercial situation of BiFab, the market conditions and the contractual forms that are utilised in the offshore renewables industry, and determined that the associated risk profile was beyond the scope of what the bonding agency could sustain and that, therefore, 100 per cent cash security was required for all future bonding. We set that out in a statement that we made last week.

We brought that to the attention of the Government, because that was not part of our plan. It was something that happened unexpectedly and we wanted to work together to find a solution, so that BiFab would not be precluded from future works, particularly because we were negotiating the NnG contract at that time. We discussed it with the Government, the Government discussed it with its advisers and it was determined that the Government could provide the bond and guarantee for the NnG project. That was put in front of the finance committee sometime late in 2019 and commercially approved, based on the award of contract.

Richard Lyle: Thanks for that.

The Convener: There is a supplementary from Graham Simpson.

Graham Simpson (Central Scotland) (Con): Hello, Jason. I really appreciate you either staying up late or getting up very early, because I realise what the time difference is. I am not sure that I heard an answer to Richard Lyle's question about how much DF Barnes has invested in BiFab since it was acquired in 2018. Did you give that answer? I did not hear it.

Jason Fudge: I would not be able to tell you exactly what we invested in terms of financial dollars, but I can tell you that we invested a huge amount of time and resources in terms of our people here in eastern Canada, particularly me and Sean Power, who are in this committee session today. We spent more than 50 per cent of our time involving ourselves with the management

team at BiFab, supporting them and actively pursuing bids. A project management team came from Canada to support the pin piles project. We invested in training and the bonding facility and we worked closely with the infrastructure working committee to make sure that there was an appropriate level of investment in the yards for them to be successful. Since our partial acquisition of the business in 2018, alongside the Scottish Government, none of our pursuits, particularly in the offshore wind sector, was ever not awarded because of lack of infrastructure or investment in BiFab. They were always lost due to cost competition from foreign fabricators.

Graham Simpson: You must know how much money you have invested in the company. You must have an idea. Jason Fudge or Sean Power, one of you must know that figure. What is it?

Sean Power (DF Barnes): I can probably come in on that. On this whole type of investment, the committee will probably remember that, when we began looking at the acquisition of BiFab, it was a going concern. It was going through a project called the Beatrice project. However, just before we were able to acquire BiFab, the Beatrice project got into some trouble, the company got into significant trouble and all the cash was depleted. Were it not for Government support at that time, the company would certainly have closed and gone into administration. It was in that atmosphere that we came in—the Scottish Government invited us in—to take a look at operating the company and restoring it over a period of time. We agreed to do that. At that time, BiFab was not an investable company, because it had just lost all its money and had significant trouble with the execution of a contract. We thought that there was a lot of promise in both the management and the workers of the company, and we wanted to do business in Scotland.

As for investment, however, after that kind of significant loss and near catastrophe, it was not a company that we would put millions of pounds into. That would not have made sense. In the discussions with the Government at the time, it was always understood that we would come in and try to restore the company, but we would not be providing a lot of cash. The Scottish Government agreed to that and understood that, and it thought that it would be the primary financiers, as Jason Fudge said.

Graham Simpson: That is fine but, while we know how much money the Government put in—£37 million, or probably more than that, in fact—neither of you has yet answered the question of how much money you have put in.

Sean Power: You have to remember that, of the £37 million, the lion's share, by far, went to saving the company from the Beatrice project.

The Convener: I do not think that we are going to get an answer to that question.

Jason Fudge: All £37 million of the money that Sean Power has just referred to was put into the business to save the Beatrice contract. There was a further working capital facility that was provided by Government after we acquired the business. The £37 million was a pre-existing issue, from before our ownership of the business. That level of investment was much smaller than was required by the business, and it was set out in our business plan.

Graham Simpson: Obviously, I am not going to get a figure out of them, convener.

The Convener: What was wanted—as Mr Simpson asked—was the figure invested, not the amount from the Government, which we know.

Alex Rowley: I will pick up on the points that have just been made. I note the statement that was made by BiFab last week, which said:

“The final purchase discussions and agreements always envisaged that the Scottish Government would be the primary financier of the business as it recovered from the Beatrice project”,

which is where the £37 million went. The statement went on to say that the Scottish Government

“to date have provided less than 50% of the working capital”.

If, at the time of the discussions for the final purchase, there was recognition of that in Government, what changed? The Government minister who was dealing with the matter at the time was the finance secretary—the minister obviously changed—and the Government department seemed to shift from finance to a different part of Government.

In your opinion, what changed? You had an agreement and it seemed clear that the Government understood that it needed to invest. In late 2019, the Government was prepared to put up the bond and went to the finance committee to do that. What changed? That is the question that the workforce are asking.

Jason Fudge: It is a great question, and we do not have the answer to it, unfortunately. It is a question for Government officials and ministers.

In our view, and according to the general line of communication, there were challenges in providing additional financing in a way that would have been state aid compliant. We have had an on-going discussion with the Government on that subject for years. That point was identified pre-acquisition, and it was discussed during the acquisition process to ensure that our financing was state aid compliant.

We recognised that as a challenge for the business, not only from a financing point of view but from a competitive point of view, in relation to European Union open market rules. We view them as being akin to each other—state aid in terms of investment into the business but also challenges associated with state-led supply chain preference policies. That made the situation very challenging for BiFab throughout the term of our ownership.

What changed in 2020? Again, it became evident to Scottish Government ministers—we have had no feedback on this—that they could not provide additional financing for BiFab in September 2020 because doing so would not be deemed to be state aid compliant. We were shocked by the decision, because we had just signed a letter of intent to enter into a contract with Saipem for the NnG contract that would have put 400 or 500 people back to work in Fife.

The contract, which had been negotiated for quite some time, was delayed because of the Covid-19 pandemic. However, in the face of the pandemic, and despite the major infrastructure project that would put a bunch of people back to work, the financing, assurances and guarantees were withdrawn. We were shocked.

Alex Rowley: Can I follow that up, convener?

The Convener: Please do.

Alex Rowley: I have read the legal opinion that GMB Scotland got on the issue. That certainly seems to contradict what the Government says. Have the company and the trade union been involved in any of the discussions around the Government's legal opinion? Has either the company or the trade union been involved in the discussions between both Governments and the BiFab working group?

Jason Fudge: We have provided information to the Scottish Government and its advisers on state aid matters. We were not involved with the BiFab working group, which was particularly frustrating for us because the management and directors of BiFab, alongside our union partners, were instrumental in facilitating the working group.

We have not had as much involvement. We do not understand all the ins and outs of state aid compliance, because that was always a matter for Government officials. We brought up numerous options and discussion points that we thought were relevant, particularly in relation to the NnG contract.

The intent of EU state compliance and open market economics is—at least in our view—to ensure that there is fair competition between all member states of the EU. In the case of the NnG contract, we were not even competing against other fabricators in the EU—all our competition

was foreign. Therefore, we provided our opinion on the matter that, while acknowledging that we are not experts on state aid compliance, we did not see how state aid compliance could apply in a situation in which we were not even competing against other firms in Europe. However, that did not seem to impact the view of advisers or Government officials, and, unfortunately, their decision on state aid compliance has not changed.

Alex Rowley: Was GMB Scotland involved?

Jason Fudge: I would say that it was involved in a very limited capacity, if at all. Perhaps Hazel Nolan can answer that question better.

Hazel Nolan: I agree with that assessment—we have had limited communication. In fact, that has been one of the issues that we have had with the whole process.

There are a number of questions that we would ask, based on the legal advice that we have submitted to the committee for the purposes of this session. Our understanding is that the Scottish Government made clear its guarantee in September 2019, so why did it take so long for it to pull it and why did it do so only at the last minute? What evidence is there that it tested the market? What evidence does it rely on that providing support would be in breach of state aid rules? Why will the Government not release that information?

The matter should be subject to judicial review. Obviously, the committee is not in a position to call for a judicial review, but we will be calling for that, and we would like the committee to call for the release of the Government's legal advice.

The Convener: I ask Hazel Nolan to clarify—

Jason Fudge: I can add one thing to that statement, if you do not mind, convener.

The Convener: Briefly.

Jason Fudge: Part of the reason why there were issues of state aid compliance was the matter of time. The support was state aid compliant in late 2019 and in early 2020. Then came the Covid-19 pandemic, which is obviously beyond the control of the business, and that impacted many businesses in the wider UK, particularly in Scotland. That is what pushed out the ultimate award and commencement of the project. At that time, when there was such a negative impact on employment globally and there was an opportunity to put 500 people back to work, the position moved from being state aid compliant to being non-compliant in the Government's view. During that time, we also had a request for proposals for another offshore wind project, Seagreen, for which the scope of our competition was entirely Asian. BiFab was not successful in getting that project, purely because

of the price. The amount of time also had a negative impact on the state aid view.

09:30

The Convener: I want to go back to Hazel Nolan briefly, before we go to questions from Colin Beattie. You said that you are calling for a judicial review. Surely, you have to decide whether to take the matter to court; it is not for the committee to initiate judicial reviews. What did you mean by that?

Hazel Nolan: The only way that we would be able to get the information is through a judicial review. I did stipulate that that is beyond the remit of the committee, because it cannot call a judicial review on its own body.

The Convener: It is something that the GMB can do. It can initiate a judicial review, can it not?

Hazel Nolan: Potentially. Fiona Hyslop has told us that the only way that we will be given the legal advice that was provided to the Scottish Government is if there is a judicial review. That is what a Scottish Government minister has told us.

The Convener: Yes, and the advice that you have received, which you have shared with the committee, indicates that that advice proceeds partially on incomplete information because of the unwillingness of the Scottish Government to reveal the advice that it has received.

Hazel Nolan: That is correct.

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

Colin Beattie (Midlothian North and Musselburgh) (SNP): I would like to pursue one or two angles on the question of this guarantee business. Just to clarify, is it DF Barnes's view that BiFab could get a financial guarantee to cover the NnG contract from the private sector? Would it be a question of the price of that particular bond, or is it completely impossible?

Jason Fudge: It would be extremely challenging for BiFab to get that assurance and bonding on its own merits.

Colin Beattie: Going back to the situation of DF Barnes and JV Driver, which you said went through a challenging period in terms of their ability to get bonding, why are you not providing that guarantee?

Jason Fudge: We addressed the situation in the statement that we made last week. Just to clarify, it is not an issue for us to get bonding or provide guarantees. The company has the ability to do that, and we can do it for companies within our business that qualify for the bonding and guarantees that come through our bonding

agency. Upon review of BiFab, our bonding agency determined that the company was, in effect, unbondable and that it would require 100 per cent cash security for any future bonds and guarantees.

Just so that the committee is aware, we are talking about large sums of money that are required as part of offshore wind contracts to provide assurance that the work will proceed as planned. The terms of the warranty bonds and performance bonds are quite long. We attempted to negotiate those terms to the lowest common denominator, but we were competing against large, state-led firms from outside Europe that have very significant resources. If another fabricator is prepared to provide a bond, BiFab will also have to provide a bond.

We are talking about large amounts of money—millions and millions of pounds—that would need to be cash secured and outstanding for up to seven years. That is the scope of what you are talking about from a bonding and guarantee point of view.

Colin Beattie: You are saying that the term of those bonds can be seven years.

Jason Fudge: Yes. For clarity, the term of the bonds is typically the duration of the execution of the work, which, in these contracts, typically runs for between 18 and 24 months. There is then a minimum, in many cases, of five years for the warranty period.

Colin Beattie: Are you aware of any other Governments in Europe providing financial guarantees to companies in the offshore wind supply chain?

Jason Fudge: We cannot say for certain. We certainly do not have insight into those businesses and how the assurances and guarantees were provided. However, we will bring to the attention of the committee the example of a state-led fabricator and ship repair business in Spain that we competed against on numerous occasions. It is state financed and state owned in Spain, and we were uncompetitive against that business on the basis of the pricing that it could offer, because it was a state-led business, and the assurance package that it could offer.

One pursuit that was particularly frustrating for us, as shareholders in BiFab, and for the BiFab management team, was the Kincardine offshore wind project. If anyone has read the consenting documents associated with Kincardine, they will know that it was set out in those documents that 100 per cent of the fabrication was going to happen in Scotland—in fact, 100 per cent of the fabrication for that project happened in Spain.

That brings us back to the challenge that we identified around making sure that there are supply chain plans that are enforceable and that protect the Scottish supply chain. In our view, on the basis of a commitment from the developer, 100 per cent of that work should have been done in Scotland; however, 100 per cent of the work was done by a state-led business in Spain.

Colin Beattie: I recall that we heard allegations in previous evidence sessions that state aid is not a level playing field across Europe. We have not investigated that as a committee, as it is outwith the remit of what we are doing. Nonetheless, do you have any comment on the issue of there being a level playing field in relation to state aid across Europe?

Jason Fudge: State aid compliance rules are not our area of expertise. However, in my opinion—which is based on my involvement in the industry and, in particular, BiFab's scope for competition over the past two and a half years—it is worth investigating how all the countries of the EU manage state aid compliance. Although we cannot say that any one country or business is not complying with state aid rules, operating in Scotland was particularly challenging for us, and it seemed to be less challenging for other businesses to operate in other parts of the EU.

Maurice Golden (West Scotland) (Con): Earlier in the meeting, it was mentioned that the £37.4 million of Scottish Government investment, which included equity and loan facilities, was purely to save the Beatrice contract. Will you say a little bit more about that, including about whether the Scottish Government knew that that investment was not necessarily about securing further contracts but simply about saving the Beatrice contract, and how many jobs that was associated with? I would like to hear a bit more information on those points.

Jason Fudge: The entirety of the £37 million that Maurice Golden referred to was invested in BiFab to complete the Beatrice contract; we and the Government are fully aware of that amount. That amount, and a small additional amount shortly thereafter, was converted at the time of our acquisition into the Government's equity position in BiFab. It is therefore clear that that amount was 100 per cent specific to the close-out of the Beatrice contract.

Maurice Golden: How many jobs were associated with that investment in completing the Beatrice contract?

Jason Fudge: That takes us back about three years, so I cannot say specifically, but about 1,000 people would have been working on that project to close it out. Sean, is that your recollection as well?

Sean Power: Yes—between 1,000 and 1,200 people were working on it.

Maurice Golden: Thank you for that. Since that contract, did the Scottish Government invest that amount on the presumption that you would be successful in winning new contracts, which have since transpired? Were there any discussions around that, and did you have any communications in relation to that?

Jason Fudge: That initial money was purely for Beatrice, so, although it was helpful in the sense that it kept BiFab as a going concern, ultimately it was consumed entirely by completing that project. Therefore, it did not provide access to capital for future projects and pursuits.

Maurice Golden: Okay. Similarly, was the separate loan facility of £15 million after the DF Barnes acquisition to help with on-going work or to help the cash flow?

Jason Fudge: That was what we refer to as a restructuring loan. It was agreed in the early days, prior to our acquisition of BiFab, and, as you say, it was intended to restructure the business, to help in the pursuit of contracts and to provide working capital for the execution of projects including the Moray East pin pile project. We did a subsea infrastructure project for FIRST Exploration & Petroleum Development, which was exported to Africa and was, in part, intended to finance on-going works for the NnG project as well.

Maurice Golden: Thank you, Jason. Over the past few years, how has communication and non-financial support been received from the Scottish Government and its enterprise agencies? Have they been working closely with you? Have they kept that dialogue going? Has that helped you to continue or not?

Jason Fudge: Let us go back to before we acquired the business and became a shareholder in BiFab. Our relationship and interaction with Government were, in our view, incredibly strong. We happened to be working with the business on a going concern acquisition prior to the problems that were encountered on Beatrice. That translated into an on-going dialogue with Government, as part of supporting the business through that difficult time and restructuring it for future pursuits.

Our relationship was incredibly strong, but what the Government did to support the business at that time was significant; it brought all its agencies to bear in support of BiFab and the Scottish supply chain. We had a very strong working relationship with the minister in place at the time, then Derek Mackay became the minister responsible, and we had a strong relationship with him and his team. We continued our pursuits and we were about to begin the NnG contract when we ran into the

pandemic, which was unexpected for everybody. During that time, we could not travel to the UK, and a lot of issues were competing for the attention of Government officials and Scottish ministers. In the past six months, we have had less interaction with Government officials, and it became challenging for us to continue in our pursuits.

09:45

Ultimately, in September, we were advised that the Scottish ministers would provide no further support to BiFab. As I said, that was incredibly shocking for us. We had very little, if any, advance warning, and we were about to put 400 or 500 people back to work in Fife. We had worked so hard on the contract. It was pretty disappointing.

Maurice Golden: We heard from GMB Scotland that every wind turbine in Scotland has been built by a state aid-backed company. In relation to NnG, was the contract that you thought that you could win predicated on some form of state aid finance? The Scottish Government and you would have known the broad cost differentials between you and your competitors. Were you expecting some form of continuing support from the Scottish Government in order to be able to continue to operate at a level similar to the level at which you had operated previously?

Jason Fudge: Up to September, we were expecting the Government to support the business with the bonding guarantees and working capital facilities that had previously been agreed. When that support was withdrawn, it put the business in a very challenging situation.

Outside that, we had on-going and recurring dialogue with Government officials and ministers regarding the competitiveness of the UK and Scottish supply chain without supply chain protections.

The Government was working very closely with us to improve market conditions in the offshore wind sector. Unfortunately, improvement was happening much slower than we and other businesses in the Scottish supply chain for offshore wind would have liked. The ScotWind initiative, which will put greater onus on making developers live by the supply chain plans that they present as part of the consenting process, is a huge step forward. Unfortunately, the support for BiFab has been withdrawn at a critical juncture, prior to ScotWind having a lasting and significant impact on future projects. That is also disappointing for us.

Maurice Golden: Thank you.

Alex Rowley: Many nations have supply chain protections that limit the amount of international

sourcing that is available to major energy infrastructure projects. No such legislation exists in Scotland or indeed the United Kingdom. Have DF Barnes and the GMB made representations and suggestions to Governments? Have you asked why we do not have such protections? I think that people in Scotland will be astonished to hear that, although the company that got the contract for Kincardine said that 100 per cent would be fabricated in Scotland, 100 per cent was fabricated in Spain. Does that mean that we need legislation? Do other European countries have legislation?

The Convener: I think that Jason Fudge has said that the problem is that there is no protection and no enforcement. There are contractual conditions, as Mr Rowley said, but they are not enforced. I suppose that there are two aspects to that. Is there a need to change the law, or is it just a question of contracts being enforced before the courts—instead of just talking about that—by whoever has the power to do so, which in this context is, I presume, the Scottish Government?

Jason Fudge: I will speak to the issue from BiFab's point of view. I think that the most significant changes that can be made that will have a lasting and positive impact on the Scottish and UK supply chains for many things, including the offshore wind sector, are legislative changes to provide protection to Scotland-based and UK-based business.

Many of our businesses operate in Canada, where we work on large energy infrastructure projects, such as oil and gas and hydro, although not offshore wind. All our jurisdictions have supply chain protection. When a developer or a proponent wants to develop an offshore oil and gas platform or a major hydro project, they negotiate with the Government, and the Government and the proponent agree on what percentage or components of the work it will be mandatory to have done in the local supply chain. That is legislated in, as part of the approval of the project, which means that the developer or the proponent cannot not do that without paying massive penalties that would be in excess of what they would pay to get the work done in the local supply chain.

Those protections are important. They are good for the local supply chain and, importantly, good for the people who, ultimately, will pay for the energy and the power that come from the projects. In addition, such protections help to overcome major differences in the cost structure of businesses that operate in different jurisdictions, which are driven, in particular, by people's pay. The pay of those who live in more developed nations such as the UK, Scotland and Canada is much higher than the pay of those in other, less

developed parts of the world. Such protections ensure that we can have good, high-paying, skilled jobs that enable the work to be done in a safe way, at the highest level of quality and in geographic proximity to the projects, and which allow the people and families who will pay for the projects by paying for the power and the other energy that they produce to get the economic impact from those projects.

We are a huge supporter of local supply chain regulations, legislation and plans. That is what we see in Canada, the United States and other jurisdictions, and we think that it is important for people and businesses in Scotland, too.

The Convener: Hazel Nolan, would you like to comment?

Hazel Nolan: Yes, I would. I know that most of this morning's session has been focused on the ins and outs of the NnG and Seagreen projects, but more than 10 years ago, we were promised 130,000 jobs in the renewables sector by 2020. We have a couple of thousand jobs when it comes to construction, and the whole sector in the low-carbon renewables economy is worth about 20,000 jobs. Therefore, we are more than 100,000 jobs short of the predictions that we made. That is not down to the intricacies of the Seagreen contract. For example, why were the yards not concreted years ago for that investment? That comes down to a lack of a holistic strategy at a UK and a Scottish Government level. That needs to be pointed out.

However disappointing it is to lose out on Neart na Gaoithe and Seagreen, we have missed out on a litany of contracts. France is a country that, historically, has been overreliant on nuclear and has come to the renewables industry for offshore wind quite late, yet it has made it clear that companies that want to win contracts to produce offshore wind in France need to build in France.

Earlier, we discussed the cost impacts. There is also an environmental impact of putting all the offshore jackets on diesel-powered ships and sailing them halfway across the world. That needs to be taken into account just as much. We have a situation in which Scotland has historically been a world leader in the production of offshore wind and a world loser when it comes to generating jobs in this country.

Alex Rowley: I have two other quick questions. Earlier this week, BiFab issued a statement in which it said:

"Recognising the growing state aid challenges faced by Scottish Ministers ... JV Driver offered, on numerous occasions, to transfer some or all of its shares in BiFab to Scottish Ministers at no charge to the Scottish purse."

What difference would it have made if the ownership of the company had sat with the

Scottish Government—if Scottish ministers had taken up that offer? Briefly, what are your thoughts when you hear Fiona Hyslop stand up in the Scottish Parliament and say that part of the reason behind the situation has been the unwillingness of the parent company and major shareholder to provide working capital?

Jason Fudge: Those are great questions. When it became evident to us that it was going to be challenging for the funding agency to provide assurance for BiFab, we discussed many solutions and ideas with the Government around replacing the assurance and guarantee coverage that the agency had previously provided to the business. Ultimately, it was determined that the Government could provide the guarantees on a state aid-compliant basis, and that is what was agreed and put in front of the finance committee late in 2019. That was what we considered to be the solution and what we and, in our view, the Scottish Government were intent on doing, up until the support was withdrawn in September.

In relation to the transfer of ownership of the business, things became increasingly challenging due to the pandemic and market conditions being in a distressed state, and we understood that those circumstances would be considered as part of state aid compliance. We again discussed solutions with the Government, which said that the most important thing was that the business survived and that we could continue as the shareholder and major stakeholder.

Beyond the scope of our interests in the business and in relation to the Scottish supply chain more generally, we said that, if it made sense to transfer ownership at no cost to the Scottish Government and if that facilitated solutions for the business, we were prepared to do that, because the important thing was that the business continued to survive. Unfortunately, that did not happen. We cannot say whether the situation would have improved or whether that would have had no effect on state aid compliance, because that was a matter for Government officials and advisers. However, we put that offer out there as a mechanism to ensure that no stone was left unturned in finding a solution for BiFab and assurance for NnG.

The Convener: Graham Simpson has a few brief questions before I bring in the deputy convener, Willie Coffey.

Graham Simpson: I want to go back to the state aid issue and the legal advice that Hazel Nolan has had. I have read through that advice, which seems to be saying that the Scottish Government could have provided a guarantee and that, even if it felt that it could not do so right now, it could defer the decision for a few weeks until 31 December, when the EU state aid regime will not

apply here. Would you agree with my analysis of that?

Hazel Nolan: I guess that I would. I mentioned France earlier. When we had our last summit on renewables, I asked the minister what the difference was between France and Scotland, for example, and I was told that the French have more vociferous lawyers. That is a really disappointing response from the Scottish Government.

I believe that this is ultimately down to political will. Our legal advice has been provided, but I repeat the caveat that we do not have the legal advice that has been provided to the Scottish Government—I make that clear again. However, I agree with the sentiment of your point.

Graham Simpson: You mentioned that Fiona Hyslop had told you that, in order to get the legal advice that was provided to the Government, you would have to embark on a judicial review. How did she communicate that to you?

10:00

Hazel Nolan: I held a meeting with members of the Scottish Trades Union Congress and minister Hyslop's office. Again, we asked formally for the legal advice, and the minister said that the only way that that advice would be released would be under judicial review.

Graham Simpson: That was said at an in-person meeting, or a virtual meeting, so she spoke those words—she did not email them to you or anything like that. It was in a meeting.

Hazel Nolan: Yes—it was in a meeting.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Good morning, everybody. My questions follow on from the point about state aid rules. The cabinet secretary stated clearly that state aid rules make it impossible to intervene, and that view is shared by United Kingdom Government ministers. Has the GMB pursued that direction of travel by seeking the UK Government's view on all this?

Hazel Nolan: Yes, we have. From the moment that we heard about the situation regarding the guarantee and the effect that that would have on the BiFab yards, the GMB pursued a dialogue with the UK Government. One question that needs to be asked is, at what stage did the Government begin to initiate a conversation with Westminster in order to intervene on the issue?

Our information tells us that that was very late in the day, despite the fact that it knew more than a year ago that it was going to need a further guarantee, and it rescinded that at very short notice. The committee should take that up.

Willie Coffey: So it was the view of UK ministers, too, that it was not possible to intervene in such circumstances. Is that quite clear? Is that correct? They both had that view.

Hazel Nolan: That is what they wrote in their statement; I have no reason to dispute it.

Willie Coffey: In order to clear that up, I have a question for Jason Fudge.

Some committee members have asked questions about your company's level of engagement, involvement, investment and so on. Can you explain something to us? How can any of us reasonably expect a successful outcome if your company and the parent company, JV Driver, have not really invested in anything other than your own staffing resources and expertise? There has not really been the level of investment of capital or anything from the two parent companies that, let us say, make such projects a success. How would you respond to that?

Jason Fudge: We set out a business plan that could have been very successful for BiFab. That plan set out that we were going to finish the Beatrice project and revitalise the business in its existing markets.

When a business is trying to turn things around, the primary focus—at least in our view—is on opportunities that are closest to the business at home. Numerous multibillion-pound projects were going to be installed within a stone's throw of BiFab's own facilities.

Our view, which was shared by Government at the time, was that BiFab had, and should have had, a competitive advantage, and should be able to pursue, and be successful in pursuing, those projects. We did that vigorously. All our staff, right through to our senior management team, which is based in western Canada, pursued and supported that initiative vigorously.

Ultimately, the reason that BiFab was not successful in all its pursuits—it was successful in some of them, but it was unsuccessful in the major projects—had nothing to do with the level of investment in the business or in the yards. It had to do with foreign, international, low-cost competition, which was, in many cases, state financed. That is the single largest factor that led to the situation that we currently face with BiFab.

Hazel Nolan gave you some numbers on the limited impact, from an employment point of view, of the offshore sector on the Scottish and UK supply chain. It is shocking for me to look at that, as the president of a company that—along with our parent company in western Canada—has invested a lot of time, effort and resources in BiFab. The UK and Scottish supply chains were set up for success and to take on a global

leadership position on offshore wind, as a result of Scotland's success in the oil and gas industry.

Scotland was a world leader—Canada's offshore oil and gas sector is in its infancy compared to how established and successful the Scottish offshore sector has been. Many of the businesses that could have been successful in offshore wind had all the necessary skills from the oil and gas sector. The Scottish and UK supply chains had many advantages, but unfortunately there was not the necessary supply chain protections. The financing for the projects is extremely onerous and is led by large investment firms that require huge amounts of assurance and warranty. Given what we have seen in the past two years, any business that wants to be successful in the offshore wind sector will need Government support in its endeavours to win contracts. The businesses need protections from the Government. If they do not have that support the work will all go to the lowest cost provider.

We have not yet discussed the contracts for difference auction process, which is what drives that in part. That process is a race to the bottom. It is based purely on price and, in our view, it is not reviewed substantively on the basis of local supply chain commitment—the successful companies are those that have the lowest CFD rate. The lowest one—probably of all time—that has come out of the auction process is the Seagreen project. From the point of view of the scope of competition for BiFab, that project will be executed 100 per cent outside the UK—it will be a 100 per cent Asian and middle east solution. In some ways, we cannot blame the developers for doing that because the contract for difference auction is so aggressive that they were driven to the absolute lowest cost solution, which was in Asia.

Willie Coffey: Thank you for that detailed answer. My colleague Gordon MacDonald is going to ask about contracts for difference, so I will hand over to him.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Before I ask questions on contracts for difference, I have a question for Sean Power on employment. When you gave evidence to the committee back in April 2019 you highlighted that the Fife yards had only 30 employees, and that most of those were in management positions, alongside a couple of union folk. Can you give us an update on the current situation?

Sean Power: Since that time, we have executed a couple of successful projects that we are pretty proud of and that we have not talked about much today. The Moray East project was executed first in Lewis and then in Fife, using a combination of both facilities. That employed about 150 tradespeople at the time, as well as the management group. There was another project for

offshore oil that was also very successful and employed about 30 or 40 people in Fife. Those projects spoke a lot to us about the ability of the workforce to execute successful and safe projects. We were pretty excited about those projects. Employment probably peaked at about 200 or 220 people during those projects. We are now back down to fewer than 30 employees—about 15 or 16.

Gordon MacDonald: JV Driver is a multimillion-pound company with fabrication yards in Canada. Have you brought any work to BiFab from any of your other yards?

Sean Power: We have not done that because several things got in the way. Primarily, Covid-19 has meant that some of our opportunities have been pushed back.

As Jason Fudge pointed out, it was always our first intention to compete successfully in the local market for projects that were low-hanging fruit. That is where we have been focusing so that we can try to win work, get people back to work and prove the company's capability. There has not been a lot of work from JV Driver simply because the world's economy has not allowed for it due to Covid. Beyond that, our focus has been 100 per cent laser sharp on projects in Scotland.

Gordon MacDonald: Jason Fudge started to touch on contracts for difference and he has already highlighted that he would like to see supply chain plans with a minimum work guarantee for Scotland's yards.

We heard evidence last week that competitive pricing has driven down the amount of funds that are available to fabricators and developers, which are being forced to look to the far east, and we have heard today about the lack of supply chain protection and that people are not held to account on contract conditions. One of the reasons for introducing contracts for difference was to provide the cheapest electricity in Europe to consumers. The European Union carries out regular comparisons across Europe, and United Kingdom electricity prices are in the top third of 30 countries.

Through JV Driver and others, I know that you have contracts all over the world. Are contracts for difference used anywhere else in the world?

Jason Fudge: Unfortunately, I cannot answer the specific question about whether those contracts are used elsewhere. Certainly, in other parts of our business we have not come up against an auction process such as that.

The intention of contracts for difference, which is to try to keep the rates as low as possible for the consumer and to try to make pricing competitive to reduce the impact on families in Scotland and the

UK, is obviously positive. However, it has the unintended consequence of moving thousands and thousands of high-paying jobs out of the UK and Scottish supply chain and into low-cost jurisdictions in the middle east and Asia, to state-led businesses in many cases. The economic impact of that is incredibly substantial, and it is lost.

In our view, a broader view needs to be taken on the CFD auction process. Yes, of course we need to keep prices competitive for the rate payer. However, we need to make sure that we have the right support for our economy and supply chain, so that the rate payers who are looking for work in those sectors have a job to go to.

We could be thousands and thousands of jobs ahead and, in turn, the funds generated could be reinvested into the economy in restaurants, retail, car sales, home sales and everything else—it could grow from there. In the early days, Scotland and the UK would not have had enough capacity to take on 100 per cent of those projects, so we are looking for a relatively small piece of the pie. When we had those discussions and worked out high-level computations, in our view the additional cost of the projects and additional cost to the rate payer would have been negligible, but it would have started the process of redomesticating those jobs into the supply chain, which would continue to grow. In our opinion, that would have had a lasting and tremendous effect on Scotland's economy.

Gordon MacDonald: I have a question for Hazel Nolan. We have seen Scotland lose out on those highly skilled jobs because of the contracts for difference scheme and the drive to the bottom on competitive pricing.

How sure is GMB that the operational contracts over the lifetime of a wind farm will come to Scottish companies? What can we do about that, when we see that centres of excellence are already being developed south of the border to support and service the offshore wind technology that is being developed there? How sure are we that we can get those operational jobs to be based in Scotland—in Fife and elsewhere—over the 30 years that the wind farms will be operational? What can we do to ensure that that happens?

10:15

Hazel Nolan: That is a very good question, because of course it is extremely difficult. Changes were made to the CFD funding mechanism a good while ago—I can get back to the committee with the exact date of that. It was changed to have a lifetime content guarantee. A big announcement was made recently in terms of moving that content to 60 per cent; however, that is over the 30-year tentative lifespan of those wind

farms, only after which we can expect to look back to see whether it lived up to that guarantee. At that point it will already be too late.

We need to change the CFD system—that is extremely important. An earlier question was about what GMB has done. We have made submissions to the UK Government and the Department for Business, Energy and Industrial Strategy. We are doing a review of the contract for difference system, which could lead to the same results, which is that jobs in manufacturing are not being brought into the UK. Jobs are produced, but they are largely in law or in marketing relating to the renewables sector, not in manufacturing. We will lose a skill base if we do not change something soon.

We have heard from the tier 1 contractors that they want more work. Seagreen is ultimately under the provision of the Scottish energy company SSE, and yet jobs are not coming to Scotland. The heads of renewables of the companies in tier 1 just want a level playing field. They will factor in the cost of manufacturing in the UK and in Scotland as part of the mechanism that they have to go through. They have told us that the rules and regulations are disincentivising manufacturing jobs in the UK and in Scotland. We might find out in 30 years' time whether that content has actually been provided but, as I said, it will be way too late then.

Gordon MacDonald: Thank you.

The Convener: I have a quick question for Jason Fudge, before I bring Richard Lyle back in.

You have talked a lot about legislation being necessary to deal with this. I have two questions about that. We have heard reference to the French having more vociferous lawyers; one can have all the legislation in the world, but if there is not a culture in Government of seeking to fight one's own corner and enforce legislation or requirements in contracts, it will not change the end result. That is my first point.

Secondly, you made clear that you do not have a comparative knowledge—indeed, probably no one has—of the legal systems of the world. However, in Canada, where you indicate that you have some understanding of how the legislative set-up works, there are both federal and provincial Governments. Would you agree that it is necessary for them to work together to bring about such legislation and to bring about a culture that protects local supply chains and the local market?

Jason Fudge: On the first point, we view legislation as being very important in Scotland and the UK for supply chain protection. Right now, legislation does not exist, so there is nothing to enforce. The supply chain plan that I referred to earlier was just that—a plan. It was presented by a developer for use in the initial consenting process,

but ultimately it was unenforceable because there was no legislation that included that plan as an enforceable item.

According to feedback from the Scottish Government, the state aid rules and the EU open market rules prevent it from doing that.

That is something that needs to change. I am not sure how it should change but, if it does not change, the Scottish and UK supply chains will always be at a competitive disadvantage in relation to companies in lower-cost jurisdictions, including the middle east and Asia.

In Canada, we have a different set of legislation and a certain capacity that is available to us. In our operations in eastern Canada, we work primarily on energy projects—wind, hydro, oil and gas and so on—but, in all those cases, which are multibillion-dollar infrastructure projects that are similar in commercial scope to the offshore wind projects in Scotland, the developer and the applicable government, be it federal or provincial, all agree on a supply chain plan, which is written into legislation and is 100 per cent enforceable.

In my experience in eastern Canada, where I have worked for the past 20 years, primarily on energy infrastructure projects, there has never been an instance in which a developer has not lived up to those agreements. In any situation in which a component of the work that was intended to be done in Canada was ultimately not done in Canada, the developer has paid a massive penalty to the applicable government. That arrangement is important. We think that the Scottish Government and the UK Government should work together to ensure that the necessary legislation and rules are in place to protect the Scottish supply chain for offshore wind.

The Convener: On that question about vociferous lawyers or the culture, as it were, in which the developments take place, those arrangements, which are in legislation, are enforced in respect of private companies through agreed contracts and, obviously, through the courts. If a company has the understanding that it is not going to be brought to the courts to fulfil its obligations, that would surely make a difference to how it approaches its obligations.

Jason Fudge: I agree, but, in Canada, that has not been an issue. If work is not done, the penalties and other requirements are absolutely enforced and are paid by the developer.

The issue that we are seeing in Scotland is that the commitments are not enforceable. There is no legislation in place that would enable a Government to take an aggressive position to enforce the supply chain plan. That is the critical first step that needs to happen. Once that is in place, the Government at hand—be it the Scottish

Government or the UK Government—needs to take the initiative to ensure that those agreements and the legislation are enforced.

The Convener: Richard Lyle will ask the next question.

Richard Lyle: My question is for Jason Fudge or Hazel Nolan. We know that many countries have job safeguards. If we do not safeguard our contracts, we will not win any—basically, that is what you have told us this morning. Therefore, should the Scottish Government do the same as other Governments seem to have done, which is to ignore state aid rules and ensure that contracts stay in Scotland by devising ways to do that, such as by citing carbon footprint reasons and so on?

Jason Fudge: I think that the Scottish Government and the UK Government should do everything that they can to pursue those projects. I am certainly not advocating that they break rules, but they need to explore every opportunity to pursue them.

I think that the EU rules need to change. As we said earlier, BiFab is bound by EU state aid and open market rules even when it is not competing against EU companies. It became problematic for us to provide assurances, guarantees and working capital financing for a project in which we had no European competition. How do those rules make sense? In my view, the rules are supposed to ensure that there is a level playing field across the European Union, but they should not be enforced in relation to competition outside Europe. That does not make sense for anyone.

Without understanding all the specifics of the rules, what we have seen with BiFab, and in the supply chain for offshore wind more broadly, is that the rules need to change in order to ensure that the maximum amount of work is done by Scottish and UK people in the respective supply chains.

The Convener: I think that Sean Fudge wants to come in on that. I am sorry—I am now confusing names. It is not Sean Fudge—it is Jason Fudge and Sean Power. My apologies to both of you for conflating your names.

Sean Power: That is no problem at all. The question was about Canada's federal and provincial systems of government, how that compares to Scotland and what the benefits are. We are involved in a lot of mining projects and resource projects, and a lot of big projects overall. In Canada, the resources are generally considered to be the property of the provinces. When a company comes in to develop those resources, the agreements on development have to be between the developer and the province. Therefore, the province stipulates the benefits

agreements. There is a separate agreement with the developer, which is enforceable in the courts.

The Convener: Hazel Nolan wanted to comment, so she can round things off.

Hazel Nolan: It does not come down to any one thing. If we want to have a successful Scottish supply chain—[*Interruption.*]*—*we need the investment in the infrastructure to be able to build that, we need the proper funding mechanisms to support the Scottish supply chain or a UK supply chain, and we need to have political will. On all three fronts, it looks as though we are lacking. [*Interruption.*] The earlier question about why the Scottish Government could not delay the decision so that we would then be outside the parameters of state aid rules was pertinent. We are not asking—[*Interruption.*]*—*people to break the rules, but on those three fronts, we have absolutely been lacking. That is why, as I said, we are 100,000 jobs short of the predictions. It is much bigger than just the ins and outs of what has happened around NnG and Seagreen.

There was a question about environmental concerns. I absolutely believe that we should be factoring those in when it comes to the construction of these wind farms. There is a reason why we are doing this: it is to have a better future for our children, our country and our world. However, when we consider the UK's impact on CO₂ emissions over the past decade, we can see that, when we include imports, all that we have done is offshore jobs and import virtue. We are still contaminating the environment in the same way, because we are building offshore wind technology in China and shipping it back halfway across the world on diesel-powered boats. It is absolutely ludicrous.

Think of the predicament of Scottish workers: they are paying, through their energy bills, for the construction of the wind farms. They can see them from their homes, but they are not getting the work involved in that. We are going to lose that skill base in the very near future. Why would a young person living in Fife invest in welding, for example? Why would they do that at this stage? It is an absolute tragedy.

The union has seen everyone lining up to point the finger for where the blame lies. We are not interested in blame any more. We are just interested in solutions. That is what we have to focus on.

The Convener: Thank you. That was a very vociferous dog in the background, so we have heard from everyone.

Alex Rowley wants to come in with an extremely brief question or comment, and perhaps one of the witnesses can come back with a very short, sharp and witty reply.

Alex Rowley: I want to conclude by asking: where do we go now? In its statement earlier this week, BiFab said:

“BiFab management proposed several project execution alternatives to keep the work at BiFab's facilities in Scotland. This included an option to work alongside Saipem in the Fife yards with the full support of our union partners. BiFab management invited Scottish Ministers to jointly present this option to Saipem and NnG developer EDF. Unfortunately this did not happen. This option still exists today.”

For the workers in Fife and Scotland, are there still options on the table that could bring work and save these yards?

10:30

The Convener: On the question of where we go now, the witnesses have already given their comments on a wide variety of matters. We are out of time. I thank the witnesses for joining us. The committee will, of course, carefully consider what all of you have said and where we, as a committee, consider matters should now go.

I suspend the meeting to allow a changeover of witnesses.

10:30

Meeting suspended.

10:32

On resuming—

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

The Convener: Under agenda item 3, we will continue our evidence taking for our inquiry into the impact of Covid-19 on Scotland's businesses, workers and the economy. Today's focus is on rural areas. We have about one hour for the session.

I welcome our witnesses, all of whom join us remotely. Stephen Montgomery is from the Scottish hospitality group; Graeme Galloway is the programme director of Developing the Young Workforce Dumfries and Galloway; and Jackie Brierton is the chief executive officer of GrowBiz Scotland.

Please allow our broadcasting colleagues a few seconds to turn on your microphones before you speak. If you want to speak, please raise your hand or type R in the chat box. If you need to raise any points about how the meeting is running, please type those in the chat box, too, and we will seek to deal with them.

I will start with a fairly general question. What is your assessment of how rural communities and businesses are coping with the pandemic and the rules to which they are subject? What issues do rural enterprises and young people in particular face? Who wants to comment first?

Jackie Brierton (GrowBiz Scotland): Good morning. It is difficult to give a generalised answer, because the crisis has affected rural economies in different sectors and in different parts of Scotland quite differently.

Undoubtedly, two thirds of the businesses that we have been supporting have been in severe difficulties and face great hardship. Some of them have already closed, but some of them have been able to—*[Inaudible.]*—reasonably well. Counterintuitively, we are also seeing a number of new businesses come forward, as people with viable ideas are taking advantage of some of the opportunities that have come up due to Covid. Therefore, the picture is quite mixed. One of the big difficulties for rural businesses in particular is that they have fallen through the slats with regard to the financial assistance that is available—I can go into that in more detail, if necessary.

For us, one of the issues is that more young people in rural areas want to stay there. In some cases, that is because they do not have a choice; in others, it is because they actively want to create a living there. On the face of it, the current schemes—the UK kickstart scheme and the

Scottish Government's young persons guarantee scheme—are good and generous, but neither allows young people to create their own businesses. There is no mechanism, and no finance in the systems, to allow them to develop their ideas—*[Inaudible.]*—and I think it was—*[Inaudible.]*—a lack of focus on entrepreneurship and encouraging people to create their own jobs. Some in rural areas want to do so, but there is no specific support for that.

Whether start-ups are created by young people or by others, there is a great lack of access to finance. At the moment, no schemes are available and, unfortunately, the banks are not opening new business bank accounts. If people do not have their own capital, it is difficult for them to find the finance to set up a new business.

Stephen Montgomery (Scottish Hospitality Group): Good morning, and thank you for inviting the Scottish hospitality group to give evidence.

The Scottish hospitality group is responsible for more than 200 sites that are spread across Scotland, in both rural areas and city centres. We employ 6,000 people and have a turnover of £275 million. Many—probably about 1,400 or 1,500—of our 6,000 employees are between the ages of 16 and 24. Therefore, young employment is a big interest of ours.

As you will know, our sector has been badly hit throughout the Covid pandemic. Since we opened up at the beginning of July, we have been allowed 15 people, then eight people from three households, and then six people from two households. There is also the farcical music ban and the 10 o'clock curfew. Those measures have affected both city centre and rural businesses throughout the pandemic.

Rural pubs depend a lot on the community, and a lot of people in the community depend on pubs. Restaurants are a safe place to go to socialise, but they have been hit by many restrictions—far more restrictions than have been in place in the rest of the UK. At the moment, it is hard for the sector, and there are no grants that are worth talking about available. We have been very badly hit, so it is a big subject for us.

The Convener: We cannot hear Graeme Galloway. I think that his microphone is muted—perhaps someone can assist with that. I ask him to try again to check whether we can hear him. *[Interruption.]* I am sorry—we cannot hear him. We will try to sort that out. We will move on to other questions and, if we can get the sound sorted, we will bring him in later to comment.

Richard Lyle: Covid-19 has affected us all in our work and leisure, and all types of business have been affected. We all know that rural Scotland relies on employment in a small number

of sectors, particularly tourism. Cities have much more sectoral diversity of employment. Has the reliance on tourism been reflected in public sector support? If not, what actions are needed?

Stephen Montgomery: I take it that those questions are for me. In rural tourism, a lot of our employees are from the area. We try to keep our local people local because, if we lose them, they go to city centres, Europe or other places. The kickstart scheme is good if it can be used. However, we face so many tier systems—one week we are open and the next we are not—that we do not know where we are.

A big problem is not knowing when we can trade, as is trying to stay viable. A lot of rural places are shut because trading is not viable. Most of our staff are on furlough payments, which are a big help for us. We need clarity, which must be provided soon. Many big rural businesses—such as Gleneagles and Auchrannie on Arran—have already closed because of viability issues and because no Government grants have been provided to help. A lot of the businesses involved have a rateable value of more than £51,000. When the pivotal and hardship schemes started in the first lockdown, only 8 per cent of hospitality businesses that applied for grants under those schemes received them.

We face such issues all the time. The banks are not helping either, because they are following the traffic light system—that is similar to 2008 and 2009, when road haulage was put on that system. In more rural areas, banks are not giving younger people mortgages, because hospitality is on the traffic light system—that applies even to small overdrafts. We are in a bit of a dilemma that we need immediate action on.

10:45

Richard Lyle: There is confusion out there. Some people do not know what level they are in and whether they should be open. I get a lot of emails from people complaining, “This shop’s open but I can’t open.” What do the witnesses suggest we should do to resolve the confusion?

Stephen Montgomery: The UK and Scottish Governments need to sit down, open the door and talk to hospitality businesses more than they are doing. I am in a group that gets a call once a week to tell us what is happening—not what is planned. We have no input at all, although the SHG has made many proposals to the Scottish Government for alleviating the issues that we are being hit by.

Some restrictions appear in guidance, as with the levels system. We got the information at 8.20 on a Friday evening about what would come into effect at 6 o’clock on the Monday morning. Operators cannot plan in such a situation,

because they make food and beer orders three or four days ahead—that is the lead time.

The SHG encourages the Scottish Government to sit down with us and give us a seat at the table to discuss the Government’s issues and to allow us to discuss our issues. That would create an easier working relationship, so that we can tell our operators and their staff where the Scottish Government is and what it plans to do. There is confusion among operators—and among customers, which is more important.

Richard Lyle: Does anyone else want to come in?

Jackie Brierton: I want to comment on your original point, which was about tourism dominating the rural economy. You are right that a lot of areas in Scotland depend on tourism, but there is a huge number of diverse enterprises and businesses beside that. What we are seeing, certainly from the range of businesses that we support, is that there is quite a—[*Inaudible.*—] in the creative services sector, for example, who are finding different ways of selling their art and so on. We are also seeing a huge increase in different ways of providing care and wellbeing, which is providing jobs—[*Inaudible.*]

I totally sympathise and agree with Stephen Montgomery that hospitality businesses have been hugely badly hit, but we are kind of forgetting a whole range of other businesses in rural areas that are able to grow and survive. However, they need—[*Inaudible.*] If anything, the lobby for tourism and some other sectors has drowned out the fact that there are other businesses that could be providing employment and growing, but that are not getting any attention. That is not to say that hospitality is not critical, but there probably needs to be more balance and an opportunity for the voices of those other businesses to be heard.

Richard Lyle: Is Graeme Galloway able to come in? If not, I will finish there, convener.

Graeme Galloway (Developing the Young Workforce Dumfries and Galloway): Can you hear me okay now?

The Convener: Yes, thank you. That is much better.

Richard Lyle: Excellent. Carry on.

Graeme Galloway: We work with a number of business sector forums across Dumfries and Galloway and it is probably fair to say that Covid has hit different sectors in different ways. The engineering sector, for example, is fairly buoyant, particularly the companies that are manufacturing for agriculture, agricultural buildings and suchlike. At the other extreme, hospitality and tourism is far and away our worst-affected industry. It is clearly a very important industry for Dumfries and Galloway

and it is almost decimated. The events that are held in the region throughout the year, such as the Wigtown book festival or the Eden festival, which are big draws into the region for tourists and others, have all been wiped out. It is a mixed bag; some industries are working well, but others, particularly hospitality and tourism, have been hit hard.

Alex Rowley: I understand the particular impact on tourism, which is not just in rural parts. Have there been any difficulties regarding the different restriction levels in the country? I support them, because it seems sensible to try to keep parts of the economy open as much as we can but, at the same time, I live in a level 3 area and I am sure that people in the Highlands would not want people from level 3 or level 4 areas heading up there. Specifically, are the travel restrictions that have been put in place generally supported? Is there a recognition that health comes first or do people feel that there are difficulties and that they would prefer the rural economy to be opened up?

What other areas of potential growth are there in the rural economy? One that jumps out is forestry, which would help us to tackle many other issues, including environmental ones. Where is there potential for growth in the rural economy?

Stephen Montgomery: That goes back to Mr Lyle's question. If we had been given a seat at the table during the development of the levels system in Scotland, we would have been able to alleviate many of the problems with people travelling between different levels. In Dumfries and Galloway, we are stuck in the middle of an English lockdown to the south, which will probably go down to a tier 2 at the weekend—tier 2 is on the border of the Scottish level 2 and level 3—and level 4 to the north of us, from South Lanarkshire and Ayrshire and across the central belt. We are continually trying to ensure that we do not accept people from those areas—not even someone from a level 1 area coming into level 2. I am sure that Graeme Galloway will back me up on that.

If we had had some prior warning or some input to the levels system, we would have been able to adapt them to ensure the viability of businesses. In level 3 in Scotland, people are only allowed to open from 6 am to 6 pm, with no alcohol. Those hours are completely arbitrary. Peak times are from about 12 to 2.30 and then from 5 to 8.30 or 9 o'clock. At the moment, in level 3, we cannot get evening service, which means that, if people have an occasion, they will look to travel elsewhere. For example, people will travel from Midlothian to East Lothian—one is in level 2 and one is in level 3. People will do that.

In Dumfries and Galloway, the issue is that people will come across the border from England, because we are in a lower level. However, in

England, last orders is at 10 o'clock with an 11 o'clock kick-out time, whereas here in level 2, we are allowed to serve alcohol with a meal inside—this is where it gets confusing—but not with a meal outside. If we were allowed to serve until 10 o'clock in the evening, hoteliers in all areas would be able to serve their residents. If a resident comes in at 9 o'clock for an evening meal, they cannot have an alcoholic drink. There is absolutely no scientific reason why someone cannot have a glass of wine with their meal.

If we had been able to sit down and talk about the levels and tiers before they were published, we would have had better input and helped to prevent people from crossing from one tier or level into another.

Alex Rowley: Does anyone want to pick up on my question about growth areas for the rural economy?

Jackie Brierton: Briefly, on Mr Rowley's first point about support for the different levels, we hear from rural villages and towns that they are getting a lot of support in keeping their areas safe and meeting the restrictions. The biggest issue is the time available to prepare when decisions are made quickly, which is when there are problems adapting. At the moment, there is still uncertainty whether the level 3 and 4 areas will stay in those levels. That makes it almost impossible for an accommodation business in the Highlands, for example, to know whether to go ahead and promote an offer for Christmas and the new year, which would usually be one of its big income periods, given that it does not know whether it can legally attract people from other areas.

Consistency and the ability to plan ahead are the biggest issues. That is one reason why businesses such as Gleneagles have made the decision to close—it is easier and more cost effective. Some smaller businesses do not have that luxury and have to try to bring in income in some way. As I said, many of those businesses do not qualify for any support, for various reasons. There is still that huge wedge of self-employed people in rural areas in particular who have not qualified for support for a complex range of reasons: if someone has a mixture of employment and self-employment or if they have started a business only in the last 12 to 18 months, they do not qualify for the self-employment grant. There are a lot of barriers.

On your second point, which was about rural growth, I think that there is huge potential. I would go so far as to say that, ironically, in the face of the—[Inaudible.]—we have got, there could be a golden period ahead for rural areas if we can encourage and resource the businesses that want to set up in those areas. Members will be aware of this, but we are seeing a huge number of people

making—[*Inaudible.*—]their lives to move into rural areas when they would not have considered it previously. That is partly because of the experience of the past nine months, and sometimes just because they want a different way of living.

Where I am based, in Perthshire, we hear anecdotal evidence that rural properties are disappearing before they even go on the market, because people are looking to move. Traditionally, that would be retired people, but we are seeing people of working age, with families, who are making a positive decision to move to rural areas. They are coming with skills, knowledge, capital and innovative ideas that could be developed in a range of ways. Digital connectivity is critical to that. Where there is good digital connectivity, people can run any business in any sector. We can see that now, because we have seen evidence of people being able to adapt to home working, for example.

We are seeing niche manufacturers setting up and selling across the UK and beyond. We are seeing technical—[*Inaudible.*] We are currently helping a business in the Blairgowrie area that is developing a potentially game-changing technology using infrared photography and doing a trial with Ninewells hospital. Someone can be based anywhere in Scotland and running a growth business, but we have to accept that those businesses will need support in a way that might be slightly different from urban businesses, and access to capital is still a major issue. The Blairgowrie business that I have just referred to should be qualified and fit the bill for research and development funding that would normally be available, but it cannot access a research and development grant, because those are suspended at the moment.

The summary answer to the question is: absolutely, there are many such areas. I have not mentioned the extractive industries, such as forestry or developing agriculture and so on, because it is almost a given that there are opportunities there. We should be looking at all the other niche—[*Inaudible.*]

I talked about care and wellbeing. There is a huge opportunity to develop a viable care and wellbeing infrastructure in rural Scotland. That will not only create viable employment and provide social care services for people in communities—[*Inaudible.*—]in other mechanisms, but it will almost be necessary, because the statutory services will continue to struggle to support communities with the right level of social care. I know that that is a whole other area and another discussion, but it is a potential growth area for employment.

The Convener: Does Graeme Galloway want to make a brief point on that question?

Graeme Galloway: Generally, people are quite supportive of the level that we are in, but we feel somewhat sandwiched between England and the central belt, as has been said. There is certainly a feeling within the chamber of commerce that hosts the DYW in Dumfries and Galloway that we would like us to move to level 1 for flexibility within business. Our Covid rates are falling.

To touch on what Jackie Brierton said, there are opportunities as a result of the Covid pandemic. In a similar way to Perthshire, our housing market is extremely buoyant with people moving into rural areas. Although there are still issues with digital connectivity across some of the more rural parts of our region, people can definitely see that there are opportunities there. They have been working from home for months and the world has not stopped turning as a result of their being in a remote area. They can access the internet and they can still play their role or do their jobs even if those are based in Glasgow, Edinburgh or elsewhere. People can undertake their role within a rural area such as Dumfries and Galloway.

Somewhat perversely, therefore, as I said, Covid-19 could be a bit of a boon for us in future when people realise the possibilities of remote working.

11:00

The Convener: We will move on to questions from Graham Simpson.

Graham Simpson: Stephen Montgomery, do you have any evidence of people travelling between tiers to access hospitality?

Stephen Montgomery: Yes. As Graeme Galloway said, Dumfries and Galloway is squashed between the English border and a level 4 area. The weekend before last, we were subjected to a torrent of abuse—I am being brutally honest—from people coming from the central belt who were possibly travelling to do some Christmas shopping in the Gretna Gateway, which was in level 3 at the time, I think. People wanted to book in for Sunday lunch or a bite to eat, and we have a protocol that involves us asking for a postcode or where someone is coming from when they call us. When we told them that we could not take their booking because of where they were from, that resulted in staff getting abuse that was, frankly, unacceptable.

Graham Simpson: Have you heard of other businesses suffering the same abuse?

Stephen Montgomery: Yes. I run a couple of Facebook groups and so on, and the situation is the same across the Borders. Over on the east

coast, the situation involves people possibly going to the Newcastle area, where they should not have been going anyway, because of the prevalence there. Hopefully, the issue will be resolved soon.

Graham Simpson: My next question is also for Stephen Montgomery, but others might have a view. Have you had any experience of trying to access any of the funds that are available? Have you tried to access the latest fund for businesses that were forced to close, which was launched at the start of November?

Stephen Montgomery: Yes. We have quite a negative view of that. In the central belt, from 9 October to the beginning of November—that was the period of the short, sharp shock, which has now become a lot longer—grants of £2,000, for businesses with a rateable value up to £18,000, or £3,000, for those with a rateable value of up to £51,000, were available to businesses that were forced to close. Those grants are capped in relation to the number of sites—I think that the cap is five at the moment. After the grants are taken off, our businesses are losing £5,089 a week. Compare that with a grant of £2,000 a month.

On the back of that, the First Minister announced a £9 million fund for the 20 per cent furlough top-up, which became a £1,650 payment. However, here we are at the end of November, and that still has not gone out to hundreds of hospitality businesses.

In my view, the planning and execution of that were completely wrong. Rural businesses are dependent on that support, because they are being hit hard—they are not being hit as hard as those in the central belt, but they are being hit hard as far as footfall is concerned. However, they are suffering because of what has not been actioned before the introduction of restrictions.

Graham Simpson: Jackie Brierton, you mentioned that banks are not opening new accounts for people who want to set up businesses. Is that a big problem?

Jackie Brierton: It is a major problem. I had the opportunity to raise the issue with Jamie Hepburn, the Minister for Business, Fair Work and Skills. He made some inquiries, and the banks' response was that they were busy administering the coronavirus business interruption loan scheme and the coronavirus bounce back loan scheme and had to prioritise that work, so they were not able to open new bank accounts.

Some of our clients have been told that there will be a 12-week delay before they can open a new account. In many cases, they might simply not have been able to have a conversation with someone at their bank about a product, an overdraft or a new account. Obviously, one does not need a business account when starting a small

business, but it is good practice to have one. People need one in order to qualify for some of the systems, so that situation causes quite a lot of issues for our businesses.

An additional banking issue exists in rural areas, in which most banks took part in a huge closure programme. Many small towns and villages have no banks. We were told that, with the new levels approach, the mobile banking system would be suspended for level 3 and presumably also for level 4. There are numerous problems with the banks and it will be really important, for a number of reasons, that they come back on stream, if we want to get that buoyancy back for businesses.

Colin Beattie: I go back to a comment that was made earlier in this discussion, which related to young people. What do the witnesses think the impact of the pandemic has been on young people in rural Scotland, particularly in relation to access to the labour market?

Jackie Brierton: As I said earlier, we have a lot of involvement with young people at the moment. We are working—[Inaudible.]—to create a smart village for them. We see more young people who show interest in staying in rural areas—[Inaudible.]—been talking about, but they need opportunities. Too many barriers are in the way of us helping them to find employment or to start their own business or become self-employed, as they often want to do, because in rural areas the only way in which young people can stay where they are might be for them to create their own job.

I mentioned the young persons guarantee scheme, which is focused on creating training and employment opportunities. The—[Inaudible.]—that enables young people to start their own business, or a social enterprise with other young people.

The major effect of the pandemic on young people generally has been well documented. Some surveys that have been done—including one by the Rural Youth Project and other organisations—have highlighted the impact of the pandemic on young people's mental health, particularly in rural areas, in which young people have the issues of social isolation on top of those about where their future lies.

Many young people in rural areas have said that having better connectivity would make a huge difference to their employment prospects and their social interaction. We constantly come back to that point in the rural context, because it is still an issue that digital connectivity is not good enough in too many areas.

Colin Beattie: You mentioned barriers on the technology side—broadband and so on. What other significant barriers do young people have in relation to either starting their own businesses or getting into the workforce?

Jackie Brierton: I will highlight three barriers. We have touched on access to capital, which is a particular issue for young people and businesses. Many young people have no savings to fall back on. Although they might have gotten capital from family and friends in the past, that is less likely to happen now because of the pressures on people. Access to capital is critical.

Alongside that is the issue of the kind of support that is available for young people. Young people respond well to peer mentoring and support, and to having somebody who can act as a sounding board and can give continuous support, as opposed to a one-off meeting to tell them what—[Inaudible.]—is. On-going, relational support works really well with young people. A number of schemes are in place, but they are probably not good enough.

Thirdly, the standard barrier—apart from the digital one, which we have discussed—is transport in rural areas. To be successful in finding a job or creating a business, a young person needs to have access to the right transport. That is still a major issue in many areas of Scotland. Again, that is well documented, but it is even more important if we think about the emphasis on the green economy. That needs a lot of attention and it is a critical issue for young people.

Stephen Montgomery: A young person's first job is normally in hospitality. In rural areas, that is in their local bar or hotel, as a waitress, waiter or pot washer. That gives them a really good insight into handling money, a bit of confidence, and everything that they need for their future careers.

I do a lot of work with the Springboard charity, which has continued into the schools and has been promoting hospitality in our academies. Getting to our youth younger—if you like—to try to progress them into hospitality and keep them in the local area is always a good thing.

A good thing to have come out of the situation is the adopt an apprentice scheme. If a hospitality business has an apprentice but is closing down, or facing a situation in which it cannot keep them on, we can draw up a CV with the qualities that they can take with them, maybe to another hotel in the area that is looking to take people on.

On the downside, there is a bit of a mental health issue. Our youth do not know where they are at the moment. That may be because, if they are in hospitality, they do not know whether they are getting a shift, because they do not know whether the business is open or closed. There is a big mental health issue there.

However, apprenticeships and the young persons guarantee scheme should certainly be good for the rural economy.

Graeme Galloway: There has been a massive impact on young people. Looking at Dumfries and Galloway, I suppose that there are a couple of indicators. Among 16 to 24-year-olds, universal credit claims have gone up by 72 per cent from January to October this year. Modern apprenticeships have fallen in quarter 2—opportunities for young people have fallen by 64 per cent. That is better than the Scottish average but is still horrendous. Those are indicators that young people are suffering.

We know that far more have stayed on at school this year, because other opportunities were just not there for them. As has already been touched on, the difficulties with transport links for young people are very real, and the dispersed nature of the population makes it much harder for them to access skills training and business support.

There is no doubt that those are all challenges. A lot of academic papers are now suggesting that there is a lost Covid generation. I do not think that it is quite as bad as that, but these are very tough times for young people, and I certainly welcome the young persons guarantee that was announced to address some of that.

Colin Beattie: What is the role of the developing the young workforce regional groups in rolling out the young persons guarantee? How effective has that been? How is the guarantee actually communicated to young people in rural areas?

11:15

Graeme Galloway: We try to target what we call the “key influencers”. Clearly, parents and the wider family are key influencers of what a young person decides to do with their career. Educational and business influences are really important as well.

Most of the money that has gone towards DYW is going into the creation of new school co-ordinators. The decision on how best to implement that has been left at a regional level. We went down a teacher-led route, for various reasons, after discussions with education and our key partners who already work in schools—Skills Development Scotland and our employability and skills services. It is about changing the mindset of school management teams so that they understand the importance of vocational training as well as academic learning. We are busy advertising for teachers in the schools to really push the DYW agenda.

Another key thing is to ensure that local employers are tied into their local secondary schools across the region and that young people have access to mentoring and insight into the industries that operate in Dumfries and Galloway.

It is often said that, unfortunately, our region's biggest export is young people. Jackie Brierton touched on the importance of trying to retain young people and to attract young people back into regions such as ours. That is critical.

We have an important role to play in reaching out to young people, but there is no doubt that Covid has made that difficult. We have taken a lot of our offer online, both at a national level and locally, to ensure that we are reaching out to young people so that they understand the opportunities that are available to them in rural areas.

Jackie Brierton: I noted a statistic the other day. It is already old, as it is from July, but unemployment among young people in the Highlands increased from 3.8 per cent to 9.9 per cent between—[Inaudible.]—and July, and I am sure that it is worse now. That emphasises how much we need to help young people.

The guarantee scheme is good because it puts the emphasis on finding opportunities for young people, but funding is not available to employers or local organisations within that scheme. The UK kickstart scheme should be complementary to that and help with it but, unfortunately, some of the eligibility criteria make it really difficult, particularly for rural businesses. As you will know, a business has to be able to take on 30 young people before it qualifies. It can use an intermediary, but it still needs to have three employees in order to take on a young person. For microbusinesses in rural areas, that becomes really difficult.

The scheme provides £1,500 per young person for businesses to invest. It is a good opportunity, and they also get the wages—[Inaudible.]—but the barriers to smaller businesses taking advantage of it and providing opportunities for young people are considerable.

Gordon MacDonald: I have questions on a couple of areas, but before I ask them, I have a question for Stephen Montgomery.

Stephen, you highlighted some difficulties with grants that are available. I think that you mentioned the Covid-19 restrictions fund and the hardship fund that the Scottish Government introduced, which is based on rateable value. Those grants are being distributed by local authorities. What discussions have the Scottish hospitality group or your member companies had with local authorities to find out what the difficulties are in getting the funds released to you?

Stephen Montgomery: To be fair, a lot of the issues do not relate to local authorities. The main issues relate to conversations that I have had with the people who are dealing with it at the Scottish Government. On the 20 per cent top-up furlough, which turned into the £1,650 grant, they are still

trying to navigate a way in which that will be paid. However, it could be paid very simply, in the same way that they paid the hardship grant and the forced closure grants. I do not see what the hold-up is.

Are they still trying to work out where the money is coming from? We are not sure. We cannot get a straight answer. All that we are hearing is our businesspeople saying that the money should have been ready for distribution at the start, when the restrictions were put in place. That seems to be an on-going issue not just for the SHG, but for hospitality as a whole. As far as hospitality in Scotland and all the trade bodies are concerned, there is no engagement on that.

Such things—the financial side and the execution—need to be planned before restrictions go live. That is an on-going problem that is causing major worries and financial concerns for our operators.

Gordon MacDonald: I will move on to general support for businesses. Hospitality is important in our rural areas, where a lot of self-employed people run small tourism businesses, but we have been given figures for the job retention scheme and the self-employment income support scheme that suggest that the claim rate in rural areas is lower than the Scottish average. The Scottish average take-up of the job retention scheme is 7.4 per cent, and the rate in 13 of the 15 rural council areas is below that. The average take-up of the self-employment scheme is 66 per cent, but the rate in 12 of the 15 rural areas is below that. Are there particular reasons why rural businesses and self-employed people in rural areas have not taken advantage of the grants that are available?

Jackie Brierton: There are several issues. We have found that a lot of the businesses that approach us are confused by the multiplicity of schemes and things going on; some of them—[Inaudible.]—to claim grants when they should have done. Take-up of the job retention scheme relates more to the size of businesses and how they can apply furlough to people when they still need people to do things. In rural areas, it is more—[Inaudible.]

The take-up of the self-employment scheme is to do with the nature of businesses. I mentioned that a lot of people in rural areas are employed and self-employed—they might be employed in the winter and self-employed in the summer, for example. That is—[Inaudible.]—in terms of eligibility for the SEISS. People are also affected if they started a business within a certain time or—[Inaudible.]—business and they are not in the self-assessment system.

There are many reasons for the take-up figure, and a key reason is one that was mentioned in

relation to business support. This has been a time when, more than ever before, businesses have needed one-to-one support—somebody on the end of a phone. In many cases, Business Gateway and the agencies have provided that, but accessing such support is not as easy for a lot of smaller businesses. There has been quite a gap. Part of the reason for that has been the volume of demand—many businesses have needed support and resources.

The feedback that we have got from businesses is that they welcome one-to-one support and being able to contact people readily. People are having really—*[Inaudible.]*—times, when their mental health, their financial situation and everything are weighing on them. The business support system has needed to be—*[Inaudible.]* It has been that in lots of cases, but there have been failures, too.

Stephen Montgomery: In rural areas, a lot of hospitality businesses are run by families—by the operators. That means that not a lot of furlough might be needed. If a business is run by a husband and wife team, for example, they will not take up furlough.

A lot of people are looking for a grant system; business help is certainly needed. As I said, the average business in a rural area or the central belt is losing £5,089 a week by the time it takes up furlough, because of the payments that we must make towards furlough, pensions, national insurance, standing costs and so on. The average grant pays about £700 a week.

If Scotland wants hospitality businesses to still be here next year or in two years' time, we need to look at the grant system properly.

Gordon MacDonald: More and more businesses are moving online to try to keep going. Broadband is a UK Government responsibility, and there was an announcement by the chancellor that he is cutting the amount of money that is available for broadband projects from £5 billion to £1.2 billion over the next four years. The UK Government has watered down its pledge to reach every home in the country and it now has the lower target of 85 per cent of homes. If the roll-out of broadband across rural areas is not funded, what impact will that have on the rural economy?

Jackie Brierton: It will have a huge impact. The 15 per cent gap will, no doubt, disproportionately affect rural areas as opposed to urban ones. We can only hope that the fact that the reaching 100 per cent scheme is still being rolled out in Scotland—there are also complementary schemes—will mean that what is needed in rural Scotland will be fulfilled. It is critical that every area has access to high-speed broadband.

The need for high speeds keeps increasing; it does not stay the same. The more complex and—

[Inaudible.]—heavy the software and applications are, the more speed we need. There are some great examples of innovation in Scotland, where communities have taken it on themselves to provide high-speed broadband to speed things up. Perhaps we should look at it from that perspective and help more communities to do that more quickly—not that I am advocating that everybody digs their own trenches.

High-speed broadband is the key to Scotland's future economic success, so if we do not have digital connectivity, we are shooting ourselves in the foot from day 1. If we consider our aspirations as a country and an economy, which are to have a greener economy, a wellbeing economy and a more inclusive economy at the same time as having the right kind of growth, how will we do that if we cannot compete with countries that have already nailed their digital connectivity?

As was said earlier, the rural economy already makes a huge contribution to Scotland's economy. I sincerely believe that it can make an even bigger contribution in the future, but it will do that only if it does not have the proverbial hand tied behind its back.

Graeme Galloway: I agree with Jackie Brierton. Broadband connectivity is a must for businesses in rural areas. If we want to promote rural entrepreneurship, we must have connectivity to the rest of the world, but my fear is that the 15 per cent gap will be in rural areas, due to the expense and whatnot.

I work with young people in schools throughout Dumfries and Galloway, particularly through the Young Enterprise Scotland programme and DYW. In setting up their businesses, young people do not consider physical shops; they sell their products on the internet and through social media channels that I have never even heard of, and they are making a success of it. Not having access to broadband capability will really hamper them in life.

Stephen Montgomery: I agree with everything that Jackie Brierton and Graeme Galloway have said. We talked earlier about people coming from cities to settle down in rural economies for a different way of life. If the connectivity is not there and people in rural areas cannot work from home, that will disadvantage them. I am quite upset and annoyed about that. It is imperative that, as much as we can, we get rural connectivity up to the same speeds that exist in city areas.

11:30

Maurice Golden: I was slightly surprised by Gordon MacDonald's assertion that digital broadband is being delivered in Scotland by the UK Government. I am sure that he will be writing

to the SNP, because it says on its website that the SNP is improving Scotland's digital infrastructure and that it has met its target.

That was just a point of clarification. Perhaps Gordon MacDonald does not understand what the rest of the SNP is doing in delivering digital infrastructure. I hope that that clarifies that specific point. Thanks to the UK Government, almost 900,000 properties are being connected, if we believe Gordon MacDonald.

I move on to other matters. How can Scotland's rural areas contribute to the green recovery? I know that Jackie Brierton mentioned that. Would she like to start?

Jackie Brierton: There are myriad ways that the rural economy contributes to the green economy. There are obvious examples that involve using our natural resources better, such as using forestry better to create different experiences, products and opportunities, and the way that agriculture—[*Inaudible.*]*—to go, which will support a greener economy. I have my fingers crossed that that will go in the right direction.*

Our microbusinesses are seeing huge interest from a wide range of businesses. They want to be greener and to learn how to run their businesses differently in order to contribute to carbon reduction. That can involve things such as sustainable tourism, which is of huge interest to a lot of tourism businesses because they know that that will be the way to attract people in future. [*Inaudible.*]*—industries can contribute to the greener economy as well.*

As we have discussed, if we have the right digital infrastructure, it will enable more businesses to operate and create products that can be sold online, and those products can be created in more effective and efficient ways. That will all contribute to the greener economy.

The overall support for a more local approach to our economy and people's recognition that they should and, in many cases, can access everything that they need within 20 minutes of where they live are important for the future of our green economy. A lot of our rural communities have grabbed that and created good ideas about how they can go forward with it. For example, there are climate change cafes to raise people's awareness, and there are little towns such as Dunkeld, where there is a really dynamic local economy and a focus on helping people to shop locally and support their local—[*Inaudible.*]*All of that is supporting a greener way forward.*

There are myriad opportunities, and the more awareness and education we have that help businesses to do the really practical, day-to-day things, rather than big things, the more that will start to create positive outcomes.

Graeme Galloway: Green energy is central to what Dumfries and Galloway produces as a region. We have a long history of that with the Galloway hydro scheme, and more recently we have had the Robin Rigg offshore wind farm and a number of onshore wind farms in the region. That industry is still there to be exploited, and we have a number of big companies, such as Natural Power, which is based in Dumfries and Galloway.

When we set up what we had called the renewable energy forum, people said that it be called the energy forum, because that is the way forward and the future. The industry is there to be exploited in Dumfries and Galloway, which is often described as a natural place to live, work and learn.

We can certainly build on that green economy in relation to the smaller microbusinesses that can be set up. We need digital connectivity but, as I said, people are realising that they can set up in small, rural areas and deliver a business across the world.

Tourism is definitely an area that we could still exploit in south-west Scotland. I am always saddened by the number of people who drive up the M74 from England and do not turn left but head straight to the Highlands, when we have some of the most fabulous coastlines, hills and forestry areas in the UK.

There is a movement for the creation of a Galloway national park. I would certainly back that as it would bring jobs and infrastructure into the more rural west of our region. I am a keen hillwalker and I go down to the lake district. To be frank, it is overrun, yet I walk in the Galloway hills and I do not see another soul all day. There are areas that we can exploit to the advantage of the region.

Maurice Golden: You are quite right, Graeme. It is a beautiful region, and some of the best political representatives in the whole of Scotland are in Dumfries and Galloway.

Stephen, do you have any comments?

Stephen Montgomery: On hospitality, we have the north-west 500 and we have the south-west 300, and a lot of the people that we try to attract—[*Interruption.*]

I am sorry, I was distracted because I saw Maurice Golden laughing.

We are trying to adapt to greener energy, and we have welcomed a lot of the grants that have come out—I think that they have been provided by the UK Government to the Scottish Government—as far as electric vehicle charging points are concerned. I have put one in on one of my sites. I know that colleagues have put them in along the north-west 500, and we are now trying to exploit

that with the south-west 300. I would encourage the Scottish Government to try to make some more funding available for that.

There are other, internal options. Instead of having radiators in bedrooms, people are looking at installing infrared heaters, which involve dry heat rather than wet heat—they heat people's bodies rather than the room. Hospitality can certainly benefit from such things. They can come from the wind farm people, who are putting money into local communities. That is great for local initiatives and it is a welcome scenario for communities in rural areas.

The Convener: We move on to questions from someone from another beautiful part of Scotland—the deputy convener, Willie Coffey.

Willie Coffey: I have a few points to make and a few questions to ask our guests. First, I will make a point in response to some of Maurice Golden's crazy comments.

If the Scottish Government had not intervened in the broadband story for Dumfries and Galloway and the Borders, we would have been waiting for another 50 years or more for the UK Government to do anything about it. That is a fact. We have put our money where our mouth is in order to put the broadband services down there. I had a wee quick look while that chat was going on, and 80 per cent of the premises down there are getting 30 Mbps plus at the moment. There is a bit of a way to go, but there is no way that the UK Government was delivering anything close to that down there. That point needs to be put on the record—

The Convener: Deputy convener, I hesitate to interrupt further chat on that point, but do you have questions for the witnesses on further points?

Willie Coffey: I do, but that point from Mr Golden had to be responded to, given what he said earlier.

The Convener: That is fair enough. Carry on.

Willie Coffey: An important event that is coming down the track in less than a month is called Brexit, and we will be leaving the digital single market, which is worth €400 billion per year. Scotland will be taken out of that. What are the panel's views on the impact of that on rural communities, given that we are talking about digital services and connectivity? What are the possible implications? Did you know that we will be leaving the digital single market at the end of December?

Stephen Montgomery: Obviously, I am not here to play party-political football between various political parties; I am here to talk about our sector.

As far as Brexit is concerned, given that Covid is the main issue just now, we have not really seen

where Brexit is going to massively hit us. There is an employment issue. Before Covid hit, we thought that we would probably have a shortage of skills and labour, but we are now seeing many hospitality businesses shutting down, and there may well not be as big a demand.

Given the apprenticeship and the developing the young workforce schemes, we do not see Brexit as a massive problem just now, but it may well be a different story next year and 18 months down the line.

Willie Coffey: We are going to leave a digital market that is worth €400 billion, but that is not a problem. What is Jackie Brierton's view on that?

The Convener: I am sorry, but I think that Graeme Galloway had his hand up first. We will then go to Jackie Brierton.

Graeme Galloway: Sorry, Jackie.

In the sector forums that I have discussed, there is certainly real concern about Brexit and about there being no trade agreement. There is certainly evidence that some sectors are stockpiling machinery or materials because they are incredibly nervous about what will happen in the new year. Like Stephen Montgomery, I do not want to be dragged into politics, but that is the feeling that I am getting from the various sector forums.

Those who have direct competitors in the EU and currently export to the EU are probably the most worried about how their business will be affected. There is worry about the likely disruption to logistics, particularly if the business exports food products to the continent, and the implications of import VAT. There is certainly concern in the sector forums about how things will look. The fact that we still seem to be negotiating a trade deal with only four weeks left is a real concern to businesses.

Jackie Brierton: On the digital single market issue—[*Inaudible.*—]—small businesses that export small amounts of products. We have one such business not far from where I am that has a good market for its textile products. Trying to work out how it will export its products and what will be involved is causing it extra hassle, stress and money.

There is uncertainty for most businesses. We are sitting here without a clear idea of what the impact will be. There is no deal on the table that has been agreed. I think that most businesses are waiting to see what will happen, rather than doing a huge amount of planning.

For many rural businesses, particularly in agricultural and manufacturing areas, the biggest issue with Brexit will be access to labour. We have local fruit farms in one of the best fruit-growing

areas of the UK, never mind Scotland, but some fruit farms have already made decisions to stop producing soft fruits because of the issues that they will have in accessing labour. That will be the biggest issue for many businesses. There is no sign of—[Inaudible.]—how they will be able to access that much-needed labour next year.

Willie Coffey: Let us try our best to look ahead positively beyond the health emergency. The young people who took part in the panel discussion with Colin Beattie and me this week talked about their desire to continue to live locally. At the outset, Jackie Brierton talked about the problems with transport and so on.

Should we look at a new arrangement, whereby both Governments encourage employers to set up more employment opportunities within rural communities, rather than asking and expecting all the youngsters from places such as Dumfries and Galloway to make the journey to Glasgow or Edinburgh—the bigger cities in Scotland—to find work and employment opportunities? Given the Covid experience, should we not do more about that? Should we not have been doing it for some considerable time anyway, to make sure that local and rural communities could thrive?

11:45

Jackie Brierton: I think that you are right. Covid has shone a light on the fact that, in the past, we have accepted that young people wanted to leave rural areas and go to the city. Although many have left and many will do so, for education and so on, surveys that have been done in the past few months have shown that young people have a desire to stay in their local areas. They want to enjoy the environment that they have been brought up in and that they live in, but they also want to develop themselves and to have the opportunities that they might have if they moved.

In the past nine months, it has been shown that it is absolutely possible to work remotely and, if people have the right digital resources, to set up an enterprise that can sell anywhere in the world. The—[Inaudible.]—and the aspirations of young people are undoubtedly there, so why do we not make that a much more positive strategy for the future?

I have mentioned a couple of times this morning that there are infrastructure issues that could quite easily be—[Inaudible.]—considerably. For a young person to positively stay in a rural area, they still need access. If they cannot find a job, they will need access to capital in order to create their own job. When we have schemes in place specifically to help young people, why are we not allowing them to help people to do that?

The kickstart scheme is an obvious example; instead of having a six-month placement with a business, we should make it a six-month enterprise apprenticeship and pay them the same—[Inaudible.]—to develop their idea into a business plan and test trade. At the end of the six months, they might have a business, rather than facing the end of a placement, when they might not even have an employment opportunity.

Willie Coffey: Stephen Montgomery and Graeme Galloway, can you offer comments on that agenda of thinking about new ways to provide employment opportunities, because of the digital revolution that we are in, and the hope that we will soon get the fastest speeds possible in rural communities? Should both Governments be exploiting that to assist rural communities more?

Graeme Galloway: Absolutely. The issue of young people wanting to leave rural areas is a strange one. In Dumfries and Galloway, a couple of years ago, we did a survey called 10,000 voices in action, which suggested that 55 per cent of young people under the age of 18 would leave Dumfries and Galloway tomorrow if they could. Thankfully, I have seen much more positive reviews more recently. South of Scotland Enterprise ran a survey across the south of Scotland that suggested that young people are keener to stay in their own localities in rural areas.

That touches on what I would call “youth-place compatibility”, which is the pattern of adjustments that lets young people experience the advantages of rural living without excessively compromising their education and employment goals. It is a case of creating the opportunities for them to carry on their studies in a rural area and, thereafter, to seek employment. In Dumfries and Galloway, DYW is absolutely about promoting the opportunities that are available for young people.

However, we are always fighting against the bright lights of the cities. I am reminded a wee bit of a comment that Bruce Springsteen made when he was introducing the song “My Hometown” at a concert. He said that

“Everybody has a love-hate relationship with their home town”,

and that that is built into their DNA. That is very true, but it comes back to the issue of youth-place compatibility. What makes a young person want to come to Dumfries and Galloway? How do we retain the young people we already have? How do we attract new people into the area?

Financial incentives to employers to create those opportunities, and perhaps financial incentives to young people to set up, would have a massive return for a rural area. We are good at waving our young people off to colleges and universities at 18, and they do not come back until

they are 65 and want to retire. How do we attract them while they are of working age? That is the big issue for us.

Willie Coffey: Stephen, can you offer any comments on how we can better exploit digital technologies and look ahead at different ways of providing employment, particularly in your sector?

Stephen Montgomery: I cannot add much to what Jackie Brierton and Graeme Galloway have said. Throughout the Covid pandemic, we have learned that businesses need to start working together instead of being in competition. If we compare self-catering accommodation with hotels and restaurants, for example, there is an ideal opportunity, because we saw a real boost for self-catering accommodation as we came out of the first lockdown, and now people can do what they want to do, to a degree, in self-catering accommodation, where they are in their own wee bubble. Restaurants and cafes could work with self-catering places to create a better environment and more job opportunities for our youth. That is an issue that we could look at.

Willie Coffey: I appreciate all those responses.

The Convener: I thank our witnesses for coming in today.

Trade Bill

Public Procurement (Government Procurement Agreement) Regulations

Public Procurement (International Agreements) Regulations

11:51

The Convener: Item 4 on our agenda, which relates to the Trade Bill, is consideration of a proposal by the Scottish Government to consent to the UK Government legislating using the proposed powers under the Trade Bill, once it receives royal assent.

There are two proposed sets of regulations. First, there are the Public Procurement (Government Procurement Agreement) Regulations, which amend the procurement regulations for the UK so that they will reflect the UK's accession to the World Trade Organization Government procurement agreement in its own right, rather than in its current capacity as an EU member state. Those changes will ensure that suppliers established in territories and states that are party to the GPA will continue to be afforded the same rights and remedies that they currently have access to when they participate in UK procurement after the end of the transition period.

Secondly, there are the Public Procurement (International Agreements) Regulations. The UK is attempting to negotiate the rollover of existing international agreements that the EU has with third parties and which touch on public procurement. UK and Scottish procurement legislation needs to be amended to reflect the UK's obligations in those rolled-over EU international trade agreements. The UK Government is seeking to make amendments to Scottish procurement regulations to provide continuity as far as possible in existing trade relationships with third countries now that we have left the EU.

In conclusion, the notification of the regulations suggests that they are all category A proposals—that is to say that they are technical, with minimum policy choice or only one obvious policy solution. The committee previously agreed to write to the Scottish Government to seek further information on the instruments, and links to the committee's letter and the cabinet secretary's response are included in the committee papers.

Is the committee content for the matters in question to be dealt with by statutory instruments laid at Westminster?

Members indicated agreement.

The Convener: As the committee is content, I will write to the Cabinet Secretary for Finance to notify her of the committee's decision.

11:53

Meeting continued in private until 12:55.

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Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

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