OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 8 December 2020

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 8 December 2020

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ECONOMY, ENERGY AND FAIR WORK COMMITTEE
38th 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:

Andrew Burnett (Elevator UK)
Jennifer Craw (Opportunity North East)
Kate Forbes (Cabinet Secretary for Finance)
Simon Hodge (Crown Estate Scotland)
Andrew Hogg (Scottish Government)
David Pratt (Marine Scotland)
Graham Simpson (Central Scotland) (Con) (Committee Substitute)
Shane Taylor (Aberdeen and Grampian Chamber of Commerce)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 8 December 2020

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning, and welcome to the 38th Economy, Energy and Fair Work Committee meeting of 2020. Apologies have been received from Alison Harris and Andy Wightman, and Graham Simpson is attending on Alison Harris's behalf.

Agenda item 1 is a decision on whether to take items 6 and 7 in private. Does the committee agree to take those items in private?

Members *indicated agreement.*

Subordinate Legislation

Public Procurement etc (EU Exit) (Scotland) (Amendment) Regulations 2020 [Draft]

09:00

The Convener: Agenda item 2 is subordinate legislation. The committee will take evidence on the regulations that are before us in draft form. We have with us, online, Kate Forbes, the Cabinet Secretary for Finance, and her officials. Good morning to you all. Broadcasting staff will operate the microphones. As they are working remotely, please wait for me to introduce you and leave a few seconds for your microphone to come on before you speak.

I invite the cabinet secretary to make opening remarks on the regulations before we move to any questions from members.

The Cabinet Secretary for Finance (Kate Forbes): Thank you, convener. I hope that you can see and hear me.

I am delighted to be able to explain a little about the background of the regulations that are before the committee. There are a number of reasons why the committee is being invited to approve the regulations. The principal one is that they provide much-needed and continued stability for businesses and other organisations as well as the wider public sector as the United Kingdom leaves the European Union. The regulations are designed to update our existing public procurement rules in Scotland so that they can still function at the end of the transition period. They try to maintain the status quo and to provide the stability and certainty that those organisations all need.

Much of the content of the draft regulations is not new and was included in earlier amending regulations made by the Scottish ministers in 2019 about EU exit and procurement. Committee members considered the detail of those earlier regulations previously. The new draft regulations will revoke and replace those earlier amending regulations, as they were made before the withdrawal agreement and so did not take account of some of the transitional arrangements for procurement that starts before but has not concluded by the end of the transition period.

The main change in the new draft regulations that are before the committee is that they include those transitional arrangements. For example, where a procurement has started but not concluded before the end of the transition period, relevant procurement notices must be sent to the *Official Journal of the European Union* for the duration of the procurement. The regulations make that clear, and changes have been made to the Public Contracts Scotland advertising website to make that happen.

Other changes in the new draft regulations include the sorting of some small deficiencies. The regulations follow the UK Government's approach and, at the UK's request, will continue for a time-limited period the obligations and the rights afforded to bidders and potential bidders from countries that, at the end of the transition period, were party to an international agreement with the EU. Members might recall that the 2019 regulations continued the same obligations and rights to bidders from other countries, but that was for 18 months after the end of the transition period. Our new draft regulations reduce that period to 12 months to match the latest approach that the UK Government has taken, as it anticipates the Trade Bill becoming law, and so the enabling powers in it becoming available to make the fix permanent sooner rather than later. Until then, our draft regulations will ensure that our laws are compatible with the UK's international obligations.

Overall, the regulations maintain the status quo and ensure that our procurement rules can continue to function. Any changes are to ensure consistency and stability for businesses, other organisations and public sector bodies that are involved in public procurement as we come to the end of the transition period, sooner rather than later.

The Convener: As members have no questions, I will simply move to the formal debate on the motion to approve the affirmative instrument that we have just considered. I invite the cabinet secretary to move motion S5M-23569.

Motion moved,

That the Economy, Energy and Fair Work Committee recommends that the Public Procurement etc (EU Exit) (Scotland) (Amendment) Regulations 2020 [draft] be approved.—[*Kate Forbes*]

Motion agreed to.

The Convener: As we are agreed, do members agree that the clerk and I should produce a short factual report of the committee's decision and arrange to have it published?

Members *indicated agreement.*

The Convener: I suspend the meeting for a few minutes to allow for the changeover of witnesses.

09:05

Meeting suspended.

09:11

On resuming—

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

The Convener: Welcome back. We turn to item 4 on the agenda, which is our inquiry into the impact of Covid-19 on Scotland's businesses, workers and the economy. Our focus today is on the north-east.

We have an hour for the session. I welcome our witnesses, who are joining us remotely. Andrew Burnett is the managing director of Elevator UK; Shane Taylor is the research and policy manager at Aberdeen and Grampian Chamber of Commerce and we might also be joined by Jennifer Craw, who is the chief executive of Opportunity North East.

There is no need for witnesses to respond to all the questions. Members should keep their questions short, sharp and focused and witnesses should give brief and succinct answers while also covering the points that they wish to make and the issues raised in the questions. It is always possible for witnesses to write to the committee after the meeting to add more information to what they have said, particularly if they feel that they have not had time to answer fully.

Please allow our broadcasting colleagues a few seconds to turn your microphones on before you begin to speak. If you would like to respond to a question, type an R in the chat box, or raise your hand if you do not get a response to that.

The Aberdeen area has faced more challenges than some other regions, due to the fall in oil prices. Can you tell us how communities and businesses have fared during the pandemic, what particular issues they have faced and how they have responded to those issues?

Shane Taylor (Aberdeen and Grampian Chamber of Commerce): Thank you for inviting us to speak and for focusing on the north-east.

The region has faced real challenges throughout the pandemic. That began with the significant decline in the oil price at the start of the pandemic. It dropped to around $20, which had an immediate impact on the region.

Members might have seen that, at the height of that period, Oil and Gas UK predicted that up to 30,000 jobs could be lost from the industry in the coming 12 to 18 months if we did not take further action to support the industry. We might speak later about the broader impact on employment.

As well as that, the region has faced other clear challenges. The clearest that most members will be aware of is the local lockdown in Aberdeen city during August. That in particular involved a number of core challenges, the first being the closure of our hospitality industry.

09:15

At that time, support schemes were not defined for local lockdowns. Although the Scottish Government, local authorities and others worked well with business to define those schemes and to get them rolled out, at the time that we entered the local lockdown we had not yet defined, either at United Kingdom or at Scottish Government level, clear grant and support schemes for local lockdown, although the furlough scheme was in place at a UK level. Obviously, that was a core challenge.

In addition, the hospitality sector went into the challenges of the lockdown at pace. For example, according to data from Aberdeen City and Shire Hotels Association, a number of hotels lost up to tens of thousands of pounds in business cancellations and faced other direct challenges from that.

Finally, we have seen in a number of other factors some clear impacts of the local lockdown in August. First, because of that hospitality drop, the broader retail sector has seen a subsequent drop in footfall. Equally, our hospitality sector missed out on the eat out to help out scheme, which was a clear driver of consumer activity during August. The Government has released some constituency-level data for that scheme, from which we can clearly see that easily hundreds of thousands of pounds of custom has been lost to hospitality businesses. Obviously, that will have a knock-on impact on retail footfall, too.

I point to those as at least some of the core challenges.

The Convener: Thank you.

You mentioned the furlough scheme. I think that Aberdeen has the second-highest rate of furlough in Scotland; there has been a huge impact on workers and their jobs. Andrew Burnett, will you comment further on that, or on the points that I initially raised?

Andrew Burnett (Elevator UK): I am probably quite well placed to talk about the business start-up situation. On your first point, Elevator delivers business gateway services across the north-east region, on behalf of Aberdeen City Council and Aberdeenshire Council.

Obviously, Covid has had a huge impact on businesses throughout Scotland, but the double whammy that the north-east has experienced, which has included the fall in oil price that you and Shane Taylor referred to, has set confidence levels particularly low. The rate of start-ups absolutely plummeted in April and May, before starting to recover. Quite encouragingly, we are now looking at around 60 per cent of our typical start-up business performance, which I think probably compares quite favourably with other parts of Scotland.

However, the types of business that are starting up involve very few people anticipating taking on staff; the commitment to taking on premises or purchasing stock is also very low. It is very much lifestyle businesses that are coming forward. Of course, that is going to have a longer impact on job opportunities.

The furlough scheme has been an absolute blessing in protecting a significant part of the north-east workforce. I cannot imagine what decimation we would have experienced without it. The situation is bad, but it could have been so much worse if the furlough scheme had not been introduced. My concern is about what happens when the furlough scheme concludes. We are already seeing redundancies in the north-east, and all the data points to a wave that is just about to impact. We need to try to prepare for that.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Before I move on to my questions, I have a question for Shane Taylor. You talked about the impact of the oil price; could you expand on how that is impacting the north-east? The Oil and Gas UK report says that only 30 per cent of offshore oil workers actually live in Aberdeen and the Aberdeenshire area and that 64 per cent of oil workers are based outwith Scotland. Is the impact that you talked about in relation to the oil price common throughout the central belt, the north-east of England and Humberside?

Shane Taylor: I am not sure that I can speak to other regions with the degree of authority that you would want, but I can give a sense of the broader impact. We released our oil and gas survey at the end of November. You mentioned the Oil and Gas UK report. Our report found some pretty bleak immediate-term findings in relation to the supply chain around confidence, for example. We asked questions about confidence, activity levels, employment and so on, and, broadly, we found that optimism was at a level comparable to the 2015-16 downturn. Generally, since the 2015-16 downturn we have seen a steady increase in optimism about activity levels and so on, but those levels have clearly dropped to levels that are comparable to that downturn, which is a significant cause for concern.

There have been significant redundancies in the sector, and contractors are clearly looking to reduce their workforce not only in the immediate term but in the future. The caveat to that is that our survey was taken before any of the vaccine distribution news started to materialise, which has begun to give the sector a bit more clarity, and there has been a substantial rise in the oil price from that. The sector is a significant employer in this part of the world. Tens of thousands of jobs in the region are based in mining, quarrying or energy industries, so any impact on the industry in general clearly impacts on employment in the region.

Gordon MacDonald: There is no doubt that the oil industry is important, but I was trying to get at why the north-east would be impacted more than anywhere else. The OGUK report for 2019 said that 25,000 jobs would be required to be filled over the next few years because of people retiring and so on.

Shane Taylor: Yes. It is clear that there is a demographic shift in the industry, and we will maybe touch on that a bit later. That is why a lot of bodies in the region, including—[*Inaudible*.]—Opportunity North East, the Aberdeen and Grampian Chamber of Commerce and OGUK are focusing on engaging young people with the vision of the oil and gas industry and its ability to drive the transition forward.

Gordon MacDonald: I will move on to my questions, which are about the north-east's city and town centres. A lot more people are working from home because of the pandemic, and there are reports of increased uptake in consumer use of local and neighbourhood shops. What impact has Covid had on the city and town centres of the north-east?

Shane Taylor: City centres are probably among the most challenged areas of the economy coming out of Covid. One of the core challenges that we have in relation to how work is changing is that we immediately had the majority of office-based businesses choosing to work primarily at home, which has had a clear impact on city centres and the businesses that support them—retail, hospitality and so on—which rely on that footfall.

The statistics for footfall in retail and recreation in the Aberdeen city region since the lockdown have broadly shown a consistent reduction. At their lowest, the figures were 80 per cent down on the same period in the year before. They began to head up to being about 40 to 50 per cent down, but the local lockdown meant another surge to being about 70 per cent down. The figures have begun to recover again, but they are below normal levels in all areas. In retail, recreation and workplace mobility, the numbers are down significantly, which has clear implications for retail and hospitality businesses that rely on such footfall.

Gordon MacDonald: There is no doubt that hospitality and some retail sectors—I am thinking of clothing, footwear, coffee shops and sandwich shops—have not performed well. Have any parts of retail performed well?

Shane Taylor: In the broader Office for National Statistics data, we see that food retail has performed relatively well. Because of the transition away from people eating in restaurants and outdoor settings, food retail has generally performed well throughout but, as you mentioned, non-food retail of clothing and so on has been more challenged.

Gordon MacDonald: The KPMG UK retail sector trends for 2020 and 2021, which came out in October, show that food retail has fared well, as you said, and they highlight that furniture, homeware and DIY businesses and high street businesses with an e-commerce presence, such as Argos, Next, Boots, GAME and Wickes, have all performed extremely well. Does that suggest that the trend will be towards shopping more out of town than in city centres?

Shane Taylor: That is challenging to predict. What will define that—in my view and in what our members are beginning to see—is what the future working models will look like. I presume that the businesses that you mentioned—in homeware and furniture—are driven by people spending a lot of time at home.

At the most basic level, a couple of core things will determine the position. One is what the return to offices will look like—how sticky the behaviour of hybrid working and working from home is and whether companies choose to have a hybrid working model or a more full-time working-from-home model. From the Government and policy point of view, another factor is what the route map to office return will look like. Before the second surge of the virus, the Scottish Chambers of Commerce and others were looking at what a road map to office return might look like. Sketching that out and understanding office return from a policy point of view will determine much of the position. Fundamentally, the underpinning factor is what working models will look like in the months to come and post-Covid.

Gordon MacDonald: Pre-Covid, there was a trend towards home working—a bit of hot desking took place and some people spent two days in the office and three days working from home. If anything, the pandemic has accelerated that trend. What opportunities does that present for city centres? Is there an opportunity to re-examine how they should operate and the businesses that we should have in them? How do we support existing city centre businesses until we get through the pandemic?

Shane Taylor: You are right about the property focus, which is core. It is clear that working from home was a trend, and I agree that many such trends will be accelerated post-Covid.

09:30

However, it is also important to mention that we get mixed reports from members about the utility of non-office working and how that impacts on particular parts of the workforce. For example, younger people are not able to build networks as effectively as they might in an office environment, where they can pick up tacit knowledge while on the job. There are therefore core challenges in working at home primarily or full time.

In terms of the property focus, a policy panel report for Aberdeen City Council, which I will share with the committee following the meeting, was pulled together by a number of independent economists, and it is linked to the date of the bond that it took out. One of the things that it focuses on is the importance of making property—in city centres, in particular—attractive post-Covid and being flexible with property usage, whether it is empty office space, hotel property or retail property, in order to shift it.

There is more to that, though. Predominantly, my concern is business rates. Those have been a key challenge for Aberdeen and the north-east for some time, which is why transitional relief was brought in specifically for offices in Aberdeen City and Aberdeenshire following the most recent revaluation. We have just seen the Parliament choose to delay the 2022 revaluation until 2023, which presents real challenges for the north-east region, in particular. For example, the rates that came into force in 2017 were based on the tone date in 2015, so they did not reflect the impact of the oil and gas downturn on the economy. Generally, therefore, the business rates in the north-east have not reflected reality since their introduction, which is why transitional relief was brought in. However, that relief has, in effect, run out and is no longer applicable to the many businesses in the region.

In terms of the attractiveness of city centres, there is both a national and a local north-east policy focus. The key point is understanding for retail and hospitality how the business rates relief will phase out. The rates exemption is in place just now for those sectors, but many in the sectors are looking towards what will potentially be a challenging Christmas and an unclear path after that in terms of the footfall challenges and the work and habit changes that we spoke about. The key focus is on the Government setting out clearly in the next budget, on 20 January, what the path will be for rates and rates relief, particularly for the key sectors that are most impacted. Understanding those up-front costs will be key for city centres. Equally, for the north-east more broadly, our view is that there is a need to focus on a specific regional rates deal, because the delay in the revaluation means that the region will face rates that do not reflect reality for a significant additional period of time.

Gordon MacDonald: My final question is about the claimant count numbers that we have been given for Aberdeen and Aberdeenshire. Can you explain why, given the pressures in the north-east and the problems of hospitality, lower oil price et cetera, the figures for male and female claimant counts are below the Scottish average? The figures for Aberdeenshire are substantially below the Scottish average and the figures for female claimants in the Aberdeen area are slightly above the Scottish average by 0.1.

The Convener: We have been joined by Jennifer Craw, so perhaps she and Andrew Burnett might want to comment briefly on that matter before we move to questions from the next committee member.

Jennifer Craw (Opportunity North East): I am not an expert on the claimant count numbers, but I think that there is a balance from a north-east perspective in terms of our numbers of people on furlough and the particular sectors mostly affected by furlough.

We have a large proportion of people on furlough, and our claimant count started from a low base. However, we need to balance what is currently happening during the pandemic, given the support that is in place, with the huge concern about what will happen post furlough and whether businesses will still be operating—and if so, at what capacity—as the furlough scheme ends.

I was not connected to the meeting at the point when there was a discussion about why oil and gas sector furlough or partnership action for continuing employment—PACE—supported redundancies will have a disproportionate impact on north-east Scotland, but it all comes back to the percentage of jobs that are part of the workforce there. Circa 40,000 jobs in the north-east—double the number of jobs in our other sectors—are dependent on the oil and gas industry, so any job reductions, losses or redundancies in the sector will have a major and disproportionate impact on the economy. That is currently masked by the numbers of people who are on furlough. The big impact on hospitality and on the oil and gas supply chain is the real concern for the north-east.

Looking ahead, with regard to the oil and gas sector, we need investment in offshore, but equally we need investment to be ready to support the industry as it transitions to a much stronger focus on energy transition and the international aspect.

I cannot answer the question on the specific numbers for the claimant count and furlough, but we need to balance those two aspects in looking at the two industries that are most severely impacted and affected.

The Convener: As I said at the outset, if you can provide the committee with any further information, please feel free to do so in writing.

I will bring in Andrew Burnett—I think that he wants to come in—before we move to questions from Colin Beattie.

Andrew Burnett: I was going to interject during the discussion about how we attract businesses back into our towns and cities. In the north-east, towns and cities look empty, and—as Shane Taylor said—they are devoid of the usual volume of traffic. There is a consumer confidence aspect, which is not a consideration specifically for the north-east alone; the Scottish Government needs to be aware of that. It is about how we get people feeling confident about moving back into the cities and towns.

That provides us with an opportunity to look at the balance of how we do things. We are trying to encourage small businesses to challenge the traditional business models that have got them so far. A large number of successful e-commerce businesses have been able to adapt or embrace the ability to sell online and have managed to survive so far. Nevertheless, it is alarming to see how few businesses are not adequately set up for dealing digitally. That should be a strong focus for the next months and years to come. We need to try to get businesses in the north-east up to a digital level that is comparable with levels in other countries.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I would like to understand what projects and developments are happening in the oil and gas sector. Oil and Gas UK said that it could take up to three years to restart many of the projects that have been lost due to the pandemic and the commodity price downturn. Why will it take three years?

Is that a difficult question? Are there any volunteers to answer it?

Jennifer Craw: I am happy to come in on that. It is about the cycles of investment. There is the level of confidence and there are the cycles to which oil and gas operators work in response. We need to understand that the industry has been through peaks and troughs. It is currently impacted by Covid, the oil and gas price and energy transition. Looking ahead, rebuilding confidence in oil and gas and the sector's importance in maintaining sovereignty of supply and the industrial and engineering base are both important aspects.

Oil and Gas UK is the lead voice of the industry in terms of reflecting what its members' investment profile looks like. We should be mindful of that in terms of the overall return in economic activity relating to oil and gas—operations, production and offshore. However, the real issue right is maintaining the workforce, the company base and support for the supply chain, which is critical in the longer term for energy transition and the supply chain. It is a stark warning about the challenges that lie ahead in the short and medium term and the need for the industry to invest in skills, capability and support for diversification and internationalisation.

Colin Beattie: I would like to come back to the point that you made about the cycle. People do not decide to invest every three years, so what do you mean by cycle? Will you elaborate on that?

Jennifer Craw: A number of the companies are global ones and as they put forward their opex and capex proposals within their organisations that is what Oil and Gas UK reflects in its reporting. It reflects the fact that many of them are international businesses making investment decisions on an annual-plus basis. Unfortunately, if that is what is being reflected in its members' feedback, we have to consider the impact of that reality on both the Scottish economy and the north-east of Scotland's economy.

Colin Beattie: Is there any way to tease out which of the impacted projects are being delayed or shelved due to the pandemic and which are being shelved because of the commodity price downturn, or is the result the same, so there is no way to separate them?

Jennifer Craw: I do not know the specific detail. It is a really good question. Shane Taylor may have picked up more from the work that the chamber of commerce has done recently. We can certainly ask the question. At the moment, the net impact becomes one and the same, but I do not know whether that will unravel as we come out of Covid and move forward. Shane mentioned the impact of the vaccine and we all hope that a successful roll-out will accelerate the economy back to a different phase of growth. Perhaps we can take the question off line and do a bit more research around it, unless Shane can add something based on the survey that the chamber has just completed.

Shane Taylor: Generally, I concur with Jennifer Craw's answer; it is very challenging to separate the impact of Covid-19 from that of general economic conditions. Although some geopolitical considerations created a bit of a slide in the oil price at the start of the year, it has fundamentally been fuelled by Covid and the drop in demand that came from that. It is very challenging to split those aspects, but I am happy to see whether we can get more detail on that for the committee.

Colin Beattie: Moving on to another aspect of the same thing, a lot of people believe that the north-east's oil and gas legacy paves the way for significant growth in energy transition activity. I think it was Jennifer Craw who mentioned that. A net zero carbon energy future is, of course, part of the green recovery. Do you think that policymakers and industry have moved at enough pace to ensure that Aberdeen region can take the lead in the energy transition? Is enough being done on that?

Shane Taylor: We can always accelerate those ambitions, but the region has been pretty focused on its oil and gas to energy transition ambitions. That has been a core part of the regional economic strategy and a core focus for some time. However, Covid—the impact of the pandemic and the additional downturn that the industry has seen—has definitely accelerated those ambitions.

09:45

Even prior to that, though, we were beginning to consider such areas, and great work has been done on energy integration by the Oil and Gas Authority. I draw the committee's attention to recent reports by the Oil and Gas Technology Centre—one entitled "Closing the Gap" and another setting out an integrated energy vision for the region, which clearly illustrates the potential in areas such as hydrogen energy and carbon capture.

On our ambitions more generally, we want to accelerate matters. Although I mentioned that, according to recent surveys, the industry's perceptions about the immediate impact were bleak, it is worth mentioning the more positive side of that story, which is that transition ambitions in the supply chain have accelerated dramatically. We have seen high levels of respondents considering engaging in renewables, reducing the proportion of their operations in oil and gas and actively diversifying. More than half of respondents also said that the Covid pandemic had accelerated their plans on transition.

We are therefore seeing accelerated plans on the supply chain side, which have been reflected in Oil and Gas UK's recent report. We have also seen Government support emerging on that side: for example, the Scottish Government's £62 million energy transition fund, which is welcome, focuses primarily on the north-east of Scotland. We are also looking towards the North Sea transition deal in the months to come. Therefore, in general, there is room to accelerate, and there is clearly the appetite for doing so. However, the sector in general, and the north-east in particular, had been pretty focused on accelerating its ambitions even prior to the Covid pandemic.

Colin Beattie: May I ask one last question, convener?

The Convener: I hesitate to interrupt, but time is running away with us, so I ask witnesses and committee members to be brief. I will allow Mr Beattie one final quick question, to which perhaps we could have a quick response.

Colin Beattie: My final question is about the significant investments that have been proposed. We have been discussing projects that have been shelved or delayed. What barriers are preventing projects such as the energy transition, the energy transition zone, the global underwater hub and the North Sea transition deal from being developed fully? What is slowing them down?

Jennifer Craw: Your question is about pace, but the issue is the alignment of pace. We know that, in particular, sectors such as offshore renewables, offshore wind and floating offshore wind present key opportunities for both Scotland and the north-east to use all their experience, knowledge, know-how, engineering, and design capacity and capability to go into deeper offshore wind, reusing floating structures. However, a number of such technologies are pre-commercial. We have demonstrators, and we talk about many such activities as though they are here already and are commercially viable, but they are not.

Therefore a balance must be struck across supporting the industry in driving and moving forward at pace, the licensing sector moving at the pace that it can do, and ensuring that both the offshore and onshore infrastructure can be provided at market cost. We must identify where the specific market failure is across such projects. In the energy transition zone, there is market failure on the land-side capacity, linking to offshore wind and maximising the investment in Aberdeen harbour south that has been part of the Aberdeen city region deal. In the OGTC's net zero solutions centre such failure concerns commercial solutions for both decarbonisation and new technologies such as hydrogen energy, carbon capture, utilisation and storage, and offshore floating wind that can make solutions emerge at a commercial pace and rate. In the global underwater hub, the concern is about accelerating the supply chain, and particularly the subsea part, to enable it to be at the forefront of international or global opportunity in the blue economy.

There needs to be early-stage pump priming to ensure that we will be at a point where we can be market ready at the time that such technologies and the industries need us to have the supply chain and the place-based solutions ready for them.

The Convener: We will now move to questions from Maurice Golden.

Maurice Golden (West Scotland) (Con): I am interested in the witnesses' views on how young people in the north-east have been impacted by the pandemic, particularly in relation to labour market access.

Jennifer Craw: Across Scotland, particularly in the north-east, we see that the younger population is disproportionately impacted. A number of activities are under way across the skills groupings to consider how we can come together to resolve the issue by helping to bring young people both at-work training opportunities and new opportunities, and linking industry and the company base to young people in a new way.

The young persons guarantee and access to apprenticeships has been a key area of focus in ensuring that, at an industry level, apprenticeships are made available, and apprentices who, unfortunately, have been let go, find an alternative employer. A concerted effort will need to be made through the furlough scheme to specifically target young people in rebuilding the economy.

The issue is certainly a strong focus of the skills strategy group, and the developing the young workforce strategy has an important role to play in the north-east of Scotland, along with Skills Development Scotland. For each of our Opportunity North East sector boards, the role of the individual employers, and the different parts that they can play, are important. Are those schemes up and running yet? No, but they are in the planning, because the disproportionate impact on young people is very much understood and felt.

Shane Taylor: As Jennifer Craw mentioned—I think this point came up in previous committee sessions— there is a clear focus, driven by the young persons guarantee, on how DYW upscales its activity. Already, across the north-east, DYW drives hundreds of activities, through which it engages with tens of thousands of young people and their parents.

The committee has already touched on some of the school co-ordinator work. In my previous role at Scottish Chambers of Commerce, we submitted evidence to one of the young people's pathways committees that one of the frequent challenges with DYW was a lack of focused school resource and contact points in schools. That was a key piece of work for which the chambers called for some time. On the basis of that work, we have seen a significant increase in the number of school co-ordinators. That is a new, focused role, based in schools, that focuses on how DYW connects employers and individuals with employment opportunities. There has been a real upscaling there. We have also seen some key initiatives, such as the kickstart scheme, beginning to come on stream.

Broadly, we have seen an impact on young people, and we know that the industries that are most likely to employ young people, certainly at the start of their careers, have been badly impacted by the pandemic. As I mentioned, there is also the tacit impact of working remotely on a young person's career experience. It is quite challenging to get a sense of that impact, but it is something that we need a clearer view on going forward.

Andrew Burnett: We are seeing lots of young people come through our doors without a clear opportunity for their next step. There is an issue with a lack of opportunity. Yes, we need to connect them with businesses, and DYW and the kickstart programme are useful mechanisms for doing so, but a lot of them are probably coming through the Business Gateway doors because they are considering a business start-up, along with employment and returning to study. There is no clear next-step destination for them. When we engage them in the start-up environment, it is important to help them to raise their ambition level about what they can actually achieve; for example, by introducing them to the idea of identifying a good product or service, and then selling it across international borders.

Many of the students who are coming out of college and university are much more tuned in to those sorts of opportunities than a conventional older person who is interested in starting a business. With the right input, we can encourage young people to think about starting up the right type of business and to explore the market opportunities, but it does take time, which is a distinct difference between the situations pre-Covid and post Covid. Traditionally, when people come through the doors looking to start a business, they have, perhaps, a three-month window in which to do that and they already have a good idea and a good understanding of the market opportunity. Now, the timescales are much more like six months or nine months, which has an impact on the business support mechanism in the north-east and, I am sure, throughout Scotland.

The Convener: We now move to questions from the deputy convener, Willie Coffey.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I will pick up that thread with Andrew Burnett in particular. The committee has heard from a number of young people across Scotland about the problems that they are facing due to Covid, and Maurice Golden opened up the questions on the impact on young people, particularly in the north-east. Are you finding that young people are choosing their career direction at university or college in the hope that they might get into the oil and gas sector? If so, have they suffered more than most with regard to the opportunity and access that Maurice asked you about earlier?

Andrew Burnett: I suppose that it comes down to the speed of change. Without doubt, many people have entered into further and higher education with the expectation that they will move into a sector where there will be jobs for them, and they are having to revise their expectations as to the likelihood of that happening. As well as the issue of the number of jobs available, it is a much more competitive environment for the few jobs that are available. What I am seeing and hearing is that, when young people are moving out of the educational phase, there is no clear next-step destination, so, in effect, they are trying to keep their options open and explore different avenues. From a Business Gateway perspective, if starting a business is one of those options and we can help them to focus on an idea and identify how to make some money from it, that might be a better alternative to taking a lower-paid position, the market for which is still extremely competitive. Does that answer your question?

Willie Coffey: Yes, that certainly helps. Could the other witnesses offer a comment on that? Have their youngsters been particularly affected in that their hopes of going into the oil and gas sector have been thwarted by what has happened, including what was happening in the sector pre-Covid? Covid has probably made that situation much worse. Is there a particular impact on youngsters from the north-east because of that?

The Convener: Jennifer Craw wants to come in.

Jennifer Craw: There are two elements to it. On the provision of training, there has been an ambition for training to become broader than oil and gas, such as through apprenticeships being competency based across a number of sectors, including renewables and oil and gas. That will come on stream, but, yes, there has definitely been a hiatus because of Covid and the drop in demand for oil and gas, so there has been a disproportionate impact on those young people. Looking at university provision, on the commercial business, legal and engineering sides, the infrastructure has moved to be broader to offer undergraduate and postgraduate qualifications that are not specific to oil and gas. That is coming through the system, but I think that we were caught out by a major seismic shift in a very short time.

10:00

The system was moving in the right direction and definitely gaining pace and momentum with regard to energy transition as a result of the targets set last year and the Committee on Climate Change. However, Covid has created a hiatus and an acceleration that has exposed the ambitions and the pace at which we need to move and respond, which has an impact on young people. They are making choices at the ages of 16 or 17 for their future careers, but we need to ensure that the skills that they gain through training in work or through further education and higher education are applicable across a number of sectors.

Digital skills—being able to code and apply that—are important. As our industries move into high-value manufacturing, we depend on data and digital science. They are key to accelerating research and therapeutic development in life sciences, for example. As we build and grow our digital economy across Scotland and the north-east, it is increasingly important that those skill sets are embedded in the school curriculum, work training and FE and HE. That is happening, but the question is how we crystallise the acceleration of the activity that has taken place over the past seven or eight months to plan for the future in systems that can be slow to respond to forecasts and demands.

Willie Coffey: Do I have time, convener, for a final, brief question on the digital side of things?

The Convener: Yes.

Willie Coffey: What has been raised a number of times with the committee is thinking in broader terms about the impact of Covid on employment and employers' ability to think differently about where they should offer employment. A number of young people have told us that they would welcome employers thinking differently about where they provide their opportunities to work. These days, we do not all need to cram into the big cities in Scotland to work and have demonstrated that we can successfully work remotely from home. Will employers take the opportunity of what has happened because of Covid to rethink how they engage with youngsters in particular and provide them with more employment opportunities locally in the towns and villages where they live?

Shane Taylor: There is undoubtedly a huge opportunity for the north-east region in that regard, particularly as we have an attractive quality of life proposition alongside the skills in the region. A lot of that comes back to points that I made earlier around how sticky some of the behaviour is, though. Jennifer Craw touched on some of the core points there. Various organisations have produced reports over the past year or so, but OPITO clearly showed in one of its reports on the skills dynamic that the industry needed a significant injection of digital skills. We will see a real digitisation of the UK continental shelf from now up to 2025.

There is a skills demand, but a clear point from the oil and gas survey that we released at the tail end of last year is that the industry feels that it is not that great at attracting young people, which is a core challenge for us. In terms of accelerated ambitions, our region has a clear vision of how the oil and gas industry can lead the energy transition, but it has to be underpinned by our ability to attract young people.

A core part of digitisation is how successful the Government is in general at delivering improved digital connectivity across the region. For example, we have seen in Aberdeenshire that our digital connectivity underpins the economy's resilience. We are looking at how we upscale and accelerate that and how we ensure, for example, that some of the voucher programmes relative to R100 are accessible—that is also going to be key.

Andrew Burnett: I hope that employers recognise that opportunity to bring in younger people to bridge the digital skills gap. I mentioned earlier that Covid has forced lots of businesses across all sectors to reconsider their traditional business model. It is highlighting some of the cracks and deficiencies that were already in place and it is not easy for all businesses to come up with solutions for themselves—a realisation of what is missing, what they need and how to connect with it. It is probably the role of business support organisations and Government to help to make those connections.

We run a programme called grey matters with Scottish Enterprise. It takes senior oil and gas executives who are facing redundancy or have been made redundant and introduces them to a cohort-based learning environment. They bring all the skills and expertise that a lifetime in the industry has brought to them, but almost all of them are missing the level of digital engagement needed to generate polished websites and utilise e-commerce to get products to the customers. Taking programs like that and adding a young dimension to broach that skills efficiency would help to create some exciting new opportunities for both new-start businesses and existing businesses in the north-east.

Willie Coffey: That is very helpful, everybody. Thank you for that.

Graham Simpson (Central Scotland) (Con): At the start of the discussion, there was a question about people's future working arrangements in town and city centres. Throughout this period, I have assumed that when we get out of the pandemic there will be reduced office working and a lot more home working, so we will probably end up with fewer offices. However, I was in conversation recently with people in the property sector who were far more upbeat and considered that we will continue to need offices. There might be fewer people in them, who will be given more space to work and will not be as crammed in as they used to be, but it is not all doom and gloom and office use will continue. Certainly, I recently saw figures showing that Glasgow has hardly any office space at the moment. What are you finding in Aberdeen?

Andrew Burnett: I do not know that I can comment for the wider business population. However, our organisation is a big employer in the sense that we employ more than 70 members of staff and I would say that 50 per cent of them are happy working from home or are looking for some sort of blended working arrangement in the future while the other 50 per cent are champing at the bit to get back to the office environment, because people enjoy working with other people.

We have been forced to change our delivery model over the past nine months to deliver online training courses and webinars and in general we have seen the level of engagement maintained if not increased on pre-Covid levels. However, we lose some of the magic and dynamism with that approach, particularly when it is in the field of entrepreneurship and networking. As we move towards the point at which we can get back into offices from a public health perspective, I hope that we will see a positive response and that people will want to move back into the office environment, albeit perhaps in a changed model involving split shifts, weekend work or longer working hours during the day. Some sort of hybrid model would be my expectation for what is coming.

Graham Simpson: That is interesting. My next question is for Jennifer Craw, but others can also comment. It is about the city deal in Aberdeen.

Over the past few years, a number of committees, including this one, have taken evidence on city deals. There are mixed views on city deals and how effective they are. What has the experience been in Aberdeen? Is the city deal driving change, or would that have happened anyway without it? I know that Jennifer Craw is very much involved in the city deal for Aberdeen.

Jennifer Craw: I am delighted to talk about the city region deal. In 2016, the deal for Aberdeen city region, for £250 million, was signed. More than 90 per cent of that funding has now been committed.

The major investment was in OGTC—it was a strategic investment to drive the focus on technology and innovation at both operator and supply chain level. OGTC has been incredibly successful in delivering on that agenda and repositioning the UK North Sea as a driver of innovation in technology. We had a reputation for being a lagger rather than a leader in implementing new technology, so OGTC has been a huge success in that regard.

The other two major innovation projects are in life sciences and food and drink. BioHub in Aberdeen is addressing the big challenge in life sciences, which is the question of where spin-out companies from the universities and start-ups operate from in order to build a cluster effect that links national health service clinicians, university researchers and commercial companies. We have started on the site up at Foresterhill, where the main construction project will go ahead.

In food and drink, the focus is on innovation, advanced manufacturing, automation and the close links between research, the consumer and food manufacture.

Would those projects have happened without the city region deal? No. The other projects include a focus on Aberdeen harbour south, which is critical in providing the deep-water, non-tidal capability that will drive the future offshore wind and renewables, and other elements of decommissioning, in a new era for the harbour. In addition, there is a focus on supporting broadband connectivity from both a city and a shire perspective.

Those innovation projects would not have happened without city region deal funding. The key focus is on diversifying the economy for the long term, maximising our oil and gas industry and supporting growth and innovation in the other sectors, and supporting the infrastructure to support those industries.

Back in 2016, we knew that digital was important—today, we know that it is critically important. I firmly believe that the city region deal was a huge game changer for investment and diversification in the north-east Scotland economy, looking to the medium and long term. We have developed an effective partnership between the public and private sectors, and we have built credibility in demonstrating that investment is going to drive change in the future economy, and in the shape of the economy as we move forward.

Graham Simpson: You mentioned the harbourside development, which is linked to the offshore wind sector. We will look at that in our next evidence session. Can you tell us more about what that project is delivering at present?

Jennifer Craw: Aberdeen harbour south is due to come on stream next year. It is about the difference that a deep-water, non-tidal port will make in supporting offshore wind as it is currently developing. There is a requirement for a longer quayside, deeper water and larger equipment moving in and out, so we need a port-side facility that offers the ability for efficient movement into storage, marshalling for offshore and going straight back offshore.

If you look at where the ScotWind licences are off the north-east coast, you will see that the harbour is perfectly positioned as a deep-water, non-tidal facility that can be the central point for north-east licence holders as those licences are awarded. It is a game changer for Scotland's offshore wind capability and—certainly from a north-east Scotland perspective—a game changer in relation to offering the licence holders a solution for operation during the development phase and beyond.

10:15

Alex Rowley (Mid Scotland and Fife) (Lab): Somebody made the point earlier that furlough has been a blessing, which it certainly has been. Are there specific sectors that we now know will need support beyond furlough, from March onwards? Are we able to identify those sectors so that we can start to prepare? Are we also able to identify sectors in which lots of jobs will go when furlough ends? It has been said in the discussion today that we can expect another wave of job losses then. What work has been done to prepare for that, to allow us to put measures in place to support those sectors?

Shane Taylor: To an extent, there is a bit of clarity around the sectors that will need additional support. Most members are aware of hospitality's on-going challenges and it is pretty clear that there will be a phased recovery for that sector. In addition to that, any sector that is linked to travel will need support. Live events are key for our region, given some of the recent investments in P&J Live—an events complex in the region. Aviation, in particular, will need support. A more sustained and focused approach to support for such sectors will be key when it comes to recovery.

It was Andrew Burnett who made the point about furlough being a life saver. Furlough has clearly protected employment in a range of sectors and still has a relatively significant uptake, as I mentioned. With regard to where the focus should be, in some of our more recent surveys a higher proportion of members have said that they expect their employment to remain constant over the next three months rather than decline, which speaks to the importance of giving as much clarity as we can around those Government support schemes, as far in advance as we can.

Furlough decisions that were made recently gave us the benefit of having the scheme in place until March. Although we have a review in January on employer contributions, it is much clearer that a furlough scheme will be held in place until March. That forward clarity is important.

Work is obviously going on to support tourism, hospitality and other sectors, such as aviation, alongside the Government's consideration of recovery plans and actions that need to be taken. Conversations are also going on with industry bodies generally on some of those forward-looking spaces.

We have talked a lot about the oil and gas sector, which will need specific support: the energy transition fund is linked to that, and the North Sea transition deal will be the next stage. A range of sectors will need support but it is relatively clear which sectors they are at the moment.

Alex Rowley: In addition to furlough, a number of different grants have been made available to sectors such as hospitality. Do you have any feedback on how easy it is for businesses to access those grants? We got feedback from other areas that some businesses find it more difficult than others. How easy is the process? What is the feedback from businesses on access to the available support?

Shane Taylor: Generally, it seems to be scheme dependent. There is the core scheme of the framework grants that are currently in place and, although there is a bit of work for businesses to do to navigate their eligibility for those, I have not experienced too much feedback from businesses that they are not able to claim those grants.

However, there are separate concerns in other parts of the country about additional packages that have been announced. Increasingly, one of the most common pieces of feedback that we get is about schemes that have very short time windows for application; it is a challenge for businesses to navigate what is out there.

For example, recently, a scheme with a very short time window was announced on wholesale food and drink. We have seen a broad array of specific grant schemes, which is welcome, but there were challenges in accessing some of the earlier schemes. There were challenges for businesses in our region to access some of the hotel-specific schemes that were put together. Feedback from the Aberdeen City and Shire Hotels Association suggests that a smaller than expected proportion of businesses have been able to receive that support. It varies on a scheme-by-scheme basis but, generally, the core grants are accessible. With regard to sectoral schemes, a lot depends on the businesses' ability, by engaging with trade organisations and others, to keep track of the schemes that are out there. There is a challenge in being able to get that information.

Andrew Burnett: I will give a quick answer to your previous question on trying to prepare for the wave of redundancies that is coming. Unfortunately, we have recent experience from 2015 of the impact on the oil and gas industry and the surge of people moving from employment into unemployment and looking for opportunities. Finding ways to deliver messages to people en masse is critical. The partnership action for continuing employment team that we have in the north-east is important. In 2015, we got people together in a room and ran events for 2,000 people; we ran four of them each year. Obviously, in a Covid environment, we cannot do that, so we are trying to replicate that virtually.

We are trying to create programmes that will handle the volume of people coming through the doors who do not have in mind a firm destination or think that starting up a business will be the right thing for them, but who are exploring self-employment along with all other options.

Again, it is about trying to protect the business support infrastructure, because it is likely that we will be stretched over the next six months. From what I have heard, the business support schemes are working quite well now. That differs slightly from April and May, when the initial support schemes were introduced rapidly. The information that was available was limited; businesses were asking our business advisers about eligibility criteria and we were operating in a real-time situation, where we had no more information than the public or the business community, which was a huge problem. Local authorities, which are administering a lot of the business support mechanisms, are obviously under lots of pressure. They are experiencing stretched resources but, from what I hear over recent times, the funds are getting to businesses, which is important.

Alex Rowley: Thank you for that. There is a debate in the Scottish Parliament tomorrow on those issues, so I am sure that many of my colleagues will be able to pick up your positive comments about how the business support grants are now working.

That leads me to my final question, which is on the Scottish economy. Do we need to start to have more regional planning and put in place regional strategies? We hear talk about an industrial strategy. The Scottish Government seems to lump together a lot of strategies and say that that is an industrial strategy, but I wonder whether we need a Scotland-wide industrial strategy or whether we need more regional planning and regional strategies, given that the economy in the north-east is quite different from that of the south-west?

Jennifer Craw: That is a really good question, and my answer is that we need both. At Scotland level, it is important that we understand where our industrial strengths are and where there are opportunities for the future. Therefore, I would always support having a Scottish strategy that links to our overall ambitions.

At regional level, we should be able to demonstrate and identify the regional position and how to play to regional strengths. It so happens that, in the north-east of Scotland, we punch above our weight in terms of population size on many aspects. We are way above on oil and gas, we are above on food and drink and, on life sciences, we are about equal to what would be expected. On tourism, we are slightly above, but we are overweighted in business tourism, which is why we are so disproportionately impacted at the moment by there being no business events or business travel, and by the impacts of travel restrictions and restrictions on live events at TECA—the event complex Aberdeen.

Therefore, we need both. We do not want to end up with overduplication, but we need a mature regional approach that talks to the national strategy and understands how each region plays to its strengths. The regional economic partnerships have played a positive role in taking forward that agenda. The city region deals are critical in enabling investment in those strengths and opportunities.

The north-east of Scotland is unique because of the balance, relationship and partnership between the public and private sector. The private sector has a vested interest in ensuring that the region is planning for the medium to long term, because of the understanding and knowledge that the oil and gas sector is a major employer that will transition and will not have the current dominance, from an economic and employment perspective. Therefore, it is important to balance that out and to build new employment for the future.

My personal view, based on our experience through the regional economic partnership, the regional economic strategy and Opportunity North East working closely with our partners, is that it is important to have both approaches.

The Convener: We will hear briefly from Andrew Burnett before we move to final questions from Richard Lyle, who I want to give some time to.

Andrew Burnett: I agree with Jennifer Craw that it has to be both. Given the strength in the regional economies and the diversity in the regional economic framework, we should be looking to focus on our strengths at regional level. However, it needs to be joined up to help Scotland to make the sort of impact in the global environment that we need in a post-Brexit world.

To refer to the previous question, although we are being successful in getting the money out of the door to businesses, there is still a missing component, which is how businesses engage with Government. The past 10 months with Covid have demonstrated to us that businesses are reliant on the information that they pick up through the tools that we use to send it out. If businesses do not use social media or engage with Business Gateway, they do not get information about what support is available.

Pre-Covid, that probably would not have been much of an issue but, in a situation in which businesses are under intense pressure and are looking for the most relevant and current helpful and simple steps to help them to survive, we are slightly exposed, in that our connection mechanism between business and Government is not as tight as it needs to be. That point was highlighted in the 2019 business support inquiry.

I am not sure what the solution is, but it is perhaps about having some sort of digital user interface. We work hard to ensure that businesses submit their tax returns online, and we could do the same sort of thing to ensure that they have access to all the business support initiatives that are available. That would be really helpful were a situation such as this one to happen again, when we would need to get messages out about what is available to help businesses to address the immediate challenges—and to do so through their channels. At times, the current approach has felt a little reactive to the needs of the business community.

The Convener: I thank our panel of witnesses. I am obliged to Richard Lyle, who has told me that, because we have had an extensive session, the matters that he wanted to ask about have been covered.

I suspend briefly for a changeover of witnesses.

10:30

Meeting suspended.

10:31

On resuming—

Scottish Offshore Wind Sector Inquiry

The Convener: We move on to item 5, which is our consideration of Burntisland Fabrications, the offshore wind sector, and the Scottish supply chain.

We are joined by a second panel of witnesses, whom I thank for their patience in waiting for us to come to this item. The previous item ran over slightly, but in this virtual world, we are trying to allow a bit of reality even if half of us are online, which means not just cutting things off exactly to the second, as planned.

Our witnesses are Simon Hodge, who is the chief executive of Crown Estate Scotland; David Pratt, who is the head of planning and strategy at Marine Scotland; and Andrew Hogg, who is deputy director for the energy industries division in the Scottish Government. Welcome to all three of you.

Could each of you explain briefly, in a few succinct points, what your roles and responsibilities are in the development of Scotland's offshore wind industry? Who would like to go first? You can indicate by typing "R" in the chat box or simply raising your hand, as we develop the discussion with questions from committee members.

We will start with Simon Hodge.

We cannot hear you in the room. When this happens, we normally go to another witness if we cannot get it sorted immediately. We will come back to you. As there is an issue with Mr Hodge's sound, would one of the other witnesses like to come in, after which we will go back to Simon Hodge?

Andrew Hogg (Scottish Government): For the purposes of this morning's committee meeting, I am a deputy director and head of the energy industries division in the Scottish Government. My teams cover renewable energy policy; we advise Scottish ministers on the devolved aspects of that policy and the implications of reserved policy. In electricity generation, a significant proportion of the policy landscape is reserved to the UK Government. My teams provide general policy advice across the energy policy landscape, but we also advise ministers about BiFab specifically.

The Convener: Just before you finished, you mentioned the UK Government. Could you and the other witnesses also talk about how closely you work with UK agencies or the Department for Business, Energy and Industrial Strategy? Could you give us a quick comment on that?

Andrew Hogg: Yes. I am happy to go first, again. We speak regularly with colleagues in BEIS. I know that the committee has reached out to UK ministers and officials. I speak to my counterparts relatively regularly. On BiFab, we are working with UK officials across the Cabinet Office, BEIS and the Scotland Office on the joint UK Government and Scottish Government working group.

The Convener: We will come back to Simon Hodge if his sound is working.

I am afraid that we cannot hear him yet. We will try David Pratt.

David Pratt (Marine Scotland): Can you hear me?

The Convener: Yes, we can.

David Pratt: That is good. Thank you for the opportunity to attend today.

With regard to my role, Marine Scotland is the planning and licensing authority for Scotland's seas, and I head up the planning team, which has the overview of the statutory planning framework, including the national and regional marine plans and a lot of work on sectoral development plans, in particular for offshore wind developments. You will be aware that we published an offshore wind plan in October, which sets out the spatial development framework for the ScotWind leasing process. My team also covers licensing policy issues. We also have an arm that includes Crown Estate strategy and marine research functions.

The Convener: Do you work with BEIS, or have contact or collaborate with that UK Government department?

David Pratt: Yes—on strategic planning issues. Obviously, BEIS has similar processes for identifying areas for offshore wind developments, but many of our species and many aspects of our environment transit right across UK seas, so we jointly ensure that systems align with each other.

The Convener: We will try Simon Hodge again.

Simon Hodge (Crown Estate Scotland): Can you hear me now?

The Convener: Yes, we can hear you loud and clear.

Simon Hodge: That is excellent. I am sorry about that technical problem.

I am the chief executive of Crown Estate Scotland. We manage the rights to the seabed and are currently running the ScotWind leasing round.

The Convener: Do you have contact or work with BEIS?

Simon Hodge: We have some contact with BEIS, mainly on a project basis, and particularly in looking at oil and gas transition and other aspects including grid opportunities. We also liaise with the Crown Estate—it is also running a leasing round—to ensure that we are both aware of the various elements and timetables of the two rounds.

The Convener: We now come to questions from committee members. Graham Simpson is first.

Graham Simpson: Thanks, convener. On the length of time that it takes to get an offshore wind farm up and running, I am told that, from consent to getting the turbines operating, can take as long as 11 years. I might be wrong, but if I am right, that seems to be a long time. What are we doing to speed up that process?

David Pratt: You are correct that that is a long time. However, such things are significant national infrastructure projects. Similar infrastructure projects—such as motorways or the Queensferry crossing, start at a concept stage, with a number of planning processes being required of Government, including a strategic environmental assessment and a socioeconomic impact assessment, before we can get down to project consenting work.

For many large infrastructure projects, there is also a need for a number of years of pre-application monitoring. That is due to the rigour of environmental legislation, because such large projects require a significant amount of work to ascertain their true impacts.

That said, we are consistently considering ways to make the process faster and smarter, and are improving it where that is at all possible. The projects do take a significant time, but their magnitude dictates that there must be a lot of rigour to ensure that they are developed sustainably.

Graham Simpson: Does it take as long to develop offshore wind projects in England? I appreciate that the conditions are very different, including the depth of the sea.

David Pratt: The timescales are broadly similar. Some of the projects in Scotland that originated from the UK—BEIS round 2 and Crown Estate round 3 at the time—are coming to the fore now, and they were largely conceptual around 2008 or 2009. The timetables are broadly very similar.

Graham Simpson: Okay—that is very helpful.

I now have a question for Andrew Hogg. You were lucky enough to take part in the Scottish offshore wind energy council, whose work included a mapping exercise of the Scottish supply chain—or, a commitment was certainly made to doing one. Has that happened? If it has, what have you discovered? How many firms are in the supply chain, where are they, what are their areas of specialism, and so on?

Andrew Hogg: The Scottish offshore wind energy council is convened by the Minister for Energy, Connectivity and the Islands, Mr Wheelhouse, and is co-chaired by Brian McFarlane of SSE. It has put in place a range of work packages and is working with developers, with focuses on barriers to deployment, innovation and skills, and on supply chains and clusters. The enterprise agencies play a significant role, working with the emerging clusters on the DeepWind offshore wind cluster and the development in Fife.

A number of programmes are on-going. Graham Simpson referred to the supply chain and the mapping exercise. That was quite a detailed exercise, so it would probably be better to share its outputs by correspondence. I would be happy to share those with the committee after the meeting.

There are five key on-going workstreams that I can think of. A strategic investment assessment of the offshore wind sector is being carried out, which is chaired by Sir Jim McDonald and will report early next year. We are also considering the impacts of transmission network use of system—TNOUS—charges for transmission charging in Scotland. There is work on habitats regulations assessments, on the transparency and impacts of contracting strategies, and on the opportunities around floating wind, which is where some of the key opportunities in relation to ScotWind will be.

Those are the on-going work packages. All of them are expected to report between now and March.

Graham Simpson: Is there stuff about the supply chain that you can share with us in writing? I appreciate that there is probably a lot of detail. You have helpfully told us a bit more.

Andrew Hogg: I do not have the information on the mapping exercise to hand, but I can follow up on that to the committee in writing.

Graham Simpson: Okay. That is very useful.

I now wish to ask about contracts for difference, on which the committee has taken quite a bit of evidence. Can you share your views on how they have helped or hindered the Scottish supply chain? That is my simple question.

Andrew Hogg: I am not so sure about “simple”. The contracts for difference scheme is hugely important, and is probably the main lever. It is important for bringing offshore wind developments on stream.

I know that the committee has had a number of evidence sessions with the developers and the renewables bodies, and that they have given their views. The main thing to say about contracts for difference is that they have been successful in one of their objectives, which is to reduce the cost of renewable generation. The cost of offshore wind generation has come down significantly and is now more competitive and cheaper than equivalent gas generation or any other technologies. In that regard, it has been incredibly successful.

10:45

However, bringing costs down that fast has meant that the developers and the companies that are involved in developing wind farms have had to make difficult decisions about how to reduce or squeeze out costs in projects. That has led to contracting approaches and procurement strategies that have made it more challenging for a local supply chain to secure work.

The Scottish Government has been engaging with the UK Government and submitting our view on the CFD for some time now. On the structure of the mechanism itself, for example, we have called for the caps on the CFD rounds to be higher, and we have made representations about how we believe the pots that the technologies are assigned to should be set up.

It has been encouraging to see some of those changes being made in the latest UK Government publication in November. For example, onshore wind is being brought back into pot 1, and offshore wind, given its cost, is being moved into pot 3, which will allow that technology, as a mature and competitive technology, to compete against similar projects. That will free up pot 2 to give projects such as remote island wind a chance to be delivered. It also creates a different definition for floating wind, in that it will support projects at 45m water depth. There are some welcome changes in the structure of the contract and the pot structure.

Scottish ministers and the Scottish Government have long argued that CFD does not do enough with the supply chain component. We have, similar to what happened with the ScotWind round, called for CFD to take a much more robust approach to supply chain commitments on local content. There is a live consultation on supply chain plans. It is due to conclude on 18 January and the Scottish Government plans to respond to it.

The Convener: We will need to move on to our other questions, but Simon Hodge wants to comment on one or two of the points that were raised there. I am happy to give you that opportunity before we move to questions from Colin Beattie.

Simon Hodge: I really just want to emphasise the point about how long it takes to develop a scheme and, looking forward, how positive it is for Scotland to have developed a sectoral marine plan for offshore wind. You might have seen the map—my colleague can describe it further—but that really is an important innovation that might enable the ScotWind leasing round to proceed faster than would otherwise have been the case, because it gives such a clear indication of where the focus is for development opportunities.

Colin Beattie: Do any of the witnesses know whether the Scottish Government intends to make a submission to the current UK Government consultation on changes to the supply chain plans and CFD? Does anyone have any knowledge of that?

Andrew Hogg: I confirm that the Scottish Government plans to respond to that consultation. I understand that it closes on 18 January. We responded to the most recent consultation on the contract for difference mechanism and the changes to the pot structure, but we also plan to respond to the consultation on supply chain plans.

Colin Beattie: Can you give us any hints about the direction of travel in the response?

Andrew Hogg: I think that it will just call for as robust a supply chain plan process as possible. Crown Estate Scotland has taken some encouraging steps in relation to the ScotWind leasing process and the supply chain process that is built into that. I think that we are just going to encourage the UK Government to go as far as it can.

One point to bear in mind is that we have to be cognisant of the fact that, when we are thinking about supply chain or local content, although we should do everything that we can to maximise and encourage the supply chain's capability to capture that value, we need to do so in a way that does not deter investment. The net zero targets that we have in Scotland, particularly the 2030 targets, are ambitious, and we will need as much capacity as possible in Scottish waters to allow us to get the renewable energy to deliver on those targets. We need to do that in a way that does not deter investment.

Colin Beattie: I have a very simple question. Why do developers choose to build offshore wind farms off the coast of Scotland, where the sea is generally deeper than it is on the east coast of England, the sea bed is made of rock, weather conditions are tougher—to put it mildly—and transmission charges are higher?

David Pratt: In basic terms, we have one of the best wind resources in the world. We have an exceptionally strong prevailing wind, which is of a consistency that is attractive to prospective developers. They view the initial resource as something that they can work with, and if they can produce the product in terms of the development scheme at as low a cost as possible, they get the opportunity to harness what is an unparalleled resource, given the strength of the wind in most of our waters.

Colin Beattie: It is all about the strength of the wind.

David Pratt: With regard to the attractiveness of the market, that is a big prize for Scotland, as there is consistency.

We operate in a planning environment in which there is a lot of encouragement, politically, for the development of the sector, which is also attractive to prospective developers. There is a significant resource here, akin to the strong tidal resource of the Pentland Firth, which attracts the potential to develop that form of energy. Wind is a big resource for Scottish waters.

Simon Hodge: So far, all pipeline developments have been fixed-bottom developments in shallow water, so Scotland has some of that type of resource. In Scotland, the key for the future is the development of floating wind, and we are excited about its potential through ScotWind. If Scotland is able to become a leader in the deployment of floating wind, that will be of great significance globally because, globally, most of the opportunity for offshore wind is in floating wind, rather than in shallow water developments.

Colin Beattie: Do we have a competitive advantage in floating wind? I am unsure of the technology that is behind the construction of floating wind, but do we have an advantage over the rest of the UK or the rest of Europe in that regard?

Simon Hodge: So far, we have some deployment on a test basis. In that sense, we are world leaders in the deployment of floating wind, partnering with international energy companies. I think that, through ScotWind and the potential changes to CFD that my colleague Andrew Hogg mentioned, there is the potential to position Scotland as a global leader. However, the next five years will be absolutely critical for that.

Colin Beattie: Is there a substantial price differential between floating wind and conventional offshore wind farms?

Simon Hodge: At the moment, there is a significant price differential. That is partly to do with technological innovation, although that is progressing well. It is also partly to do with scaling, which is the next big step in order to achieve the cost reduction that Andrew Hogg mentioned. That is critical to enabling floating wind to be competitive as a source of energy in the future.

Richard Lyle (Uddingston and Bellshill) (SNP): With regard to the supply chain development statement requirements in future ScotWind leases, will developers still be awarded a lease even if they do not commit to awarding contracts to the Scottish supply chain?

Simon Hodge: I will that pick up. The structure of the ScotWind leasing round requires developers to submit a supply chain development statement and to provide the information that we are seeking. As a quick run-through, that information will require a statement of the investments that take place, or are intended to take place, in Scotland, the rest of the UK, the EU and the rest of the world. We will also require that information to be broken down into the various stages of the development process. Those commitments by developers will then be carried through and, ultimately, incorporated into the lease contracts of successful bidders.

For the purposes of this discussion, the key aspect is that we are not requiring any particular response or level of commitment to the different geographical regions as a basis for award of the contract.

Richard Lyle: Many people are upset with the fact that we were promised thousands of jobs. Companies commit to getting the work done in Scotland and then move to Spain, for example, as I believe one company did. If developers commit to awarding contracts to the Scottish supply chain and subsequently change their minds during the years of development, what penalties can the Crown Estate impose, if any?

Simon Hodge: If a developer has made a commitment through a supply chain development statement, and that commitment is not taken through to the final lease, we can apply a financial penalty. Ultimately, we can also terminate that option.

Richard Lyle: Have you ever done that?

Simon Hodge: No. This leasing round is the first since the devolution of the Scottish Crown estate, and that is an innovation that we will implement during this ScotWind round.

Richard Lyle: To finish off—sorry to put you in the firing line, Simon—would you take that step if a company went back on its word in the lease? It is a hypothetical question—it is something that would happen in the future—but will you commit today to doing that in order to make it clear to companies that we are not going to tolerate such behaviour any longer?

Simon Hodge: We have been laying out for the sector a graded scale for matching delivery to the initial commitment. If that falls below a certain threshold, we would terminate. We need to carefully consider doing that, because of course a termination could result in a significant setback in offshore wind development. However, we have considered the termination option very carefully and concluded that we should retain it. The sector is clear that, below certain thresholds, that remedy will be applied.

Richard Lyle: What is the Scottish Government's view on that future development?

Andrew Hogg: We view it as a very positive development. This will be the first leasing round for ScotWind, as the power has only recently been devolved to the Scottish Government. It is exciting to see the ambition of the ScotWind launch.

Alongside ScotWind and the sectoral marine plan, we also launched our Scottish offshore wind policy statement, which set the ambition that we expect. It outlined the potential that we see for up to 11GW of offshore wind in Scotland by 2030.

We see it as a hugely positive step, and the points that Simon Hodge outlined are important to consider as it is taken forward. The introduction of supply chain plans was a key priority for Scottish ministers in the development of ScotWind.

11:00

The Convener: I want to clarify the point that Mr Lyle asked you about. Another witness told the committee that legislation would be needed. However, from what Simon Hodge and Andrew Hogg have been saying it sounds as though that is not the case and that the new setup will allow for the sort of action that you have indicated. Is my understanding correct?

Simon Hodge: I can confirm that that is correct. Such action would be on the basis of lease contracts rather than any wider legislative basis.

The Convener: That is very helpful.

Willie Coffey: I will follow up on the question that Richard Lyle asked Simon Hodge. How do you plan to monitor the statements, and how confident is Crown Estate Scotland that developers will abide by them? What process is in place to ensure that we get good outcomes and that everybody sticks by the agreements and statements that are in place?

Simon Hodge: That is a good question and links with the earlier question about the length of time that it takes to develop schemes. We will seek a supply chain development statement very early in the process. We have incorporated into our leasing scheme a periodic review and update to supply chain development statements as schemes develop and the details become clear, and we have a mechanism by which we can either accept or reject an amendment to a supply chain development statement, depending on whether it is justified. As we move from option to step-through to lease, that will be converted into a contractual commitment, at which point it is built into the lease for the construction of the wind farm.

Willie Coffey: I hate to mention this, but is there a dispute resolution process in case we arrive at that circumstance?

Simon Hodge: We are working on the details of the way in which the mechanism will work. We have committed to putting out further guidance in mid-January, following on from the publication of the sectoral marine plan for offshore wind. That will include all our arrangements and we will reserve the right, as the manager of the sea bed, to use our judgment in the matter.

There will also be an element of wider dialogue, because we will require developers to publish part of the supply chain development statement. We see that as very important, to allow wider public dialogue and debate. We also want to promote collaboration and co-operation across the sector to maximise supply chain development through the process.

Willie Coffey: That is good. I have another quick question, which is probably for Andrew Hogg or David Pratt and is on the comments about the contracts for difference scheme. I scribbled down what Andrew Hogg said about it being pretty successful at bringing the costs down, but it is moving at quite a pace, which has made it challenging for our local supply chains to secure work. That has, perhaps, been the biggest issue for us. How do we solve that issue? I understand that we are still in that position. There might be changes to contracts for difference but how will we make sure that our own supply chain can keep up and get a slice of any work or contracts that become available?

Andrew Hogg: There are a couple of points there. In the design of contracts for difference, the change to the port structure will help. For example, floating wind will not have to compete at the same low price as fixed-bottom offshore wind. That will give the floating wind supply chain a chance to compete and to develop as those projects come forward. Strengthening of the supply chain plans that we called for through the current live consultation will be another important step.

Regular implementation of the plans and regular monitoring of their outcomes will be important to ensure that, throughout the lengthy process of the projects that we have just talked through, the commitments made and the plans set out are aligned with what is delivered. The other part of that is ensuring that there is capacity in the supply chain to meet and deliver the contracts. That is where investment is required at key sites across Scotland and where our enterprise agencies can help by working with emerging customers and companies in the domestic supply chain to try to increase that capacity. I understand that the enterprise agencies have written to the committee with evidence on some of the steps that they are taking to initiate those activities.

David Pratt: I echo pretty much everything that Andrew Hogg said. One of the key challenges has been that the pace of reduction has taken a lot of the capital out of the original tariffs. That capital would have enabled the development of supporting infrastructure. As a result, the competitiveness of many Scottish projects competing for contracts is being squeezed in the current market.

Willie Coffey: Thanks for those comments.

Gordon MacDonald: It is excellent news that the ScotWind leasing round will include financial penalties and might even go as far as cancelling contracts. However, we heard from Scottish Renewables that developers could low-bar themselves in relation to commitment to the local supply chain. What weighting will be given to the amount of local content when contracts or leases are awarded? What will the scale of the financial penalties be? We heard recently from Jason Fudge, of DF Barnes, that, in the Canadian provinces, the size of the financial penalties is in line with the cost of producing something locally, making it a disincentive to transfer the work abroad.

Simon Hodge: The level of commitment that developers make to Scottish content will not be a material consideration in the award of contracts. That would be a breach of state aid rules. However, we believe that there are good reasons why developers will want to demonstrate a high level of commitment to Scottish content, to signal their commitment to developing the Scottish supply chain, to recognise that successful schemes in Scotland require a well-developed supply chain to be credible, and to demonstrate a commitment to the sector deal aspirations that have an ambition for 60 per cent UK content. However, just to be clear, the level of Scottish commitment will not be a determinant of the award of contract because that would be a breach of the state aid regulations.

Gordon MacDonald: What would need to change? As far as I am aware, we are leaving the EU at the start of next year. I had a look at the Public Services and Procurement Canada website, which says:

> "An award will be made to the qualified bidder whose bid complies with the mandatory terms and is most advantageous to the government considering price and non-price related factors included in the bid document.

If they can do that in Canada, why can it not be done here? Do we need to change Scots law, or is it UK commercial law that needs to change? What has to change?

Simon Hodge: There are two key aspects here. First, there are the state aid regulations: requiring Scottish content would fail two of the four state aid tests. One test is whether something has the potential to distort competition and the other is whether it is likely to affect intra-European Community trade. There is also an issue in respect of UK competition law. Obviously, Canada has a separate legislature to the UK. Those are the legal contexts in which we currently work.

Gordon MacDonald: Are we putting in place a supply chain commitment that we cannot make developers stick to?

Andrew Hogg: Simon Hodge has set out the position and I do not have a huge amount to add. We have looked at what DF Barnes has got in Canada and it is something that we simply cannot replicate here, given the regulations and state aid restrictions that Simon Hodge has alluded to.

Although we cannot be prescriptive about a particular level of local content—we cannot put a percentage or figure on it—that does not mean that we cannot ask developers in their statement to set out their commitments and then monitor and review whether those commitments are met. What Simon Hodge is saying is that we cannot be prescriptive in the sense of setting a level and in awarding a licence on that basis, but that does not mean that the new ScotWind supply chain development statements have no teeth. They offer a significant additional layer of conditionality compared to what we had previously.

Gordon MacDonald: You referred to state aid regulations. I presume that you mean EU state aid regulations. Canada trades with the EU. Why would the UK be in a different position?

Andrew Hogg: That goes back to the articles that Simon Hodge mentioned. Those apply not only to the conditionality of ScotWind leases, but to the conditionality of how Scottish ministers can consider support for BiFab. If we were to take any steps that would distort EU market trade, that would be deemed to be state aid.

The Convener: Andrew Hogg, you commented on holding to commitments and on what those commitments are. Surely the way in which other EU countries—or even Canada—do that is by writing commitments into the contract. It would not necessarily have to say that everything has to be sourced from a particular country. For example, something could be written into the contract about the impact on the environment, which can include shipping materials from other countries or the way that materials are produced in countries that do not conform to the standards in Scotland, or aspects of employment and fair work.

I am talking about writing into the contract the standards that are required to be followed by those companies in order to make what they produce relate to the standards that we would expect in Scotland or the UK. Those sorts of commitments could be written into the contract, so that it is not a question of requiring a national commitment as such but the contract would involve a commitment to specific standards. Is that not relevant, given that that is the way that other countries do it? Perhaps Andrew Hogg and then Simon Hodge could come back on that.

Andrew Hogg: Simon Hodge can probably pick up that question in respect of ScotWind contracts. You referred to commitments being “written into” contracts, convener. It is important to reiterate that the ScotWind process has been devolved to the Scottish ministers, and it is the first time that that has happened.

11:15

Previous projects that we worked on recently, and which the committee explored—Neart na Gaoithe and Seagreen, for example—received consent and were delivered prior to the devolution of those powers. ScotWind will be the first—

The Convener: Sorry—I beg your pardon, Mr Hogg. I understand your point, but I am asking, as my colleague Gordon MacDonald did, whether, in future, those things can be tied down and made enforceable. As Mr MacDonald pointed out, other countries do that, whether they are in or outwith the European Union.

I am questioning whether and how, with a bit of imagination, we can do that, as other countries do. It is partly about the conditions under which bits and pieces of the devices are manufactured. Perhaps Simon Hodge can comment on that.

Simon Hodge: As you say, there are opportunities to build into our lease contracts the standards that we adhere to in Scotland and the UK. However, on the specific issue of Scottish content, the advice to us has been clear: we cannot require a certain level of Scottish content.

We also considered closely the issue of carbon footprint, to which I think you were alluding. Although that is in itself a worthwhile aspect to consider, we concluded that the link between it and the issues of Scottish content and Scottish jobs might not be very strong. Indeed, a carbon footprint approach might lead to a different conclusion, particularly when it comes to the long-distance transportation of bulky raw materials such as iron ore.

The Convener: Gordon MacDonald wants to come in with a brief follow-up, and then I will bring in Graham Simpson.

Gordon MacDonald: The UK Government, in its current consultation, has already highlighted that it would like to see a 60 per cent local supply chain for future contracts.

If you are saying that, under state aid rules, Scotland is not in a position to enforce commitments in supply chain plans, does that mean that the UK’s commitment to a 60 per cent local supply chain is also unenforceable?

Simon Hodge: I will leave that broader point to policy colleagues. A requirement for a certain level of content would not be consistent with state aid rules. Andrew Hogg described earlier the focus of SOWEC, in the offshore sector deal, on how we invest in and develop the supply chain to create the conditions in which Scotland is a positive place to do business and a good place to establish a supply chain. That is key for us in Crown Estate Scotland. I would be happy to describe some of the other things that we are doing to promote that approach.

The Convener: It might be helpful if you could write to the committee with any further points—I would appreciate that. Graham Simpson has another brief follow-up, and then we will come to questions from Alex Rowley.

Graham Simpson: Mr Hodge, you keep mentioning state aid. Those are presumably the EU state aid rules. Surely, once the transition period has ended in a few weeks’ time, we will not be subject to those rules, so we can specify the things that you say that we cannot specify.

Simon Hodge: I am not aware that there is any conclusion on that matter at the moment.

We have been working on the development of ScotWind since 2017—the launch has taken place and the project is currently subject to the rules that applied at the time. I cannot look into a crystal ball to see exactly what the situation will be in the future.

Graham Simpson: The problem is that you are assuming that we will be subject to state aid rules. To me, that is a wrong assumption; we may not be. Would you accept that?

Simon Hodge: Absolutely; we wait to see what the EU exit deal will look like. The ScotWind process is well advanced and the leasing round is live. There would be quite a significant potential impact on that if we were to try to recast the process in light of any EU exit settlement. That could have serious implications not only for the viability of schemes going forward in relation to the operation of, for example, the Crown Estate round 4 which is live at the moment, but for Scotland’s net zero ambitions.

Andrew Hogg: I want to clarify that all our analysis and work to date has been done on the

EU rules as they are currently structured, because we cannot speculate about what a future scenario may be. It is important for the committee to be aware that a particular challenge for Scottish ministers and the Scottish Government is that section 57(2) of the Scotland Act 1998 binds ministers to make sure that they have no power to act in any way that is incompatible with EU law. We cannot give ministers advice that would suggest that they do something that was based on a future system that we, as yet, cannot define.

Alex Rowley: To be clear, are you saying that there is no requirement on any bidder that puts in a bid to develop a wind farm on our seabed and make millions, or even billions, of pounds, to say how much work will come to Scotland, or indeed the UK? We hope that they will source work in the UK, but even if they do that, it will have no bearing on, and will not be a legal, material consideration in, who gets the contract. Therefore, the contract is completely toothless.

Even if the bidders come up with something, are we not in effect begging them and saying, "Please give us some of the crumbs from this so that we can get some work into our economy?" Even then, I question whether you would be able to legally enforce that.

Given the completely unacceptable situation that you have just explained, where the contract is not worth the paper that it is written on, and the likelihood of us getting Scottish jobs from any bid is basically in the hands of developers and our ability to beg them for the crumbs, should we not be bringing forward a moratorium on all those developments until we can sort that out? What would be the legal implications of Scottish ministers introducing a moratorium on all those contracts until we can work out a way for Scottish workers to be treated the same as Canadian workers or other workers in countries around the world where it is legally possible for Governments to stipulate how much work has to come to their countries?

As I say, what you have just described is utter peanuts. Put simply, we are in the hands of the developers to give us some of the crumbs. What would be the implications of putting a moratorium in place right now until such time that we are able to sort that out? Have you checked that out legally?

Simon Hodge: There is a requirement through the ScotWind process for developers to identify where they will make supply chain commitments, and where investment will land. We have defined the geographical regions for that process as Scotland, the rest of the UK, the rest of Europe and the rest of the world. Developers will be required to submit that information to us in a credible way, which will form part of the on-going process of leasing.

What we cannot do for state aid reasons is require developers to make any certain proportion of that commitment for Scotland. To make a commitment to the Scottish supply chain, however, we have worked hard to create a context and an opportunity for developers to demonstrate how they can work in collaboration, including through the Scottish offshore wind energy council, to achieve the ambitions of the offshore wind sector deal and to play their part in helping to develop a successful supply chain in Scotland. That work will be needed if we are going to achieve the incredible ambitions for offshore wind and net zero.

On the point of legal enforcement, the requirement will be a contract that is designed to be legally enforceable either through financial remedy or, ultimately, termination. In relation to a moratorium, the bid process is live at the moment, and developers are actively working up their bids. That process is not yet concluded and could therefore theoretically be halted. There might be legal challenge, the level of which would increase as we move through the stages of the leasing process.

Alex Rowley: You have stated that whether developers do any work in Scotland cannot be a material consideration when awarding those licences. You are saying that there is nothing that you can do if a company awards the contracts to the middle east, for example—to countries in which labour costs are low and state intervention, subsidies and aid are given. I am basically right to say that we are in the hands of the developers to use their good will to give us some of the crumbs.

Simon Hodge: It would be—

Alex Rowley: That is surely what "material consideration" means. You are saying that you cannot take into account whether the supply chain in Scotland will get any advantage from those contracts.

Simon Hodge: That is correct.

Alex Rowley: I will finish at that, convener. We need to get legal advice on a moratorium, because we need one on those contracts until such time as we can sort out how Scotland can be the same as Canada and other countries—with the Scottish supply chain in a position to get the jobs and benefits from that process.

Richard Lyle: I totally agree with Alex Rowley. I have also beaten on about that issue for months. State aid technicalities are letting Scotland down and we are getting ripped off. Most people feel that we have been ripped off for far too long and I agree with Alex Rowley that something has to be done, because we cannot continually say that it is because of state aid or this or that technicality. What are we going to do about that problem? Will we take on board what Mr Rowley has said? I, for one, agree with him. Although I will not bring them into the politics, I would like a comment from the witnesses. What would Mr Hodge like to say?

Simon Hodge: I will start off and then pass over to Andrew Hogg. I speak from the perspective of being responsible for exercising the first leasing round in Scotland for 10 years. I am pleased with what we have managed to achieve in terms of creating a framework to help promote the development of the supply chain.

11:30

I am also conscious of needing to create an environment that encourages and secures investment for Scotland. How we can ensure that Scotland is an attractive place to invest and a place where developers feel confident to invest needs to be at the front of our minds. The worst-case scenario would be if the result of our processes was that developers decided to go elsewhere and not invest in Scotland at all.

Richard Lyle: If they decide to go elsewhere, we decide not to give them the contract, surely.

Simon Hodge: Absolutely, but there would be no offshore wind development and investment going on in Scotland if that was the case.

Richard Lyle: I am sorry, convener—I will finish by saying that I am as angry as Alex Rowley. We have been ripped off enough. It is time to stop and to make sure that the Scottish workforce gets not a crumb but a piece of the cake—at least 50 per cent or more of the cake. Other witnesses might have comments on that.

The Convener: I am not going to put a figure of 50 per cent on it but, before I turn to Andrew Hogg, I will say that I think that a lot of people understand that there needs to be a balance when it comes to Simon Hodge's point about investment and requirements. What a lot of people do not understand is why, in other countries in the EU or the developed world, companies manage to work within the rules. I do not know whether that is made to happen by showing a bit of imagination or by taking a different approach. That is what I would like to hear—how do other countries do that while subject to the same strictures and we do not manage to do it? Certainly for me and possibly for other committee members, that is the key question.

Andrew Hogg: I will just add to the points that Simon Hodge raised. I recognise the challenges around the lack of local content that committee members have mentioned. The Scottish ministers are frustrated by that as well.

With regard to the calls for a moratorium, it is important to stress that that sort of approach presents significant risks to our climate change targets and the ability of Scotland to capture renewable electricity. We have huge ambitions for our capacity in that area. As we discussed at the start of this meeting, the lengthy time that it takes to go from licensing to consenting and through to development and construction means that any delays to projects would have a significant impact on our ability to meet our electricity or climate change targets.

On the point about whether we need to have a gap and think about how the supply chain catches up and does better, I think that ScotWind offers that to some extent—

Alex Rowley: No ambition for workers, no ambition for the people of Scotland—seriously. We need people to go back and start putting the case for Scotland. Nonsense—

The Convener: Mr Rowley, can we allow the witness to answer the question, please?

Andrew Hogg: In relation to that, Mr Rowley, the point that I was going to make is that ScotWind offers that slight break. The contracts that we have been discussing and which the committee has explored have been under the previous regimes. There is a gap between now and construction of the first ScotWind contracts, which will allow our supply chain time to consider where strategic investments can be made. I know that that is one of the ambitions of the joint UK-Scottish working group that was announced at the end of November.

How do we get investment into strategic sites in Scotland to allow them to capture some of the value from the Scotland rounds? There is a gap between the existing contracts from allocation round 3 and the ones that are coming through in ScotWind in AR 4, which will allow us to make those investments and develop the supply chain

The Convener: Thank you.

Maurice Golden: Thank you, convener. Does Scotland have adequate port infrastructure to successfully grow the supply chain?

Simon Hodge: Crown Estate Scotland commissioned a study to look at Scotland's port infrastructure, particularly in relation to the offshore wind sector, and we have identified that there will be requirements for increased capacity in future. We have divided the consideration into three broad areas. First, on an operation and maintenance basis, we think that the market will sort that out well, and that is already happening right up the east coast of Scotland. At the other end is the manufacturing. We are homing in on the marshalling of ports infrastructure that will be required to develop the ScotWind proposition, and we see significant opportunities for further investment in deepwater quays with laydown facilities to support the huge engineering structures that will need to be assembled and stored quayside. As an organisation, we are also looking at the potential to be a direct investor in such schemes, because we have the ability to sell assets to secure capital and to reinvest, and we see that as an important opportunity to help to develop Scotland's infrastructure in the future.

Maurice Golden: I know that you are looking into it, but are there limitations on our port infrastructure that could impinge on the supply chain?

Simon Hodge: My reading of the situation is that the infrastructure is adequate for current projects. However, with regard to ScotWind and Scotland's net zero carbon ambitions, we will need to see a significant increase in capacity. The sectoral marine plan, which lays out the potential geography of that expansion gives some good pointers as to where around Scotland further infrastructure investment will be required.

Andrew Hogg: Although identifying the sites and the infrastructure required is an important step, the other part—Jennifer Craw raised this point on investment in your previous evidence session—is that it is not just about infrastructure. We need collaboration and we need the key parties to come together, because supporting infrastructure development is not necessarily a funding issue or a budget issue—there needs to be an investable proposition, which requires private sector investment, alongside Government investment. That is almost as important as identifying the infrastructure that is required.

Maurice Golden: With regard to the port infrastructure, where are the sites likely to be located? Are there numerous places, or is there only a handful that you can identify as likely areas for development?

David Pratt: The areas for offshore wind development are now publicly available. There are 15 plan options outlined in the sectoral marine plan. There are supporting socioeconomic impact assessments for that process, which look broadly at the facilities available in each region and the potential to use those in relation to the relevant plan option areas. That is all publicly available, and we can send the relevant links to the committee.

Maurice Golden: That would be helpful.

Simon Hodge: We can also supply the committee with our energy port study, which sets out the current infrastructure around Scotland and where the study found the biggest potential and need for increased capacity.

Maurice Golden: That would be very useful.

The Convener: That brings us to the end of our evidence session, so I thank all our witnesses. We will have a 10-minute break before we move into private session.

11:40

Meeting continued in private until 12:17.

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