



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 22 November 2023

Session 6



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Wednesday 22 November 2023

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ECONOMY AND FAIR WORK COMMITTEE

29th Meeting 2023, Session 6

CONVENER

*Claire Baker (Mid Scotland and Fife) (Lab)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Maggie Chapman (North East Scotland) (Green)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Colin Smyth (South Scotland) (Lab)
*Kevin Stewart (Aberdeen Central) (SNP)
Evelyn Tweed (Stirling) (SNP)
*Brian Whittle (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Tom Arthur (Minister for Community Wealth and Public Finance)
Mike Duncan (Federation of Small Businesses)
Alasdair Hamilton (Scottish Government)
Jordan Jack (Campaign for North East Rail)
Richard Lochhead (Minister for Small Business, Innovation, Tourism and Trade)
Eilidh McLaughlin (Scottish Government)
Mark Munro (Scottish National Investment Bank)
Fergus Mutch (Aberdeen and Grampian Chamber of Commerce)
Ronan O'Hara (Crown Estate Scotland)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament
Economy and Fair Work
Committee

Wednesday 22 November 2023

[The Convener opened the meeting at 09:42]

Interests

The Convener (Claire Baker): Good morning, and welcome to the 29th meeting in 2023 of the Economy and Fair Work Committee. Our first item of business is a declaration of interests. I welcome Jackie Dunbar to the committee in her capacity as a newly appointed committee substitute and invite her to declare any relevant interests.

Jackie Dunbar (Aberdeen Donside) (SNP): Thank you, convener. To the best of my knowledge, I have no interests to declare.

The Convener: Thank you.

Murdo Fraser has an interest to declare in relation to this morning's meeting.

Murdo Fraser (Mid Scotland and Fife) (Con): My declaration relates to item 4 on the agenda. As a member of the cross-party group on building bridges with Israel, I visited Israel and the occupied Palestinian territories in 2018. The cost of that was met by the embassy of Israel in the United Kingdom.

The Convener: Maggie Chapman also has an interest to declare.

Maggie Chapman (North East Scotland) (Green): Thanks very much, convener. My declaration relates to item 6 on our agenda. As I said at last week's meeting, I am a board member of North East Scotland Climate Action Network hub, and I am a delegate to the Aberdeen Trades Union Council.

Decision on Taking Business in
Private

09:43

The Convener: The second item of business is a decision to take items 7 and 8 in private. Are members content to take those items in private?

Members indicated agreement.

Data Protection and Digital Information Bill

09:43

The Convener: Our next item of business is consideration of a legislative consent memorandum and a supplementary LCM on the United Kingdom Parliament's Data Protection and Digital Information Bill. The UK Government bill was reintroduced in the House of Commons on 8 November 2023. The bill makes changes to the legal regime for processing personal data and touches on a number of different policy areas.

I welcome Richard Lochhead, Minister for Small Business, Innovation, Tourism and Trade. He is joined by Helen Findlay, who is head of information assurance and data protection, and Eilidh McLaughlin, who is head of the digital citizen unit, both in the Scottish Government.

I invite the minister to make a brief statement on the Scottish Government's position, and then I will move to questions from members.

The Minister for Small Business, Innovation, Tourism and Trade (Richard Lochhead): Good morning and thank you for giving me the opportunity to discuss the legislative consent memorandum and subsequent supplementary LCM for the Data Protection and Digital Information Bill. This is a UK bill that seeks to amend the current data protection framework and improve digital information services. There are four areas of the bill for which consent has been requested. Those areas will help us to work towards delivering a key ambition for the Scottish Government, which is to ensure that Scotland becomes an ethical digital nation where people can trust public services to respect privacy and be open and honest about the way in which data is being used. We want to maintain that commitment and to build public services in the digital domain that are inclusive and practical.

09:45

The provisions that enable digital verification will mean that people can choose to use that method to prove things about themselves in order to access a service. A trusted identification provider could, for instance, check against data that is provided by a consumer to the Department for Work and Pensions or His Majesty's Passport Office, such as when a customer is booking a flight or using a financial service, to help make that transaction more efficient for the customer. Customers will benefit from the smart data provisions when they are seeking lower prices or tariffs for energy bills perhaps. Smart data schemes will empower

customers to make better use of their data in order to enable accurate tariff comparisons, compare deals and switch suppliers. The amendments to the Digital Economy Act 2017 mean that enterprise agencies will be able to better target businesses to help them to comply with any relevant law, grow their business and engage in trade activities, and to create green and sustainable businesses.

Police information-sharing agreements could help to mitigate the loss of law enforcement information that was caused by leaving the European Union. For example, an agreement with the EU or EU member states could include real-time alerts on wanted or missing persons, which would allow Police Scotland to know that someone whom the police are questioning at the roadside is also wanted in connection with a serious crime in the EU, or that someone who is found in a vulnerable position in Scotland was recently reported missing on the continent. Consenting to the bill will ensure that the people of Scotland do not miss out on the benefits of such measures, whether as consumers or when interacting with public services.

Finally, the sharing of law enforcement data is vital to ensuring that Scotland's law enforcement agencies are able to cooperate with our counterparts in the UK and Europe following our exit from the European Union. Ministers and officials from the Scottish Government have engaged regularly with our UK counterparts over the past two years to ensure that our concerns about the bill have been heard. We have stressed to the UK Government our view that the bill's benefits to organisations should not come at the expense of the rights of individuals and the continued adequacy decision from the European Commission, which is about allowing for easy flow of personal data from the UK to the EU.

Thanks for the opportunity to make some opening remarks. My officials and I—I hope that it will be mainly my officials—will be happy to answer any of your questions.

Kevin Stewart (Aberdeen Central) (SNP): In recent times, we have seen some controversy with information sharing or companies taking over information completely and utterly, including the national health service south of the border using the US company Palantir for patient medical information. If we were to consent to the motion on the LCM, what impact would that have on medical data sharing and the involvement of large companies in such data?

Richard Lochhead: The provisions that we are discussing today impact on public services' sharing of information. Eilidh McLaughlin's role is to oversee that in her own sphere, so I will bring her in in a second or two. The wider general data

protection regulation issues are reserved to the UK Government, and that is a different part of the bill. Our provisions relate not to that but to the devolved bits.

Eilidh McLaughlin (Scottish Government): In the health sphere in particular, there are very specific conditions to be met under GDPR in order to share information. I cannot comment on the context of the NHS England and Palantir deal because, obviously, I am not privy to all the terms of it, but I suspect, because it is required by law, that NHS England had adequately assessed the data protection implications of sharing that information and ensured that it had the correct legal basis for sharing it. However, that is for NHS England to consider, rather than for us.

The provisions of the bill do not specifically relate to health. I presume, Mr Stewart—forgive me if I am wrong—that you are thinking about the smart data provisions in clauses 65 to 81 of the bill. Those clauses can permit data sharing but, very clearly, at the customer's request. Therefore, it is sharing securely at the customer's request with authorised third parties for a benefit to the consumer. The objective of that is to improve data portability between suppliers, customers and relevant third parties, and it is then to help overcome information asymmetry between suppliers and customers. It is a positive data-sharing provision, but it does not negate the need under GDPR to have the correct legal basis to share information.

Kevin Stewart: Thank you. You are saying that such sharing is on a positive basis and that folk have to give consent, but would it be possible, using regulation, to change that, or would that require primary legislative change? I will tell you what I am driving at. The Delegated Powers and Law Reform Committee highlighted the fact that

“it remains the case that the Secretary of State may make regulations within the devolved competence, acting alone. There is no requirement for the Secretary of State to obtain consent or to consult with the Scottish Ministers before exercising the power.”

Could that positive aspect of folk consenting to data sharing be changed using regulation, or would that require primary legislative change to turn all of that on its head?

Eilidh McLaughlin: I believe that that would require primary legislation, because it would mean amending the UK GDPR at that point.

The Convener: As Kevin Stewart said, the UK Government could legislate to make changes to regulations without consulting the Scottish Government or the Scottish Parliament. What arrangements are in place between officials with the Scottish Government to ensure that we have knowledge of that if it were to happen? Can the

minister give a commitment that he will keep the Scottish Parliament up to date if there are any changes?

Richard Lochhead: Yes, we will certainly do our best to keep Parliament up to date with anything that we become aware of. You will perhaps recall that I have come before the committee several times, with various ministerial hats on, to talk about some of these negotiations over the LCMs and about what we can and cannot support in relation to UK secretaries of state retaining power to intervene without consulting the Scottish Government.

We have to take a decision sometimes. In this case, of course, we have got a concession whereby Scottish ministers have a role and were added in to what was originally clause 93—I think that it is now clause 99. We have to weigh up the benefits and disbenefits; we took the view that, overall, in supporting this, there are more benefits than would otherwise be the case.

The Convener: There are no other questions. I thank the minister for attending this morning, and I will briefly suspend the meeting to allow for a change of witnesses.

09:53

Meeting suspended.

09:58

On resuming—

Subordinate Legislation

Public Procurement (Agreement on Government Procurement) (Miscellaneous Amendments) (Scotland) Regulations 2023 [Draft]

The Convener: We move to agenda item 5, which is the consideration of two Scottish statutory instruments.

The committee is invited to note the Public Procurement (Agreement on Government Procurement) (Miscellaneous Amendments) (Scotland) Regulations 2023. Are members content to note the instrument?

Members *indicated agreement.*

Public Procurement (Agreement on Government Procurement) (Thresholds) (Miscellaneous Amendments) (Scotland) Regulations 2023 (SSI 2023/300)

The Convener: The committee is also invited to note the Public Procurement (Agreement on Government Procurement) (Thresholds) (Miscellaneous Amendments) (Scotland) Regulations 2023. Again, are members content to note the instrument?

Members *indicated agreement.*

The Convener: Thank you. I will now briefly suspend the meeting.

09:59

Meeting suspended.

10:00

On resuming—

Economic Activity of Public Bodies (Overseas Matters) Bill

The Convener: Agenda item 4 is consideration of a legislative consent memorandum on the UK Government's Economic Activity of Public Bodies (Overseas Matters) Bill. The stated aims of the bill are to ensure a consistent foreign policy across the UK by preventing public bodies from indicating political or moral disapproval of a foreign state when making decisions about procurement and investment.

I welcome from the Scottish Government, Tom Arthur, Minister for Community Wealth and Public Finance, who is joined by Russell Bain, deputy director in international futures and brand Scotland policy; Alasdair Hamilton, who is a procurement policy portfolio manager; and Robert McConnell, who is a lawyer. I invite the minister to make a brief statement to the committee, and I will then invite members' questions.

The Minister for Community Wealth and Public Finance (Tom Arthur): Thank you, convener, and good morning to the committee.

The bill triggers the consent process because it alters the executive competence of Scottish ministers by preventing them from taking moral or political disapproval of the conduct of any foreign state into account in procurement decisions. That is not necessary. There are already significant protections in domestic procurement law. It is undemocratic. It would allow UK ministers to fine Scottish ministers even for saying that they would have taken disapproval into account were it not unlawful to do so. It risks our ability to take a values-based approach to international engagement. Whether that is in relation to Ukraine today or to apartheid South Africa in the past, it should be clear why that is important. The Scottish Government does not recommend that consent be given.

The Convener: Thank you, minister. I will now take questions from members.

Murdo Fraser: Good morning, minister and colleagues. I have a number of short questions, and I hope that we will get short answers.

First, minister, would you accept that international affairs and matters of international trade are reserved to the UK Parliament?

Tom Arthur: Yes.

Murdo Fraser: Thank you. In your memorandum, at paragraph 20, you refer to the

UK Government: which UK Government are you referring to?

Tom Arthur: I will consult the document. That would be a previous UK Government.

Murdo Fraser: Which one?

Tom Arthur: The UK Government that was in power at the time when apartheid was taking place.

Murdo Fraser: Right. I am just trying to get some precision on the dates that you are referring to.

Tom Arthur: That would be the UK Government that was in power at the time. There was an approach—it was clearly understood at the time—when those were the circumstances in South Africa.

Murdo Fraser: I am genuinely confused by this. I did a little simple research and found that, for example, Margaret Thatcher's Government condemned apartheid on a number of occasions. Famously, Margaret Thatcher, when she met Archbishop Desmond Tutu, condemned apartheid. She condemned apartheid in 1984 during a visit to the United Kingdom by P W Botha, the South African leader. The UK Government was also involved in sanctioning South Africa, so I am not entirely sure what that paragraph refers to.

Tom Arthur: There was an approach that the UK Government took over the duration. The point that is highlighted relates specifically to clause 4 and the implications that that would have had. It would have prevented public bodies or Scottish ministers from publishing a statement saying that they would have acted in a particular way. The way in which the legislation is set out and will operate would have created restrictions on the competence of Scottish ministers, had a Scottish Parliament been in existence at that time. Had the UK Government had such legislation in place, it would have restricted the competence of Scottish ministers.

Murdo Fraser: I am concerned, minister, that you are founding your arguments on a statement in your legislative consent memorandum that is not sustainable, but let us move on to the substance of the issue, if we can.

There are many repressive regimes in the world. There are many countries in the middle east, for example, that have terrible track records when it comes to the rights of women, the LGBT community and religious minorities and that repress free speech. Countries such as Iran are particular examples of that, and countries such as China have deplorable human rights records. Are you aware of any campaigns to boycott, divest and sanction many of those countries?

Tom Arthur: No.

Murdo Fraser: No. So, this is all about Israel, is it not? That is exactly what the whole debate and the legislation are about: they are about Israel, which, for some reason, is being singled out by campaigners when all those other repressive regimes are being ignored. Over the past few weeks, particularly since 7 October, we have seen a dramatic rise in antisemitic activity. I have certainly spoken to members of the Jewish community in Glasgow who say that they have never experienced such a hostile environment as the one that they are experiencing today. They feel unsafe in Scotland. You will have read the submission, I am sure, from the Scottish Council of Jewish Communities, which shows overwhelming support for the bill and which opposes the action that the Scottish Government is taking. Are you not concerned that, in opposing the bill, the perception will be that you are giving succour to antisemitic sentiments when, you should instead be giving reassurance to the Scottish Jewish community, given that it feels more threatened than it has done at any point in the past 40 years?

Tom Arthur: I refute the implication that the bill is in any way giving succour. Every single person and every member of the Parliament is completely unified in their unconditional and unqualified condemnation of antisemitism in all its forms. We are considering this morning a legislative consent memorandum whereby the UK Government is seeking to alter the competence of Scottish ministers and to change the devolution settlement. That is specifically what we are considering in the LCM, and that is situated in the broader context of consistent acts by the UK Government to undermine devolution. That is specifically what the LCM speaks to.

Murdo Fraser: I can perhaps understand why the Scottish Government would have taken that view before 7 October, but we are in a very different situation now.

The Scottish Council of Jewish Communities says in its submission:

"we...urge the Scottish Parliament to take note of the vulnerability and anxiety of many Jewish people in Scotland as demonstrated by the large majority view among the Scottish Jewish community in support of the Westminster Bill, and so reject the Scottish Government Legislative Consent Memorandum".

That was written before 7 October. I imagine that, if we were to ask the council today, we would get a much, much stronger response. Do you not think that, given what has happened, you are on the wrong side of the argument?

Tom Arthur: I respect that there is a range of views, and a range of views was aired when the

legislation was considered at Westminster. The position that we are considering today is the implications for devolution, specifically the executive competence of Scottish ministers. That is a distinct matter and something that we, as parliamentarians, have to pay close attention to and consider carefully, particularly in the context of what we have seen over recent years, namely, the approach by the UK Government that has been encroaching upon devolved competency. That is what we are specifically considering. The legislation would alter the executive competence of Scottish ministers, and we are opposed to it on that basis.

Murdo Fraser: Okay. Thank you, minister.

The Convener: Do any other members wish to ask a question?

Gordon MacDonald (Edinburgh Pentlands) (SNP): Morning, minister. On Murdo Fraser's point, I remind folk that the Conservative Government in the 1980s tried to stop boycotts against apartheid South Africa. We should remember that.

Amnesty International, in its evidence to the UK Parliament, highlights that Scotland is attempting to

"use the leverage of public procurement to incentivise companies to behave sustainably with regard to human rights, labour rights and the environment."

Similarly, Human Rights Watch said that, if the bill comes into operation,

"The effect could be to hamper these groups from taking steps in business dealings to avoid causing or contributing to human rights abuses and international crimes."

The Local Government Association in England has raised concerns, and Universities UK has raised concerns about freedom of speech and so on. My question to you is this: what would be the potential impact on the procurement policy or pension fund investment decisions of councils or universities if this bill were to become law?

Tom Arthur: Scottish ministers and public bodies in Scotland of course take decisions on procurement that are consistent with and uphold our obligations under international and domestic procurement law. It is also recognised, and is expected of all those who are in a position to take them, that decisions are not taken in an ethical or moral vacuum. We have a strong record on public procurement. We have clear provision set out in legislation and a suite of tools to assist public bodies in their procurement decisions. All public procurement decisions that are taken in Scotland have to be consistent with domestic and international procurement law obligations.

Gordon MacDonald: Thank you very much.

The Convener: We have received some evidence on the Scottish procurement policy note from 2014 that strongly discourages trade with illegal settlements in the occupied Palestinian territories, which, I understand, is still a relevant policy. The minister presents a case in which the Scottish Government argues that it does not deviate from UK foreign policy. Are you confident that that position is consistent? I raise those points on behalf of the committee in respect of representations and evidence that we have received.

Tom Arthur: It is important to note that, with the coming into force of the Procurement Reform (Scotland) Act 2014 and subsequent regulations, along with a suite of tools, we promote sustainable procurement across Scotland, which takes into account a wide range of considerations and factors. Alasdair Hamilton may want to expand on that.

Alasdair Hamilton (Scottish Government): Our approach over the past few years, since the 2014 act came into effect in 2016, has been to focus on producing sustainable procurement guidance and sustainable procurement tools for purchasers across Scotland. Those cover issues such as modern slavery, conflict minerals and human rights. They are more of general rather than particular application, but they touch on some of those issues that are live across the world.

The Convener: The committee is going to do some post-legislative scrutiny of that act, so we may consider that area in more detail.

What engagement has the Scottish Government had with the UK Government and other devolved Administrations that have also been considering the LCM?

Tom Arthur: There was an exchange of ministerial letters following the bill's introduction, and there has been continued engagement at official level throughout the process of the consideration of the legislation.

The Convener: Have you had any discussions with other devolved Administrations?

Tom Arthur: Our primary engagement has been with the UK Government. I ask Alasdair Hamilton to comment on whether there has been any specific engagement with devolved Administrations.

Alasdair Hamilton: There has been constructive engagement with Welsh Government colleagues in particular. Ultimately, they take their own considerations into account.

The Convener: There are no other questions from members. That brings us to the end of the evidence session on the LCM. I thank the minister and his officials for attending. I will briefly suspend

the meeting to allow for a changeover of witnesses.

10:13

Meeting suspended.

10:16

On resuming—

Just Transition (North-east and Moray)

The Convener: The next item of business is agenda item 6, which is our third evidence session in our inquiry into a just transition for the north-east and Moray.

Today's evidence session comprises two panels. For the first panel, I welcome Mike Duncan, who is north-east Scotland development manager for the Federation of Small Businesses Scotland, and Jordan Jack, who is general secretary of the Campaign for North East Rail. We have received apologies from the managing director of FirstBus, Duncan Cameron, who has had to take part in other urgent business.

We come to our questions. I will go to Mike Duncan first.

Part of our inquiry into a just transition in the north-east is consideration of whether people understand what a just transition is. Is there a shared understanding among your members of what the expectation is? Do you have any views on how we could tell whether we have achieved a just transition? What would the indicators be, particularly for your members?

Mike Duncan (Federation of Small Businesses): At the start of the year, we did a survey—we called it the “Big Small Business Survey”. The results seemed to indicate that a lot of our members did not know what the just transition is all about. In fact, I did a bit of work to break down our Scotland-wide stats into Moray and north-east stats, which revealed that 40 to 45 per cent of the respondents had no idea what the Government's net zero targets were. That was in comparison with a 38 per cent Scotland-wide lack of understanding. That showed that Moray and the north-east had less understanding on average than the whole of Scotland had, which is interesting, considering the work that is going on there.

To help to improve that engagement and to help small businesses to get involved, the FSB and other business representative organisations obviously have some work to do. However, there might be other funding aspects that could engage small business owners. Maybe we will get on to that later on with other questions.

The Convener: What do you think the understanding is? I think that people know that a transition has to take place, but what does the “just” part of that mean? Small businesses might think that they need to change their energy source

or take other practical measures, but is there an understanding of what it means for the transition to be just?

Mike Duncan: A lot of the thinking just now in businesses that I speak to is that it is something that is happening in Aberdeen—that it is about oil and gas, and it does not necessarily affect businesses throughout Moray and the north-east. It might be something that will happen to them in, say, 10 years' time. They might think, "Once it's sorted out in Aberdeen, it'll affect us." I do not think that there is an understanding of what "just" means.

I have spent some time looking at the community aspects. I had a wander round a showcase for the participatory budgeting side of it. A lot of what the community groups and the voluntary sector were looking for was similar to what small businesses would be looking for. That might be triple glazing, insulation, solar panels or maybe a heat pump—that type of thing. Again, I do not know whether that understanding is there, because the funding mechanism for business is different from that for participatory budgeting. There are similar needs, but the "just" aspect is not quite understood.

The Convener: Do you think that finance or support in some way is the main barrier to businesses making the changes that are required at the moment?

Mike Duncan: I think so. The Scottish National Investment Bank is very important, and it is an important funding mechanism to leverage that private investment, but there needs to be something else in the funding mix such as, potentially, a grant scheme. Members will find that, if grants are mentioned, business owners' ears prick up. One of the main things that people come to me looking for is funding for X, Y and Z. That would potentially be provided through local authorities, and I imagine that it would be match funding. I am not naive enough to expect 100 per cent funding for anything, but it could be more ambitious than 50:50 match funding. Maybe it could be one third to two thirds.

Business owners might not want to borrow money that they have to pay back over three, five or 10 years, but they will know how much money they have in the bank that they could invest in projects that help the Government to achieve its just transition targets. They might be able to use that money, with some match funding, to do smaller projects.

The Convener: I have just one more question before I go to Jordan Jack. Were the members that you surveyed—I think that you said that 42 per cent did not know what a just transition was—in particular businesses or across the board?

Mike Duncan: That was across the board. The FSB in Moray and the north-east has around 2,500 members from every industry and every sector. It was not a survey of a specific area; it was industry wide.

The Convener: I will now go to Jordan Jack, who is here representing the Campaign for North East Rail. You could argue that that campaign is focused on delivering a just transition. Do you think that there is a shared understanding of what a just transition means for the area? How will we know whether we have achieved it?

Jordan Jack (Campaign for North East Rail): That is quite difficult. Last week, we attended a meeting with the just transition lab at the University of Aberdeen. It is about to publish a piece of work that looks at exactly that: measuring the just transition and trying to work out exactly how we can quantify it.

The campaign has always leaned heavily on evidence. Rather than just shouting that we want this done, we really want to have evidence to back us up and to be the arbiter that says, "Here's what the people who do the work are saying."

A big piece of that work has been collating views and trying to understand people's understanding of the just transition and how we can measure it going forward. That piece of work is due to be published in December. I urge the committee to look at that when it is published, because it is a really solid piece of work. We were thoroughly impressed by the work that the university has done.

The Convener: Mike Duncan said that there is a feeling among his members that it is something that is happening in Aberdeen and it is about the oil and gas sector. Is that a challenge for you in trying to link the campaign to the broader activity that needs to happen to deliver a just transition?

Jordan Jack: As a campaign, we look at the just transition as a longer-term thing. It is less about how individual businesses are changing. We look less at how, for example, a business changes from having an oil heating system to having an electric heating system. We look at whether those businesses will be able to hold on in the area and whether we will have the wider industrial base to support those smaller businesses. For example, if we are looking for a reduction in oil and gas and an increase in renewables to match that over the long term, we need to hold on to skilled staff. For the campaign, it is about looking at that from a local perspective.

When it comes to attracting that investment, there is competition between the city and the shire and intra-shire competition. In north Aberdeenshire, there are Fraserburgh and Peterhead compared with ports such as Montrose

and Arbroath. As the investment comes in, we have to think about whether we are increasing the number of people who are commuting, whether we are fundamentally changing the make-up of where people's jobs are and where they are commuting to and from, and how that will affect the region as a whole.

The Convener: Okay. Thank you. I will now bring in Maggie Chapman.

Maggie Chapman: Good morning to the panel, and thank you for being with us this morning.

I have a few questions about infrastructure, supply chains and transport. I will start with Mike Duncan. You said that, although people are not that aware in that they do not know what the net zero targets are and they do not necessarily know how they apply to them, some of your members do know that. Can you tell us about any good examples in which some of your members in the north-east have said, "Yes, this matters. This is good. This is what we're doing, and this is how we can move ourselves and our business along that path."?

Mike Duncan: It is more a matter of their having taken decisions themselves to do something about it than accessing the fund that is available. The majority of businesses are doing that. They do not wake up in the morning saying, "I want to achieve the Government's just transition targets." They say, "I want to reduce my energy bills" and "How can this cost me less?" They will do little things such as changing the light bulbs or sorting out draughts.

I honestly cannot pick any examples of times when I have spoken to a member who has accessed the just transition fund. Perhaps that is my fault for not looking widely enough, but I have tried. Again, that comes down to the current economic situation, in which businesses are not looking to get loans. For many businesses, especially businesses that have started in the past few years, finance is at its most expensive point right now. People have to think twice about any business decision that says that they should buy something or do something when it is at its most expensive.

I had a look through the list of the bigger projects that have received funding. They are fantastic, and that funding needs to continue. A big chunk of that funding is in Aberdeen city. There might be more opportunities in the more rural areas to spend an additional round of funding. The rail project that is represented here is a great example. The Cabrach Trust, the work in Findhorn on the river and the work of the James Hutton Institute are fantastic projects, and I would like to see more projects like those in the wider Aberdeenshire and Moray area. That might help to

increase engagement and bring other businesses on board.

Maggie Chapman: Thank you for that. That is interesting.

We are interested in how the just transition fund is working. Maybe others will ask more about that. There is general work. The fund is one element of the just transition. When you identify the tensions between the city and the shire, what is it that you think that small businesses or start-ups need, other than investment and funding, when it comes to creating the right environment for the sustainable development of their businesses?

Mike Duncan: I would not say "tensions". There are brilliant examples of where the city and the shire work together. The regional economic strategy is one of those. On including Moray in that, Moray is tied to the Highlands economic partnership, and the city and the shire have their own regional economic partnership. That is an issue. The organisations that might be driving the just transition and that are based in the city and the shire might not have linkages into Moray. Those take time to develop. I know that we are not speaking about a year or two years; a just transition will be a long-term prospect. There could be a driver to make those linkages between Moray and the city and the shire, and to improve them.

I am sorry—was there any other aspect to the question?

Maggie Chapman: Are there other things that you are looking for when it comes to regional strategies? You mentioned the economic partnerships.

Mike Duncan: The strategies are there, and the joined-upness of the just transition project and those regional strategies is there, as well.

Maggie Chapman: If the strategies are there, why are small and medium-sized enterprises not more aware that one of the aims and outcomes is lowering carbon emissions? What is missing in that joined-upness?

Mike Duncan: I said that small business owners do not wake up and think, "I want to achieve the Government's targets." Similarly, they do not wake up and say, "Oh, I've just read the regional economic strategy." It is about how that filters down into the wider small business pool. It might not be about the specific words that are used. They might not know the absolute direction, but how they can follow that direction and what the easiest route or the best financial route is for the small business owner to take to reach those strategic targets needs to be communicated as opposed to knowing exactly what the strategy might be.

Maggie Chapman: What do we and the Government need to do to enable that communication?

Mike Duncan: Information can go out, but we cannot force anyone to read it. Funding is the mechanism that I would use. When you start putting pound signs to things, people start to take notice.

Maggie Chapman: Okay. I want to focus a little more on a certain subset of SMEs that are particularly engaged with supporting renewables and on supply chain issues. What are the barriers or challenges that your members tell you they face? I imagine that the short answer will be funding, again.

Mike Duncan: I can add to that.

Maggie Chapman: Will you speak to that?

10:30

Mike Duncan: One of the more general issues relating to the supply chain is payment and late payment. The other week, I spoke to a larger tier 1 main contractor that has some fantastic 14-day payment terms for its subcontractors, but that is not universal. Smaller businesses can be reluctant to get involved in the supply chain if the main contractor or tier 1 contractor does not have a good payment record. They do not want to put all their eggs in one basket. That is one of the main barriers.

Other than that, small businesses are fairly well placed to take advantage of the opportunities. Obviously, the investment in skills will make a difference as time goes on, as will making small business owners and employers aware of the skills that they will need to take advantage of those opportunities.

Maggie Chapman: Okay. Thank you.

I will now go to Jordan Jack, who is here from the Campaign for North East Rail. I think that all of us understand the importance of transport for the just transition. Will you outline some of the reasons why prioritising public transport is so crucial not only for Scotland's ambitions in that space but for those of the north of the north-east in particular?

Jordan Jack: Transport is often thought of as being a field of its own that is siloed off to be its own thing as though it disnae interact with other things, but it is really the foundation on which we build our lives, and it is interwoven into every decision that we make. Our sense of place comes from where we live, and where we live often comes from where we work. That is intimately linked to transport.

I can give members a concrete example. Two multimillion-pound international companies were founded in Fraserburgh: BrewDog and Power Jacks, which makes jack screws for aircraft, ships and the like. Both felt that, to achieve the growth that they needed, they had to move from Fraserburgh to Ellon, which is only 10 miles down the road. The difference is that Ellon has a dual carriageway connection and Fraserburgh does not. I am nae saying that transport is the sole reason why that happened, but it was certainly a huge part of it.

Those companies said publicly that they struggled to attract investment where they were and to keep and attract to the area skilled staff. In layman's terms, people looked at the area and thought, "Och, it's too far away." It is about the absolute rurality of the area, the perceived ruralness of it, and how far away it feels to people. I find it astonishing that such huge growth can be achieved just by moving 10 miles down the road. It is nae like they have moved closer to Edinburgh or the central belt; they have just moved to Ellon.

Transport has enormous implications for our lives, and it can deliver so much for us. When we think about rurality and a perceived sense of remoteness, we find that rail can deliver regeneration. Look at the headlines that have come out of the Borders. A couple of years after the Borders railway opened, the head of Scottish Borders Council said that it had breathed new life into communities that were declining. Just last week, another headline came out of the Borders that said that a valley community had been completely revived.

This is a spoiler: tomorrow or the next day, there will be an article in *The Press and Journal* about the three-year anniversary of Kintore station opening. There are interviews with small businesses in that. All of them have said that the railway has made an enormous difference to their trade. We have seen the town's population increase and the town thrive. Before, it was a satellite town of Inverurie; it is now thriving on its own.

Transport is much more than just what it is. As I have said, it underpins everything that we do. It is intimately linked to the conversation about housing and employment.

Maggie Chapman: You mentioned some of the successes that other reopened or new rail routes have had. We are thinking about the just transition and the shift away from a fossil fuel based economy. There are obviously benefits to businesses—you have outlined some of them—but what is it specifically about rail that is so important?

Jordan Jack: Rail is important because it is a separate, secondary line and it delivers segregation. Rail can achieve modal shift. For example, to the north of Ellon, we have the largest and third-largest towns in Aberdeenshire—Fraserburgh and Peterhead—but we have a single-carriageway road that is shared by an enormous amount of road freight, because there is no other option for that; by buses, which get delayed by cars; by drivers in the shape of people who have to drive; and by taxis. Without a railway, there is only one option for everyone.

If we introduce a railway, we will be able to shift freight that can go into containers on to rail, which will relieve the roads. We will also be able to shift an enormous number of cars on to the railway. Again, that will relieve the roads and increase capacity on the road network. That will give us better bus services and reduce the frustration of drivers who are being held up behind slow lorries, which will reduce the number of accidents.

Rail would deliver something that we hear about constantly from businesses: predictability and reliability of transport. A study was done in 2016 of reopening the historical Formartine to Buchan line. A point that was raised then was that the Fraserburgh and Peterhead ports are key generators of freight and that

“For the oil & gas supply and subsea industries”

—this is increasingly true of renewables, too—

“where vessels only have limited time at berth...‘slack’ must be built into freight movements, leading to inefficiencies and higher costs”

for businesses. That reduces their competitive nature when compared with ports such as Aberdeen and Montrose. It is a question of competition within the region.

Introducing rail would achieve modal shift and move things off the road and on to rail. That is what we are looking at.

Maggie Chapman: Can I—

The Convener: Ms Chapman, I want to make some progress. I will bring you back in at the end if there is time.

Maggie Chapman: Okay.

Kevin Stewart: My first question is for Mr Duncan, who talked a fair bit about the fact that there seems to be a lack of communication with smaller businesses about the just transition. He and I had the pleasure of visiting businesses in Rosemount a fair while ago—it was maybe over a year ago—and top of the agenda for those businesses at that point was the cost of energy.

Mr Duncan, you also talked about possible funding changes. On the point about communication, do you think that we need to get it

across to businesses that the just transition and the changes that we are going to make can play a part in reducing energy costs, which were causing them a great amount of grief when we visited them? That grief is probably greater now.

Mike Duncan: Yes—the challenges of running a business are still very similar to those that existed when we had a wander round Rosemount last year.

To aid the communication, we need to use much simpler language, not because business owners cannot understand what we are talking about but because, while we are round committee tables speaking about the just transition every day, they have their heads down and are running their businesses. To get them to look up and listen, we have to speak to them in plain terms about what they can do to make their businesses more efficient, whether that is by saving energy or in cash terms. The simpler that we can communicate, the better.

Kevin Stewart: Good. We visited a framing business that day, where Kevin was up to his eyes with work, which was a good thing for him. I imagine, however, that the likes of him, others whom we visited and others across Aberdeen and the north-east are in a similar position, where it is a case of people putting their heads down, getting on with the work and not having enough time. Do you think that local government and other public bodies are missing a trick by not utilising the good offices of the FSB and others to get that communication out there to businesses to get them to think a little differently and take a wee time out, with the information that is supplied, in order to get it right for their futures?

Mike Duncan: Yes. I do not disagree. There is work to be done by business representative organisations, local authorities and the Government to make sure that the information is not just out there but being read and properly understood. If the benefits of taking those first couple of steps to a just transition and a low-carbon future were better explained, small businesses would listen. I have mentioned it before, but it comes back to the funding aspect. People are primarily there to run their businesses, and their heads are down because they are busy working. To get them to lift their heads and think about something else requires an extra stimulus.

Kevin Stewart: Communication is king here, as well as funding. That is basically what you are driving at.

Mike Duncan: Yes. They go hand in hand. If people do not know that there is funding available, they are not going to go for it.

Kevin Stewart: Okay—thank you.

My next question is for Mr Jack. I am going to go a wee bit back into history. Investment in rail is pretty costly and the assessments that lead to new rail projects can be onerous. You are embarking on some of that work. If we look back to the expected patronage of Laurencekirk station as an example, it transpired that, once the station was open, patronage was—if I remember rightly—77 per cent greater than had been envisaged in any of the assessments. I would argue that that was partly because a bigger car park was put in place than was originally envisaged. We have also seen increased patronage due to changes to timetabling in the north-east. After the timetable changes between Inverurie and Stonehaven, patronage at Inverurie increased by 80 per cent. Would the Formartine to Buchan route have the required patronage to justify the reopening of that railway?

Jordan Jack: Absolutely. Let us look at the Borders railway and compare that with the Dyce to Peterhead line. If we think back, there was a certain opposition to extending the Borders railway as far as Tweedbank.

Kevin Stewart: There was a lot of opposition.

Jordan Jack: It was thought that only the stations in or close to Edinburgh could be justified economically, and that is what the consultants' study showed. Actually, when the line opened and the year 1 and year 2 reviews came in, we saw that there had been a wholesale underestimation of patronage on the entire line. When we looked into the data at a more granular level, we saw that the stations that are furthest from Edinburgh massively outperformed the stations that are closer to it. The stations closest to Edinburgh actually underperformed against the expectations.

Let us compare apples with apples. The length of the line to Peterhead is within half a mile of the length of the line to Tweedbank. We are proposing a line that goes another 20 miles to Fraserburgh—there is no getting away from the fact that it would be the longest railway reopening in Scotland, at 50 miles or so. However, we can compare the 30 miles of the Borders railway with the 30 miles of the Peterhead branch. The population is roughly 80 to 85 per cent of the population in the Borders, so it is lower. The length is almost exactly the same, as I said, but we also need to look at the distribution. The largest population is at Peterhead, which is at the end of the line. The second largest population is in Ellon, which is more than half the way there. On the Borders railway, the stations that are furthest from Edinburgh outperformed—by 800 per cent at Galashiels and 1,200 per cent at Tweedbank—compared with the stations that are closest to Edinburgh. That will more than make up for the 15 per cent drop in the population compared with the other region.

10:45

Kevin Stewart: You believe that the railway is important to gain modal shift. I am going to go back into history again. It is a fair time since the Formartine to Buchan line closed, but it closed to passengers before it closed to freight.

Jordan Jack: Correct.

Kevin Stewart: If my memory serves me well, it was not until about the mid-1980s that the freight aspect going south from Fraserburgh ceased to operate. You talked about BrewDog and Power Jacks—I am sure that all members of the committee are aware of those two companies—making the move just a wee bit south in order to get the linkages. Do you think that, if a rail freight operation had continued to exist, those companies might have stayed in Fraserburgh because it would have been easier for them to ship their goods?

Jordan Jack: I dinna want to second guess those companies—I do not sit on their boards—but the answer from my perspective is an obvious yes. The transport problems were raised in the 2016 study, and when the findings of that study were re-evaluated by the North East of Scotland Transport Partnership in an evidence review in 2022, they were found to be largely still relevant. The 2016 study that I speak about is as up to date as it could be.

The problems were the unreliability of freight, the need to build in slack because of the shared road space, and the frequency of accidents, with the knock-on effects that they cause. If companies were shipping by rail, they would not have to deal with those problems, and they would also benefit from the connections to the entire UK rail network. They would get their goods down to their processing and distribution plants in the central belt, but they could also continue onwards and across to the continent.

Kevin Stewart: The committee has heard a lot about increasing capacity and modernising our ports and harbours to maximise the opportunity that offshore renewables can give us. The Fraserburgh port has a pretty ambitious expansion plan; Peterhead always has plans; and we have seen the opening of the south harbour at Aberdeen. What part do you see rail playing in the transportation of goods to those ports? How much of the study that you are undertaking is looking at freight and not just passenger movements?

Jordan Jack: I will answer your questions in reverse order. We reiterated to the consultant in a meeting last week that freight is as integral to the study as passengers, because we are aiming for modal shift. The focus of our study is on achieving the benefits that we have seen in the Borders and adding to those with the freight element. The

Borders railway has seen all the benefits, but it has never achieved the shipment of freight that was wanted. A lot of it is about learning lessons from the Borders railway and from the Leven line and trying to get Diageo on board. Freight is an integral part of it and, as I said, it is about chasing modal shift. If we cannot get the heavy goods vehicles off the single carriageway roads, we will not solve the area's problems that were identified in 2016 and reiterated in 2022.

What role do I see rail playing? We are not naive enough to think that we are going to see a wind turbine blade on the back of a train anytime soon, especially through the tunnels in Aberdeen. That is just nae gonnae happen, but we can look at the businesses whose goods are suitable for rail. To be suitable for rail, they need to be heavy or bulky, to fit in a container, to be regular and, ideally, to be suitable for long distances. In the north-east, we have a wealth of businesses whose goods meet those criteria. BrewDog is one. It can ship empty cans up and full cans back. We have seen the success of Highland Spring in Perthshire and the same with food products such as Mackie's ice cream. We have Gray & Adams, which builds HGV trailers. We are nae gonnae get an entire HGV trailer on, but it takes prefabricated parts such as axles and steering assemblies—big chunky parts that go on to HGV trailers—and they come all the way up from Leicester. ASCO ships things between the ports. A lot of that freight will not fit on rail, but a lot of it goes into containers on the back of lorries, so there is huge opportunity there.

Another opportunity that we see is the Acorn project. It was a bit of a political football for a while, but we are now seeing it progressing. It is a carbon capture and storage project at St Fergus between Fraserburgh and Peterhead. A lot of the CO₂ will be pumped up from Grangemouth directly, in a reversed pipeline, but they also plan for a lot of it to come up from all over the UK to Peterhead port, and for it then to go on to the back of a lorry and be driven from Peterhead port to St Fergus. We see an opportunity to cut out the middleman and put a rail link directly into St Fergus. That will mean that CO₂ wagons can come from anywhere on the UK railway network directly up to St Fergus, rather than burning the roads. When it comes to the long-term ambitions of producing hydrogen or even sustainable aviation fuel, we will get that two-way traffic so that at nae point in the supply chain are we shipping empty wagons.

Kevin Stewart: Grand. I have a quick final question, convener.

The Convener: You can ask one more question.

Kevin Stewart: What work has been done in co-operation with you both on the positive or negative impact—I suspect that it would be positive—of the reopening of railway stations in the north-east and beyond, or even of the timetabling changes that I mentioned? Has the FSB done any studies of the reopenings at Kintore and Laurencekirk, for example? Might that work be something that your organisations could do in collaboration to see what benefits there are from the reopening of stations, and any disbenefits?

Mike Duncan: I assure you that there will be collaboration from today onwards. I have used Kintore station to commute into Aberdeen before driving. We might think about taking advantage of just transition funding to extend the railway to Buckie harbour as well. That is an example that you did not mention.

Jordan Jack: As I said, we like to work from evidence that is available to us. We dinnae like to just campaign because, at the end of the day, a campaign is just a group of people. There might be somebody or there might be nobody. We like to boost the evidence. A lot of our work as campaigners has been retrospective to working with Nestrans to tease out the information that is there and provide that. Going forward, we are raising a bit of funding. We are looking at funding studies, such as case studies, and building up the evidence base. However, there is already a wealth of evidence out there from the local transport partnerships and, as I said, it includes evidence that we often underestimate the popularity of stations.

Brian Whittle (South Scotland) (Con): Good morning. I will be brief. I will ask my question in two parts. The first part is to Jordan Jack and the second is to Mike Duncan.

The Scottish Government has a target of reducing car mileage by 20 per cent by 2030. I am interested in the impact. Currently, we are trying to prevent cars from coming into city centres. I had my own experience of that in Aberdeen a couple of weeks ago, as I tried to navigate my way around, having not been there for a while. First, I wonder whether our public transport system has the capability to pick up the slack, if you like, of people travelling into and out of our city centres for purchases or for work. Secondly, what will be the impact on our city centres of preventing people from coming in and out by car for work and to shop when it comes to recruitment and retention and turnover for businesses? Jordan Jack, is the north-east set up to take up a reduction in cars?

Jordan Jack: When you get out of the city, the public transport infrastructure in the north-east is woefully inadequate. Going back as far as Beeching, when you look at what there was compared with what there is, you can see that the

north-east was one of the hardest-hit areas. We are not a nostalgic campaign; we are looking at needs, problems and solutions now.

Today, I got the train in from Dyce, which is the closest station to Fraserburgh and Peterhead by mileage. Compared with driving, if I had used public transport to catch the train that I caught today, I would have had to leave 44 minutes earlier from Fraserburgh to go by bus or 36 minutes earlier from Peterhead to go by bus.

There is the availability problem with public transport and the question of whether you have options. A lot of the time, we look at stick solutions, such as congestion charges, as in Aberdeen, and bus gates, but we need both carrot and stick. In our mind as a campaign, the only way that we will achieve modal shift—by that, I mean people deciding to leave their car at home and to get public transport—is, as we know, by having a better option than the car. We will leave the car and use something else only if the something else is better than driving. It needs to be faster, more convenient or somehow better.

That is the availability problem, but, sometimes, you have the option but cannot quite make it work. That is the first mile, last mile problem. You might be able to get into, say, the centre of Aberdeen, but what if you are going not to the centre of Aberdeen but to an industrial estate, Altens or the new harbour, for example? As Mike Duncan said, there needs to be joined-up thinking. We need to start thinking a lot more about integrating our transport system. Often, I look at railway and bus timetables. There is, for example, a train from Aberdeen to Dundee and a bus from Aberdeen to Dundee that leave within five minutes of each other and have the same stops. Why is that a thing? We should look at having the train stop every so often so that people can get off the train and on to a bus directly and connect in that way. We need to look at integrating our transport system, including trains and buses, and perhaps at active travel as well. It is about how we get not only to city centres but to where we are actually going.

Mike Duncan: Before Jordan Jack mentioned carrot and stick and convenience, I had written them down; I back what he said exactly. I am not going to repeat it, but there is no doubt that restricting traffic into town centres has a negative impact on trade. People need to be where they want to be to buy the products that they need and to access the services that they want. A change is required to get people to think differently and to be willing to park in a satellite town such as Kintore, which we mentioned, and get the train into a town centre. It is not just about Aberdeen; I am thinking about our smaller town centres, which are going the same way not just with pedestrianisation but

by pushing cars out wider at a time when there is no carrot or no available parking to help people to get into our towns to support small businesses.

11:00

On another part of your question, about infrastructure, I was speaking to a transport and logistics company two or three weeks ago about changing its vehicles to hydrogen, electric or whatever. The main issue is cost. I can buy a truck for £100,000, yet a hydrogen or electric one will be £400,000, so it is four times the cost. A second question is infrastructure. The infrastructure does not exist right now for that transport and logistics company to invest in an electric or hydrogen vehicle to make it sustainable for what the company will do in the future. It will take a vast quantity of money and time to get the appropriate infrastructure in place.

Brian Whittle: Where have we heard that before? We should be aligning bus and rail timetables. I will leave it there.

The Convener: This is connected to Brian Whittle's question. The just transition fund is a 10-year fund, and we are at the end of its second year. You have both—Jordan Jack, in particular—described an inclusive and integrated network transport system that would support modal shift and that would be available to everybody and be accessible. You would think that that would be one of the underpinning reasons for just transition. Do you feel that those conversations are taking place enough in the north-east and Moray? Mike Duncan, you said that it still feels as though it is about Aberdeen and about oil and gas. Do you think that the broader discussion is taking place? Who should lead on that and drive it forward?

Mike Duncan: Again, I will make the distinction between Aberdeen city and shire, and Moray. They both have distinctive strategies for dealing with it, but they are not used to the linkages between the two areas, unless we were to go back to the old Grampian region, which we moved away from. There are plans in place to make the system more integrated. I put the dualling of the A96 out there as another possibility. There is always more work to do, and there is no doubt that an improvement in the infrastructure would help our small business community. It would help customers to get to them and help businesses that export or have products to get out of the north-east.

I want to briefly touch on park and ride. It has to be free. No one will pay for a park-and-ride system, so, to make that viable, it has to be subsidised by the local authority or whatever it might be.

Jordan Jack: Often in transport, we lock ourselves into long-term plans. Long-term planning in transport is an absolute must—I am nae saying anything different—but we need to review a lot mair than we do now. For example, we have the second strategic transport projects review, which is the transport investment plan through to 2040—a 20-year plan. From that, we have the local regional transport strategy, and now we have the recently published local transport strategy. They are all based on one another down the line.

Congruent with that, we have, as you said, the Government's 20 per cent target for a reduction in cars by 2030. It is mentioned in all those documents, but there is nae effort to look at each element and ask how it contributes to that goal. If we are building a city centre dual carriageway, will that get us closer to that goal or further away from it? Every time that the Government sets a goal or a target, we should review those documents and ask whether the plan will help or will be a detriment.

There are a lot of good things in the regional transport strategy. Pulling some examples from it, there is Aberdeen rapid transit and a lot of investment in park and ride. We are also building the Berryden corridor, which is a city centre dual carriageway that has been in the works for a long, long time.

Kevin Stewart: Since 1952.

Jordan Jack: There you go, speaking of history. Has that just continued on and been pushed and pushed because it has been in the plans, or has it ever been looked at from the point of view of whether it will help us to reach our 20 per cent reduction goals? We are a rail campaign, nae an anti-road campaign. There are different views within the campaign on the merits of the Berryden corridor, but that is a perfect example of the question whether it will help us towards our 20 per cent reduction goal. I dinnae think that it will.

The Convener: The just transition fund is part of the inquiry; I think that Mike Duncan referred to it earlier. It is the fund that is administered by SNIB. In Aberdeen, we took evidence from local community groups that were applying for the community participatory budgeting side of it. You said that you had looked at the fund. Is it relevant to your members? It tends to be for bigger projects and companies, and then there is the discrete pot of money that is for local communities. We met such groups. That money tended to be accessed more by voluntary groups and charities. Is any of the funding that has been announced designed for or reaching smaller businesses? If not, do you think that it should be?

Mike Duncan: From what you said there, it is the bit in the middle that is missing. There is funding for larger businesses and for community groups, but where do small businesses go, especially those that do not want to take on the risk of a loan? I do not want to be picked up wrongly: the Scottish National Investment Bank is highly important, and using it to transfer funds from the Government to businesses and leverage private finance is important. The FSB has called to put a measurement on that of 20 per cent—I will just make sure that I get this right—of its annual investment to be targeted at smaller businesses. That can be taken and applied to just transition funding, as well. It is vital that there be more of a funding mix and that it is not the only way to get money into smaller businesses. That is where I would have the grant scheme administered by local authorities. However, the percentages are there for the business contribution and the public contribution.

The Convener: We all know that local authorities are under extreme financial pressure. They do not have a lot of capacity to introduce new funds. The Government has put in, I think, £500 million over 10 years. It is quite a bit. Perhaps local authorities are not the right place to channel it through, if it is for smaller businesses. That money is on the table. It is the only place from which money is coming that is on the table and there to be spent. Do you think that there should be—

Mike Duncan: Sorry, when I was speaking about local authorities, it was more about them being the administration side. They have the knowledge on the ground in local areas for taking the available money, providing it and assessing applications. The whole application process needs to be as quick and easy as possible for small business owners. If we are speaking about investment for small projects that is two thirds public and one third from small businesses, a small business owner might say, "I have around £2,000 to invest", and the grant fund might say, "Right. Here is £4,000. Do a £6,000 project", or the business owner might say, "I have £10,000 to invest", and the fund says, "Here is £20,000. Do a £30,000 project". I suggest something like that.

The Convener: Jordan Jack, we have talked about the current focus of the just transition fund. Do you think that the fund's focus is correct?

Jordan Jack: As a campaign, we wouldnae be where we are without the just transition fund. Perhaps, for a bit of context, it is important to explain how we got to where we are.

The just transition fund was never set up to fund campaigns such as ours. We had to do a lot of negotiation back and forth with the Aberdeen and Grampian Chamber of Commerce to be able to

take just transition funding, because it is set up for businesses to do specific projects such as upgrading boilers, installing solar panels and X, Y and Z. As a campaign, we have had to get a consultant on board, and the chamber of commerce has had to take our money and pass it to the consultant in a triangular set-up. It has been difficult for us to get that funding.

The argument that I am making is that transport is so integrally important to the just transition itself that there should be a separate channel for campaigns such as ours to apply for—that is what I am getting at. All the way down from the STPR2 to the regional transport strategy, we are separate. We are added on. There is nothing to say that we will get to the end of the funded portion of our study. We are two thirds funded so far. Even if it is successful, there is nothing to say that we will get the funding to continue. We hope that the just transition fund will be there for us, and we will certainly apply, but there is no guarantee that it is in place and no mechanism for us to apply for that directly.

Maggie Chapman: I have a short question for Jordan Jack. We touched on this in passing, but will you say a little more about the broader community benefit of getting our infrastructure right? Rail is one element of that. We have talked about businesses—SMEs and others—and commuters, but will you expand on the community benefit?

Jordan Jack: It comes down to regeneration. Fraserburgh and Peterhead are regeneration priority areas for the Scottish Government, but the regeneration priority area covers the entire north-east coast; it goes as far as Banff and, I think, Buckie. Improving infrastructure removes the sense of remoteness, which attracts investment, and investment gets to communities. There is a kind of backwards effect: the better the infrastructure you have, the more investment there is in the area, which means more facilities and, actually, fewer commuters. By investing in transport, you reduce the number of people travelling, which is beneficial for carbon emissions. Fewer people overall will travel if we have more facilities locally—if we have, say, a cinema or a hospital, we do not need to go into the city to use those things—and we will have got rid of the sense of isolation that those communities suffer.

Fraserburgh and Peterhead are some of the strongest pockets of Scots speakers in the country. I have a pet theory that that is because those communities are so isolated that they have nae had the chance to mingle and lose their accents. Compared with other folk around the country, we have held on to our accents. That is a good example.

We are talking about modal shift, reducing frustration, reducing the number of accidents and increasing local investment to keep people local.

The Convener: I bring the session to an end, and I thank the witnesses very much for appearing. I suspend the meeting as we change panels.

11:12

Meeting suspended.

11:18

On resuming—

The Convener: I welcome our second panel of witnesses. We are joined by Fergus Mutch, policy adviser at the Aberdeen and Grampian Chamber of Commerce, who is attending virtually; Mark Munro, chief investment officer at the Scottish National Investment Bank; and Ronan O'Hara, chief executive of Crown Estate Scotland. Welcome to the meeting. If members and witnesses can keep their questions and answers as concise as possible, that would be helpful.

I will come to Fergus Mutch first. I do not know whether you heard the session with the first panel, but we are interested in a definition of a just transition, whether there is a shared understanding of what it means, whether everybody is working towards the same goal in the north-east and Moray and how we will know whether we have achieved it. What is your perspective and that of your members on that?

Fergus Mutch (Aberdeen and Grampian Chamber of Commerce): It is a tricky one. Thanks for letting me come along this morning; I am sorry that I cannot be there in person to speak to you.

This is a constant debate, but from a business and economy perspective, which is what I am here to talk about today, I do not think that we should overthink things, so I will try to keep it as simple as possible. A just transition should be one that does not put people out of work; does not make them accept a job that has a lower salary than their current job; and creates new economic opportunities that are at least at the same scale and give the same value to the economy as those that have come before. The risk in the context of the north-east of Scotland, which has been geared towards oil and gas for some decades, is that the move from oil and gas to less carbon-intensive industries will perhaps see a significant drop in gross value added, because, as it stands, the value of jobs in those new industries does not match the value of jobs in oil and gas. That is to be avoided.

A just transition, crucially, is one that does not create a cliff edge. It does not involve saying, “Today we are turning off the taps for oil and gas, and tomorrow we will start thinking about what to do next.” Instead, it involves a change over time. From the chamber’s perspective, we are fairly clear on how we can make a transition just, but we are certainly not saying that it will be an easy process to get right. It has to be a common endeavour between the business community, industry, Government and the public at large.

The Convener: You set out how the chamber would define a just transition Is that understanding shared with other organisations? Do you think that that is a common understanding?

Fergus Mutch: In short, no. There are probably a few different views at play about how it is understood. We certainly use that as our working definition. We represent 1,200 members in businesses across the region—a third of those are probably in the energy sector and two thirds are in other industries—and, broadly, they are fairly squarely behind that sort of definition.

Ultimately, it comes down to jobs. Whether it is from a community perspective, a business perspective or, I hope, a Government perspective, people realise that the energy sector is a major industry that has sustained economic prosperity in the north-east of Scotland for decades. How we sustain that prosperity is the puzzle that we all have to get right. What I set out is not a bad working definition, but I would say that there is not necessarily a common understanding that that is the goal.

The Convener: Ronan O’Hara, I will come to you with the same question. What is your understanding of a just transition? Is it shared, and how will we know whether we have achieved it?

Ronan O’Hara (Crown Estate Scotland): Good morning, and thank you for the opportunity to present evidence.

We in Crown Estate Scotland would adopt a slightly broader interpretation. The definition lies in the two words. The “transition” is clearly that requirement—that inescapable need—to transition our economy from a carbon-based one to a green energy one, which involves important facets such as skills, education, food supply, transport, housing, social infrastructure and critical infrastructure. The “just” aspect is the piece over which we have most control; it is where we have the opportunity to decide how we respond to that imperative for change. Ultimately, the response that must be put in place should leave nobody behind and should provide security of employment, so that the individuals, families and communities that are least well placed to carry the burden and are most vulnerable to the transition

are cared for, accommodated and supported through it.

The Convener: Do we need definitions or measurements? You have described a fairly common understanding of a just transition, which is that nobody is left behind. What measurements should we use to know whether that is achieved? Rather than defining what they would be, would it be helpful to have a set of measurements?

Ronan O’Hara: For our organisation and the aspects of transition that we are directly responsible for, it is absolutely key that we develop metrics that support that long-term policy objective and help us to understand whether we are achieving it. That then scales up to society. There needs to be an understanding of where we are on the journey. That falls into the remit of national statistics, in some respects.

The Convener: As an organisation, do you have a set of metrics already? We heard from the SSE Group last week that it has a just transition plan in place and that it is attempting to measure it. Is that something that Crown Estate Scotland is undertaking?

Ronan O’Hara: It is a live conversation at the moment in Crown Estate Scotland, on the basis that we are in the process of developing our new corporate plan and the associated performance framework and metrics for the period 2025 to 2030. Although many of the metrics that we currently have help us understand whether our tenants and customers in the communities that we serve and support are progressing through a transition, there is an opportunity for us to take a more specific and conscious approach.

The Convener: Thank you. Mark Munro, what is the Scottish National Investment Bank’s understanding of what a just transition is, and is it a shared understanding in the north-east and Moray? A brief answer will do, as other members will ask about this, too.

Mark Munro (Scottish National Investment Bank): Good morning. The bank has a mission to support a just transition to net zero. We have recognised that in the investments that we have made. We have made four investments in the north-east and Moray, totalling £100 million. Those investments recognise that the energy system of today, which we would probably classify as being supported by the oil and gas supply chain, will be the firms and people that will support the energy system of tomorrow. That has been the basis for making those investments. For example, with regard to North Star, a company that is currently dependent on fossil fuels for its revenue, there is a plan for it to move to renewables, and the bank’s investment will support that. Verlume is a subsea battery provider that was focused on oil and gas

but is now focused on the renewables supply chain. What we are saying through those investments is that we will support that.

On whether everyone understands what a just transition is, from an investment perspective, I would say that they do not, which is a challenge. We have seen a flight of capital from the businesses that support the supply chain for today's energy system, and that is because it is fossil fuel-based. People in charge of that capital are not recognising the opportunity that comes from things such as ScotWind, which requires a huge amount of investment. That is a big challenge. I do not think that businesses recognise the same definition.

Colin Beattie (Midlothian North and Musselburgh) (SNP): As plans to tackle climate change and a just transition become much clearer, which, to me, they are now, you then have to look at the other side of the coin, which is money. Nothing happens without money. If we cannot generate the capital to pay for what we want to do, we are in real trouble.

I have three questions that I will ask in one hit. I hear a lot about the huge amount of private finance that is available and that providers are keen to invest. I am not sure where that is coming from; that is less clear to me. Is it domestic UK or overseas capital? Will we be competing with North America, the EU and others for that resource? Private capital needs to make a return, and it is not going to invest in any project that will not give it a return. Discrete projects that are profitable may be sellable in terms of finance from private sources, but how do we access that? Do we have to access it through the London markets? Are we able to reach out ourselves and interest companies?

We are talking about huge sums of money here. We are talking about tens of billions of pounds. I see lots of different figures for the same projects, and those figures are all over the place. However, clearly, tens of billions will be needed. Where is it coming from? Is it international, or is it local? Do we have to go through the UK Government? How will it work?

Secondly, there are other projects that are clearly not profitable and never will be. Nevertheless, they need to be funded. The only entity that will step up and fund those projects is the state, and that means either the UK Government or the Scottish Government, both of which are strapped for cash. How do we get Government funds for those projects? The UK Government has already got problems selling its own paper, and hence various other means of raising money are being used. Borrowing costs are an issue, because, in international terms, the UK is now in the third tier for investment quality

and Scotland, of course, is in the same position. Will people buy UK paper if it is issued? We are talking about tens of millions of pounds here. Can the market absorb that? I say tens of millions of pounds because I am assuming that a fair proportion of the projects that we will see coming forward will be projects that are not profitable; they will be things that need to be invested in to make other parts of the plan viable.

11:30

My third question is whether either Government can afford to borrow. There are two aspects: one is, of course, that the national debt is colossal. The proportion of national debt that we are having to pay off from our revenues is at an all-time high. What about our balance of payments? If Scotland or the UK borrow from overseas, we have to repay that capital at some point—we have to repay a return on the investment. Can we afford to do that? Has there been any costing for this? Basically, I am asking a big wrapped-up question about how we can finance what we need to do. Mark Munro, I will ask you to respond first because you are the obvious person to ask.

Mark Munro: Sure, let me go first, then. The question maybe relates to central banks and is therefore more of a challenge for us to answer. I can answer with regard to what we can do to support the investment that will be needed. We are engaged with UK and global investors who recognise the opportunity that is presented by the transition of the energy system in Scotland and the UK. I referred to ScotWind previously and will continue to refer to it, given the opportunity that it presents, which is 40GW of power and somewhere between £17 billion to £28 billion of economic activity in Scotland alone, with wider benefits beyond that.

You will hear that there is a wall of capital, but that is not available to us just now. Investors require certainty, and, at this moment, there is a challenge around the planning system and the fact that getting planning permission can take longer than it possibly needs to. One of our portfolio companies has talked about the fact that, in other countries, the process can take three years, while, in Scotland and the UK, it takes seven to 10 years. Therefore, investors are looking at three years as opposed to seven to 10 years.

Grid connections are still being worked through, but certainty is still required on that and the pricing mechanism when it comes to the offshore wind opportunity that would drive the economic numbers that I shared. Once we have certainty in that regard, the capital that you hear of will be available, because these projects will generate returns that will be acceptable to investors. In the interim, a blended finance approach is needed.

Projects that are not profitable will not attract capital, but we can look at a blended finance approach that involves some form of public grant. There could then be some sort of public commercial capital and commercial capital layered on that. The way that the capital stack is put together could be what is needed to make some of those projects profitable, so that blended finance is critical, as is the certainty that I spoke about.

There is also opportunity in the supply chain. The funds will come from the developers once they have that certainty. The supply chain is challenged and there is still market risk, created by the uncertainty that I referred to. It is worth calling attention to elements of the market risk. One is around technology risk. Scotland has an advantage with regard to floating offshore wind, because we have the oil and gas supply chain, which will become an energy supply chain in the future. We know how to transport huge objects at sea, and we know about subsea engineering. ScotWind is a 40GW project, as I said. Through its Inflation Reduction Act 2022, the US aims to create 30GW by 2030, so, for the first time in hundreds of years, we represent the same size of opportunity as the US. That is important, and that is why global capital will come to Scotland. The supply chain development plans suggest, in aggregate, investment opportunities worth somewhere between £17 billion to £28 billion. That can be accessed only if we address the ports and infrastructure and create the manufacturing capability. We have the skills but, because of market risk, we do not have the investment yet to do what needs to be done.

We missed an opportunity with the fixed supply chain, which is an import-led model, because we were looking at some of these projects and businesses on a contract-by-contract basis. We want to look at the situation more holistically and fund the growth of the opportunity rather than fund individual businesses. That will play through into individual support for business, but we cannot do it with one business at a time. We need to look at where there are gaps and where we can provide the capital for the supply chain with the certainty that then allows us to crowd in capital from UK and international sources. Our ability to do that is challenged at the moment by the uncertainty and market risk.

Colin Beattie: Are you saying that the major issue for capital coming in to fund those projects is the planning system?

Mark Munro: It is one of the elements.

Colin Beattie: What are the other ones?

Mark Munro: They include the availability of grid connection, but there are opportunities. Hydrogen may be something that we could look at

in that sense. We want to electrify as much as we can for tomorrow's energy system, but there may be wind farms that could be used to generate hydrogen. The question is then about what we use the hydrogen for, but it can be used to decarbonise industrial clusters. We could look to export it as well. I do not know whether it will be used in heating our homes or for private transport, but long-distance transport may be a use as well. We can also export it to other countries. The pricing mechanism—

Colin Beattie: Japan is going into hydrogen in a big way for private cars.

Mark Munro: Yes. That may be partly down to individuals, but battery electric vehicles are progressing really quickly in the UK. That is what will come through. That is not to say that it cannot be used with things such as long-distance trucks. We see it with the buses in Aberdeen. It is more efficient with larger passenger numbers than in private cars.

Colin Beattie: Scottish Power said that—

The Convener: Sorry, Mr Beattie: we are pressed for time. Do you wish to invite other panel members to address those questions?

Colin Beattie: Perhaps Ronan O'Hara can comment on them.

Ronan O'Hara: I picked up three questions: how do we access the capital that is available internationally, how do we address market failure, and can Government afford to borrow?

I turn to the first of those to contextualise it. The Foreign Direct Investment Intelligence report of March 2023 said that, in 2022, \$54 billion was pledged to wind electric power in Scotland. That is a huge amount of money. In my mind, the truth of the matter is that we are operating in a competitive global market and that talent and money will flow to where the opportunity is most enabled and carries the lowest risk. To access that capital, we need to create an enabled environment that is low risk and attractive. If we do that, the money will naturally flow to the opportunity that is created in Scotland.

As has been mentioned, there are a number of areas in which there is opportunity for improvement. The opportunity in Scotland remains solid today. We have nobody indicating that any of the offshore energy opportunity in Scotland is not going to move forward. It is quite the opposite: people remain fully committed. Contrast that with headlines in the past four or five weeks. We saw two Ørsted fields off the east coast of America cancelled just last week, and the Vattenfall project in Norfolk has also been cancelled. Things are good, but we need to ensure that the environment remains attractive for that capital to flow to us.

On your question about market failure, I will put a slightly different twist on blended finance. It is about tapping into the power of collaboration. It is about the ability to bring in Government subvention, private sector funding and even high-net-worth individuals, and creating an environment that brings all of that to bear at the right time and the right place.

I honestly cannot comment on the third point about whether Government can afford to borrow.

Colin Beattie: Do we have time to bring in Fergus Mutch?

The Convener: Yes, we do.

Fergus Mutch: I will quickly comment on the capital for viable projects. From the chamber's experience and, certainly, from speaking to businesses day in, day out, a lot of that is on ice at the moment. What businesses lack is a clear path ahead with stability, whether it is a fiscal or regulatory regime, from both Governments. There is also an issue with some of the blockages around grid capacity, which Mark Munro spoke about. Slightly worryingly, a number of firms operating in the energy sector that had earmarked funds for investment in North Sea developments—not just oil and gas projects but, potentially, offshore wind and other low-carbon projects—have said to us, pretty frankly, that they have looked at things such as windfall taxes and the energy profits levy and have decided to invest those funds elsewhere in the world, because there are places that are less of a fiscal basket case than the UK is right now. They have opted for places in west Africa over the UK continental shelf, and that is slightly troubling.

Where is that money coming from? It is coming from the US and from European institution investment. Some of it is domestic, and some of it is from the resources of companies that have had a long and fruitful business history here over decades. Again, we have to be careful that we do not scare the horses there. The phasing that comes from both Governments on all that, whether it is in planning or other areas, can help to drive that forward. For example, we need a lot of capital invested right now to support ScotWind in our east-coast ports—it is as good as a sure thing that we will need to upgrade those—and we need to ensure that Government policy sits firmly behind that.

On the second point about the less profitable projects, Mark touched on the blended finance role for the Scottish National Investment Bank. The resources of the just transition fund can, for example, drive scalability and innovation and bring projects to viability so that, perhaps in the longer term, a return on investment can be realised from some of those things. You have seen that with

some of the year-1 projects that benefited from the just transition fund. For example, the work on hydrogen that the Net Zero Technology Centre in Aberdeen is doing is all about bringing innovation to a point where there is profitability, as well as a business case for Scottish exports of hydrogen.

Thirdly, on the point about whether the UK can afford to borrow right now, from a business perspective, we want to see fiscal prudence from our Government—of course we do. However, I will turn that on its head and say that we cannot afford not to borrow right now, given that we are at a critical point in the transition journey. In international terms, the UK can still go to the market and borrow at a relatively reasonable rate. Making that investment now would allow Scotland and the UK to steal a march on our competitors globally. When it comes to delivering a just transition, decarbonising our energy sector is vital.

Colin Smyth (South Scotland) (Lab): I want to continue with the point about ensuring that supply chain businesses in the north-east are able to benefit from the opportunity. I will start with you, Mark Munro. In SNIB's submission, one of the warnings given is that decreasing oil and gas production will mean a fall in revenue for supply chains in the short term. How do we avoid losing those supply chain businesses during that period so that we still have the skills, the infrastructure and the businesses themselves to take advantage of the opportunities in the longer term that we are talking about and ensure that we are not just offshoring wind power production but are continuing to offshore the jobs? What do we do during that period, when we start to see the decommissioning of oil and gas but are not quite seeing the scale of offshore wind developments that we anticipate in the future?

Mark Munro: We need to invest in those firms and people. We have recognised that through the creation of our just transition finance principles, which set out that we will work with businesses today. As you point out, lots of revenue is being generated from oil and gas in the UK, Scotland and further afield. We need to invest today so that those businesses can retain and retrain people, bring in apprentices, use the knowledge that has been created during the past 40 years and invest in kit and equipment so that they are ready. Decommissioning might be one of those opportunities. A few days ago, we heard that the opportunity for the supply chain is worth £20 billion, but there will also be investment for offshore wind—both fixed, which will come earlier, and then floating.

11:45

Colin Smyth: If we invest in those businesses, can the opportunities that are there at the moment make sure that they have enough work?

Mark Munro: They can, as long as we recognise that we are investing in them today and that they will be oil and gas focused. The revenue will come from oil and gas, but during the current decade, it will shift to coming from renewables. As I said, our challenge is the flight of capital. Everyone can show that they will become a renewable energy company as the decade goes on, but when it comes to capital—both debt and equity—those concerned are withdrawing from the market, because they are fossil fuel dependent. They do not recognise the wider opportunity and the coming risk of those businesses or skills not existing in future, or that we will end up either importing or spending huge amounts more money to create those supply chain companies in the future.

As I say, the essence of our principles is to try to be a role model to show that it is not dirty to finance and support those companies as they make the transition. If we can show through public capital, commercial capital and our impact framework that it can be done, I would hope to see the banks and the private equity coming back into those areas, because their investors will recognise the value and the benefits from that.

Colin Smyth: Ronan O'Hara, is that an observation that also you have? Crown Estate Scotland works closely with businesses, whether they be in tidal development or, in the longer term, offshore wind. Are businesses preparing for that period, and do they have enough business, if you like, to get them to the point at which some of the leasing that you have done starts to come to fruition?

Ronan O'Hara: There are a couple of components to my answer. I suggest that we are seeing the start of the cutover or the transition. I evidence that by saying that Scotland has generated some phenomenal headlines. Look at Ardersier Port and the £300 million investment and the new jobs there. Look at the XLCC cable manufacturing facility, which will be involved in one of the most significant subsea cable infrastructure projects in the world, creating 900 jobs. It is starting. The problem is the disconnect and ensuring that the transition keeps pace and keeps growing.

In the work of Crown Estate Scotland, working collaboratively with industry and the Government, the supply chain development commitments that existed in the offshore wind leasing round made transparent and captured the ambitions of the parties that were going to take forward the 20

projects that are in train. That is a key enabler in supporting the transition as it helps with migration from one type of activity to another and to new activity. Furthermore, through the Scottish Offshore Wind Energy Council, work has been undertaken in a strategic investment model that allows supply chain participants to come together and actively say, "How do we accelerate this? How do we take an activity that would typically occur in year 8, 9 or 10 of a development life cycle? How do we get critical mass into that and bring it forward and start to pump prime?". All those initiatives are talking to that concern, but, as Mark Munro indicated, with regard to the capital flight, we are at a very sensitive moment in the transition journey.

Colin Smyth: That is helpful. Mark Munro made a point about the consent process, but my question is really for Ronan O'Hara. As we have heard in previous evidence, you made the observation that there are real concerns that, no matter how many leases Crown Estate Scotland hands out, they will not come on stream, or they will come on stream far too late to support the supply chains, if we do not get consent for them in a reasonable time. From your observations, Ronan, what needs to be done to make sure that that consenting process delivers at the pace that we need it to?

Ronan O'Hara: Almost linking that to my previous response, this is about de-risking the scenario and focusing on consenting that everything that can be done is done to advance and accelerate. It is also about the key enabling steps for the grid connections and for skills and retraining—transitioning in the broadest sense. There is an opportunity there for Government to assist.

Colin Smyth: Fergus Mutch, renewable energy is not a new thing. There has been a criticism in the past that we have seen the growth of renewables but not the growth of the economic benefits that have flowed from it. Too many supply chain jobs have gone overseas, such as those in the development of turbines. How do we ensure that we do not make the mistakes of the past and that your members benefit? What do they need to make sure that they benefit from the growth in renewables and the transition?

Fergus Mutch: There is a policy-making challenge as well as a stability challenge. Strides have been made towards the policy-making challenge with, for example, the local content requirements in ScotWind. That therefore ensures that the supply chain opportunities are not lost overseas, and it recognises that pretty grave errors were made in the earlier years of some of the offshore wind progress. Future opportunities will be in wind, hydrogen and carbon capture, but,

in the here and now, we cannot escape the reality that the value and the jobs are in oil and gas for a considerable while to come.

The order books of the supply chain firms absolutely hinge on oil and gas projects. The supply chain companies' order books will not be maxed out with ScotWind contracts for another decade, so they need predictability in the here and now to ensure that they have confidence in the intervening period so that they do not shut up shop and go operate elsewhere in the world where they do not face the same challenges. We are seeing the move happening; we are seeing the transition in action. Aberdeen and Grampian Chamber of Commerce produces an energy transition survey twice a year, and ET 38—the 38th edition—was published just last week. I will follow up afterwards with the committee on the report, which should provide some interesting evidence for your deliberations, but I will touch on some of its points now.

It is a widespread survey that represents operators and supply chain companies, big and small, that have a footprint in the north-east of Scotland. In October 2018, we saw that only 14 per cent of firms' business was in activity outwith oil and gas. The latest edition of the survey, which came out last month, shows that 30 per cent of firms' business is in activity outside oil and gas. There is an ambition for most firms to get to 50:50 by 2030, but that is a punchy ambition. There is a lot hingeing on getting that pathway right, and there are potential setbacks to come. Will the vast majority of firms do most of their work outside oil and gas by 2045? That is a big "What if?" There are opportunities for stability and predictability, to ensure that the order books are not empty and that the rug is not pulled out from beneath the supply chain companies. Oil and gas will play a huge part in the mix for some time to come.

Murdo Fraser: I have some questions on the just transition fund. I will initially go to Mr Munro from the Scottish National Investment Bank. When the Scottish Government set up SNIB, a £2 billion fund was proposed to be paid over a number of years, and the just transition fund is £500 million. To be clear, is the £500 million additional to the £2 billion?

Mark Munro: Yes.

Murdo Fraser: Okay. Thanks. The just transition fund that SNIB handles is predominantly, as I understand it, in financial transactions. I am interested to understand how limiting that is for the support that you are able to offer to projects. For example, in evidence, Moray Council told us:

"there will be less appetite for financial transactions though the Scottish National Investment Bank, the current scheme simply mirrors funding that was already available for such purposes, it also limits public sector organisations

involvement in the interventions as there are other sources of funding for such works but loans are not attractive compared to capital grants."

That reflects some of the evidence that we heard earlier. What are the constraints around financial transactions funding, and how do those impact on the sort of projects that you can support?

Mark Munro: The £25 million is all financial transactions. My understanding is that capital transactions have already been awarded—last year and this year—and we have been asked to invest that on a commercial basis using our impact framework. When it comes to local authorities, we are engaged with them, we can invest alongside them, but we obviously cannot provide funding directly to them based on a mandate. To repeat a point I made earlier, they say there is capital; there is not a lot of capital. There is that flight of capital I have been speaking about from the businesses and projects that will be part of the transition. Although the bank will use its core capital from the £2 billion to fund those, the additional funding helps to support that transition that we are talking of. I feel that it is needed on the basis that we have seen a flight of capital from other commercial providers.

Murdo Fraser: Specifically, how do the constraints around financial transactions limit what you are able to support?

Mark Munro: We have to look at that. I think that there is a way that we could work with local authorities if we were to have capital transactions, but perhaps we could come back to the committee on that once we have had a chance to fully reflect.

Murdo Fraser: The just transition partnership told us that it was concerned about lack of transparency around the funding of projects. It raised concerns that there were no mechanisms for accountability to the representative bodies of the people of the area: the local authorities. Do you accept that that is a valid criticism?

Mark Munro: The output from the investment will stand to answer, I hope. What I mean by that is the impact that we can have through that capital. That is the way that I would measure it.

Murdo Fraser: Fergus Mutch, you are a member of Aberdeen and Grampian Chamber of Commerce. What has been its relationship with SNIB, and is there enough transparency around access to funding?

Fergus Mutch: Engagement with SNIB has largely been very positive. There is usually an opportunity to get into the room, to make a pitch, to engage with its investment team and to understand the opportunities available. Because of the nature of the year-to-year funding of the just transition fund, the first year was a load of grants. There was, perhaps, an expectation on the part of

a lot of businesses in the north-east that there would be a competitive grant framework that applied year on year. It is fair to say that a lot of people who were disappointed with the allocation of the first year's funding were geared up to do a submission in years 2 and 3 and then realised that restrictions had been put in place with regard to the funding. Its being administered through the Scottish National Investment Bank took a lot of people by surprise; perhaps we could have communicated that better to the business community in different ways.

That said, there is strength in some of the thinking behind administering that finance through the Scottish National Investment Bank, in that it could lead to longer-term strategic investment decision making rather than a series of mini-competitions throughout the lifetime of the fund. However, we are a couple of years into this fund, and we and a lot of our members are certainly still asking questions about what exactly the future holds for it.

Murdo Fraser: I have just one more question for Fergus Mutch. I do not know whether you saw the breaking news this morning. It looks as though the oil refinery at Grangemouth is likely to close by spring 2025. That would be a huge blow to Scotland's industrial base. It currently accounts for 4 per cent of national gross domestic product and 8 per cent of our manufacturing base. Clearly, that will have a knock-on impact on the north-east economy. I appreciate that the news has just broken, but do you have any reflections on the impact that it will have on the businesses of your members and on the wider just transition debate?

12:00

Fergus Mutch: That is probably a good example of a transition that is certainly not just. It is sudden and deeply concerning news. We will have to allow our membership time for further reflection on what it means for Scotland's economy. It is a significant chunk of Scotland's economy, as you said, and part of our country's industrial backbone. It is perhaps unsurprising that that is the direction of travel, but I would have expected it to be slightly further out on the horizon. Some serious thinking will have to be done on energy security supply and demand, and what that means for Scotland as an investment prospect when it comes to oil and gas and new emerging energy markets. It is a concerning day for the sector, and it will certainly cause concerns among our membership. I am happy to come back to the committee with further reflections once we have had the chance to take the temperature.

Murdo Fraser: Thanks very much. I am sure that we can return to that issue, convener.

The Convener: Thank you for raising that. The news broke this morning. People will know that the committee conducted the first part of its inquiry on a just transition for Grangemouth earlier this year. The committee will want to reflect on the news that has broken this morning.

Brian Whittle: Good afternoon, panel. I will ask this of Fergus Mutch, if I may.

We heard this morning about the just transition and the impact that it is having, or not having, on the SME sector. Panellists have mentioned carrots and sticks several times. I was musing on the fact that, as has already been said, much of the just transition fund is allocated through financial transactions. Given that the money is being administered in that form, is there understanding among your SME members that money is available to them? I will throw start-ups and the third sector into that, because we heard from such bodies when we visited Aberdeen just a couple of weeks ago.

Fergus Mutch: Just for clarity, I note that most of our members are SMEs, so the question reflects the chamber's membership. Is the just transition fund readily available to them? With the year 1 projects, for example, I think that the Government's approach was to go for safe-bet organisations that could disburse the funding thereafter, so Opportunity North East, the James Hutton Institute, the Robert Gordon University and the Energy Transition Zone were given funding.

You might want to come to Mark Munro on the interest in work through financial transactions that has come from SMEs, as opposed to larger-scale companies. Our SME members have not had any issues getting in the room with SNIB to explore the opportunities, which is positive. Perhaps the nature of the beast, in respect of start-ups and third sector organisations, is that there might be a requirement to cross a higher threshold in demonstrating that they are geared up to utilise public funds from the just transition fund.

You heard from Jordan Jack from the Campaign for North East Rail, for example. It is essentially a campaign group that is run by a very sophisticated bunch of volunteers including engineers and people with real professional and extracurricular interests in reinstating railways. However, it did not exist as a corporation and could not handle the £250,000 that was granted to it to deliver a feasibility study, so it fell to us to become, essentially, the fiscal sponsor for the project, which we were delighted to do. That added the weight of the north-east business community to a very laudable project to reinstate rail to Peterhead and Fraserburgh.

Perhaps a mechanism needs to be built in to the just transition fund to make it more accessible for

the likes of start-ups, third sector organisations and campaign groups whose aims and projects that could do with support might—let us be frank—be as valuable in the longer term to delivering the just transition as established businesses' projects.

Brian Whittle: I will open that up slightly. We have heard that the issue is not just about allocation of the funds but is about having to apply for them annually then spend them in-year, which seems to be prohibitive. Mark, do you have thoughts on that, and on my initial question?

Mark Munro: We face that issue with core capital and the just transition fund. Investments do not work just from April to March; they can go over the period, so there is a tension between completing investments and drawing down in the move into a different financial year. The bank has in the past been quite engaged on and vocal about that being something that we want to look at.

On accessibility, I mentioned the four investments that we have made directly in Aberdeen and Aberdeenshire. We also previously made one of our largest equity investments, of £18 million in the Orbex space company in Moray. We have also invested in Elasmogen Ltd, which is a cancer therapeutics business in Aberdeen. We are investing in other businesses; there is more than just the energy supply chain in the area.

We have made investments previously: there was a big pipeline of investments before the just transition fund, and we have had a bigger pipeline since then. We are engaged with Fergus Mutch and the team, with Offshore Energies UK, which is the offshore energy trade body and with Energy Transition Zone, and we engage through things such as *The Press and Journal*. We have a stand at the Offshore Europe exhibition in order to engage with businesses and make what we do accessible. I will present next week at a conference and will spend three days in meetings with businesses from the geographic area that meet the criteria for the fund.

Brian Whittle: Thank you. That is really helpful. In the world of investment, it is almost easier to get bigger sums of money. You mentioned some significant investments that you have made in core projects. What is SNIB doing to make sure that smaller companies—SMEs, start-ups and third sector organisations—that will not be looking for such large amounts of investment still have access to the just transition fund?

Mark Munro: All our investments are in SMEs, with the exception of Aberdeen south harbour, which is a project finance investment that would still meet the definition of "SME", given the number of employees. We have made 18 investments in a portfolio of 29, worth £180 million, so that is where we are positioned.

Seed capital is a bit different, as it is not currently in the commercial mandate of the bank; such funding falls to Scottish Enterprise. We are there for venture capital or growth capital for businesses. We look at tickets ranging from £1 million to £50 million, so it is very likely that there is a gap for funding below £1 million.

Brian Whittle: I thought that SNIB funded £5 million and up, and that Scottish Enterprise funded £1 million to £5 million.

Mark Munro: There is a crossover: we will invest between £1 million and £50 million, and SE can invest up to £5 million.

Brian Whittle: I am sorry to labour the point, but you talked about significant investments that are in the pipeline, and you said that investment was mostly in SMEs. The amount of money that you are investing in projects is significant. How do smaller SMEs that do not, traditionally, look for such levels of investment, access the just transition fund?

Mark Munro: SMEs can always approach us and we work with and signpost them to other investors, so the funding might not come through just transition funding. There is something interesting I think: I will talk about all Scotland, if I may, then make a point about the just transition fund.

In Scotland, there has, historically, been a challenge in accessing investment between £5 million and £50 million, but we have seen encouraging progress being made in the past 12 months. The established banks were making investments of £1 million to £2 million; I can refer to those separately.

We also have the British Business Bank and the investment fund for Scotland, which is £150 million to be invested in SMEs in Scotland. The bank has recently been a cornerstone investor in Par Equity's growth capital fund, which is £100 million, and Foresight has raised £60 million. There is now a lot of capital available to Scotland's SMEs. I apologise if you think that I am labouring the point.

The challenge for companies that would fit the just transition funding is that their revenue streams are predominantly oil and gas dependent streams that they cannot access because of the flight of capital that I spoke of earlier. SNIB is available: SMEs can approach us directly, through the website or through individuals—our email addresses are on the website. LinkedIn is another way to approach us. We are there to engage with bodies, as I said. There is a lot of capital now for SMEs in Scotland, but a challenge exists for those in the energy supply chain and other areas.

Brian Whittle: Ronan, is there anything that you want to add to that?

Ronan O'Hara: That is not an area that relates directly to Crown Estate Scotland's current activity, but in the parallel work that we do for sustainable community funds, where we are trying to mobilise smaller amounts of capital investment, we find that the situation is challenging. It takes a lot of work that is about connecting and communicating with individuals and helping them through the investment process. In thinking about and preparing for today, it struck me that all public bodies, including Crown Estate Scotland, have an opportunity to do more on communicating, connecting and signposting, because the SME part of our economy is slightly different and perhaps harder to reach.

Kevin Stewart: Many discussions today and in other meetings have been about confidence. Mark Munro talked today about the flight of capital. Obviously, we have to recognise that oil and gas still have parts to play in the future in reaching the just transition.

One thing that is disconcerting for folk is the lack of stability. Mr Mutch mentioned decisions to move out of the North Sea basin to west Africa, where some would say that there has not, in the past, been very much stability—certainly not politically.

Some of the obviously disconcerting things for companies that have happened of late have an impact. Let me give an example. The absence of offshore wind in the recent contracts for difference allocations signals that the UK Government has failed to recognise the current market, which is why we have not seen such bids or capital. Does the UK Government need to provide more certainty in order to ensure that capital investment flows into such projects? I ask Mr Munro first.

12:15

Mark Munro: Allocation round 5 was disappointing, but the industry took a collective position on that in order to send a message, which has been heard. If we had sat here last week before the AR6 guidance came out, we would probably have been more pessimistic, but the announcement last week about higher prices in the CFD is very welcome. We are engaged with projects that have made an immediate difference to optimism.

I will also mention certainty and stability: we can bring forward some opportunities if we can shorten the planning system's timescales, as has been referred to in various answers from Fergus Mutch. We are starting to get it right on CFD. If we can make investments in our supply chain, we will be able to access the opportunity faster and to provide stability as oil and gas order books, to which Fergus referred, deplete and we move to order books on renewables.

Kevin Stewart: We have heard a lot about the length of time that planning and consenting take here compared with other places. It would be really useful for the committee—there is not enough time today, but I am sure that Mr Mutch of Aberdeen and Grampian Chamber of Commerce in particular can help us with this—to get from businesses an idea of where the real stumbling blocks and barriers are so that we can start to get to grips with them. I do not know whether you have any quick comments to make about planning and consenting, Mr Munro.

Mark Munro: We should sure that planning and consenting are resourced appropriately so that we can deal with the volume of applications from Scotland, and with other opportunities.

Kevin Stewart: Does Mr O'Hara have comments?

Ronan O'Hara: I will just say that recent developments have obviously been disappointing, but we should not lose hope: this is a time for optimism. We are in a transition and it is difficult. There are plenty of positives out there, such as recent developments in and the new work on the innovation and targeted oil and gas—INTOG—leasing round and announcements about carbon capture and storage. There are opportunities. I agree, ultimately, that it is important to maintain confidence. On consenting, I agree absolutely that we need pace, priority and appropriate resource.

Fergus Mutch: I want to respond quickly to those points. The contracts for difference rounds were a UK Government failing: making it a marginal market while costs for projects have been rising has not helped.

I have mentioned the fiscal regime. I think that the Chancellor of the Exchequer will be taking to his feet in about 20 minutes: if he were to announce today that the energy profits levy was being removed or significantly reformed, the industry would be delighted. I fear, however, that we will not hear that.

There is also a role for the Scottish Government in relation to consenting. Having the words

"presumption against oil and gas"

in the draft energy strategy has not helped people's confidence. It also has a role in relation to skills and getting ports and harbours infrastructure ready for what comes next.

I will refer to the energy transition survey that I mentioned earlier, and will share its relevant points with the committee. The survey considered where the blockages and the barriers to transition are. Profitability and return on investment is the top barrier to diversification in the energy sector, but the top barriers also include the political and regulatory environment, which has seen our

results worsening. Perhaps there is a challenge there for political decision makers.

Kevin Stewart: We got the survey from Aberdeen and Grampian Chamber of Commerce on, I think, Monday. I have not had time to read it all yet, but I am sure that it will make interesting reading for us all. Thank you.

The Convener: Maggie, do you wish to ask a brief question?

Maggie Chapman: I have a final brief question for Mark Munro. Yesterday, the UK Climate Change Committee's report "Adapting to climate change: Progress in Scotland" was published. One of its headline messages is:

"Overall progress on adapting to climate change in Scotland remains slow, particularly on delivery and implementation."

Given that it is SNIB's mission to achieve a just transition and net zero, where are we falling down? What is missing? I appreciate that that is a huge question for a 20-second response, but what could SNIB do differently or what do you need Parliament to do differently?

Mark Munro: The challenge is in attracting capital, but the business models make it difficult, because the adaptation will take billions of pounds. We are making investments through the fund, but we are also aware of the benefits of natural capital, in afforestation and peatland restoration for example, that came through in the climate change plan. We have that in our pipeline and are looking to make more investments in it so that we can crowd in private capital.

The Convener: Thank you. I have a final question. Mark, when can we expect the Scottish National Investment Bank to finalise the next tranche of allocations from the just transition fund. Is the timescale available?

Mark Munro: We will make investments of £25 million this year. I am unsure of what is intended for next year, but we can come back to you on that.

The Convener: An issue that came up in the inquiry into a just transition for Grangemouth was whether funding conditionality based on fair work principles should be considered. In a transition that is meant to be just, should there be conditionality? I do not think that there is at the moment, and I know that there are countering views on whether it would be helpful. Do you want to say something about how funds are distributed and decisions are made?

Mark Munro: I am happy to do that. We apply the bank's impact framework, which requires us to sign up to the fair work principles. It requires carbon management plans and plans on equality,

diversity and inclusion. Those are standard conditions across all our investments—not only the just transition fund.

The Convener: Fergus, do you want to say anything about the attachment of conditionality, whether around fair work principles or other employment practices, to any funds?

Fergus Mutch: Broadly speaking, there would be real openness to that. Most of our members are fair work employers that pay decent wages. That is, ultimately, a policy decision for Governments to make, but we are here to be a vehicle between our members and Government in order that it can arrive at good policy.

The Convener: Thank you. That brings us to the end of the evidence session. I thank the witnesses for their contributions.

12:22

Meeting continued in private until 12:49.

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