The Scottish Parliament
Pàrlamaid na h-Alba

Economy and Fair Work Committee

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Convener
Net Zero, Energy and Transport Committee
Scottish Parliament

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Dear Edward

Draft climate change plan 2026 - 2040

I am pleased to set out the Economy and Fair Work Committee's views on the Scottish Government's draft Climate Change Plan (draft CCP) for the attention of the Net Zero, Energy and Transport Committee, as lead committee for scrutiny of the draft CCP.

The Climate Change (Emissions Reductions Target) Scotland Act 2024 moves from a system of annual reductions targets to one of 5-yearly carbon budgets. The draft CCP attempts to set out how the Scottish Government intends to meet the emissions reductions targets, agreed by the Parliament, and reach net zero emissions by 2045.

The Economy and Fair Work Committee has focused its scrutiny on the Business and Industry chapter of the draft CCP. The Committee was particularly interested in the economic impact of the draft CCP and how the Scottish Government intends to ensure workers benefit from the transition to net zero – often referred to as a just transition for workers.

Since 1990, emissions from industry have fallen by 57% in Scotland. However, emission reductions have not primarily been from decarbonising industrial processes. Instead, they have come broadly from the closure of industrial sites such as steelworks and papermills, and businesses changing what they manufacture toward less energy-intensive, higher-value output.

Last April saw Petroineos close Scotland's only oil refinery at Grangemouth and the shift to an import terminal for finished fuels. This closure resulted in significant direct job losses and losses for smaller businesses in the wider supply chain. The impact on the community and surrounding area has been stark. The imminent closure of ExxonMobil's Fife Ethylene Plant (FEP) at Mossmorran will result in further direct and contractor job losses.

Undoubtedly, both closures will contribute towards emissions reduction targets, but that "contribution" is at significant cost to jobs, livelihoods and communities. Closures

create the risk of a skills drain, with jobs or workers moving from Scotland and ultimately the loss of Scotland's industrial base.

The Parliament is agreed that the move from fossil fuels towards greener energy is necessary to meet Scotland's emissions reductions targets, but the cost of electricity is a significant barrier.

Parliament is also agreed that the transition must be managed by both the Scottish and UK Governments creating the conditions to ensure the move presents economic opportunities and manages economic risks. The establishment of the Grangemouth Investment Taskforce, and the extension of its remit to cover Mossmorran to support workers to retrain and encourage investment, was welcomed. However taskforces and meaningful plans need to be in place before closures are announced and jobs lost. The economy needs to see jobs lost in the fossil fuel industries being replaced at pace. This will require detailed and flexible workforce planning within and beyond the energy sector.

The plan to deliver net zero by 2045 must take a holistic approach to the potential costs and overall economic impact. A credible route-plan for ensuring that balance, financing and allocating the cost is needed. This is the context for the Committee's views.

In your letter to conveners of 9 October 2025, you suggested business and industrial processes and negative emissions technologies as areas that the Economy and Fair Work Committee may wish to consider. The Committee took evidence over two meetings focussing first on the business and industry chapter of the draft CCP and then on Just Transition, a theme throughout the draft CCP. Just Transition has been an area of interest for this Committee throughout the Parliamentary Session. The Committee has undertaken scrutiny work looking at the North East and Moray, including the Scottish Government's Just Transition Fund and the Grangemouth area and its industrial future.

Given timetabling and other work programme constraints, the Committee was limited in the scope of its scrutiny of the draft CCP but earlier work fed into our considerations. I attach the key points from the Committee's two specific sessions on the draft CCP and set out the Committee's conclusions and recommendations for strengthening it. I trust these will be helpful for your scrutiny.

Yours sincerely,

Daniel Johnson MSP
Convener

Draft Climate Change Plan business and industry chapter

The Business and Industry Chapter of the draft CCP covers **emissions from industrial processes**, primarily from fuel combustion in manufacturing and production processes and **non-domestic buildings** (not including public sector buildings) which primarily relates to heating the buildings and **negative emissions technologies** (NETs) such as carbon capture and storage.

The witnesses from whom the Committee took evidence, acknowledged the work that had gone into the draft plan but suggested it should be characterised more as an emissions reduction framework. Elements they expected to see in a climate change plan, such as resilience adaptions and a clear skills and jobs route map by sector, are not included.

There were also concerns about the lack of detail on financing, cost allocation and upfront costs. More clarity on what will be expected of businesses and organisations was asked for, alongside further consideration of the cumulative impacts on business, industry and consumers. Necessary actions should be clearly prioritised and then supported by a multi-year funding plan.

Professor Paul de Leeuw said when he read the plan he had “a little Ikea moment”:

> “I know what the starting point is, which is a flat pack, and I know what the end point looks like, which is net zero, but what I am missing is the instructions and the plan in the middle”.

David Thomson (Food and Drink Federation Scotland) said his members:

> “would probably struggle to see...the link between the plan and the actions, whether financial support, policy support or legislative support...”

Industrial processes

The UK Climate Change Committee provided advice to the Scottish Government in 2025 and set out a “balanced pathway” to net zero by 2045. The Scottish Government has not clearly explained how and why its draft CCP departs from the Climate Change Committee’s advice.

In 2023, emissions from industry accounted for 13% of Scotland’s emissions. The same sector contributed £13.8 billion to Scotland’s gross added value and employed more than 166,000 people. Emissions from non-residential buildings (including public sector buildings) accounted for 5% of Scotland’s emissions. Since 1990, emissions from non-residential buildings have fallen by 31%. This is mainly due to improved energy efficiency.

Reducing emissions by decarbonising industry is likely to require processes to be electrified, to move away from fossil fuels for power and for electricity to be generated from low carbon sources. Industrial electrification at scale will require significant up-front capital investment to replace equipment and machinery.

For this to be cost-effective for industry, electricity will need to be cheaper than fossil fuels. The current high cost of electricity is a significant barrier. Alongside electrification, the draft CCP envisages a role for hydrogen technologies and “more efficient use of materials”.

Overall, the business and industry chapter of the draft CCP pushes emission reductions into future years and envisages lower reductions than the Climate Change Committee’s balanced pathway. Lower emissions reductions are made up for by NETs in the draft CCP. The draft CCP envisages NETs removing twice as many emissions than they are forecast to do by the Climate Change Committee’s balanced pathway.

It was emphasised to the Committee that the availability of low cost electricity would be a key trigger to enable market forces to drive the energy transition for most industries.

The UK’s high electricity prices were repeatedly cited as the major barrier to decarbonisation. The move from gas to electricity is not seen as currently financially viable for most industry. It was pointed out that electricity is currently four and half times more expensive than gas and included in the cost of electricity “there is a lot loaded in through compliance and distribution costs and green charge elements”.

Without low cost electricity, electrifying industrial processes is too expensive and the carbon budgets for industry are unlikely to be delivered without job losses.

There are significant questions about how gas will be replaced as a heat source, given its broad range of uses currently in industries key to Scotland’s economies. Across the whole of the food sector, for instance, there is significant reliance on gas. Decarbonisation of heat is a significant consideration for manufacturers. Reference was made to the much lower price of electricity in other countries, for example in France where nuclear is the back-up, and in Norway where it is hydro. For some industrial processes, alternative options would include hydrogen but there was a clear call to decouple electricity pricing from gas and unlock low cost renewable capacity.

Concerns were not confined to the cost of and reliance on electricity. Currently, hydrocarbons are the common basic raw material for industrial production and supply chains for chemicals, pharmaceuticals and plastics. Although the chemicals industry is looking at alternative sources for future carbon requirements including bio-based carbon from forestry and farming, recycling and carbon capture, the alternative carbon sources are also energy intensive. The Committee was told that the chemicals industry is currently uncompetitive due to the price of energy and raw material costs.

During the Committee’s discussions with witnesses, it was pointed out that for some high-heat industries, there was no “off the shelf” technology to switch over to using electricity. Even if there were, the price of electricity would make them too costly to use. The importance of the Acorn cluster being funded to provide a hydrogen network was stressed, given the potential for hydrogen to be used for high-heat processes.

A related concern was the availability and cost of grid connection to support heat and energy demand. There are known grid capacity and cost constraints. Last week, one of the biggest ScotWind funded projects in Scotland, the 125-turbine West of Orkney wind farm, was halted due to the cost of grid connection. Developers reportedly said that the cost of connecting to the network made it impossible to compete against other projects being proposed elsewhere in the UK. Until a resolution is found, the investment is on hold.

UK Emissions Trading Scheme (ETS)

The UK ETS is a mechanism for setting a carbon price for industry with the aim of polluter pays and creating a financial incentive to decarbonise. The ETS currently applies to power generation, aviation and energy intensive industries such as steelmaking, chemicals and cement manufacturing. The UK sets a cap on carbon allowances and allowances that can be traded. Over time, carbon allowances are reduced, increasing the price of carbon and the incentive to decarbonise.

The Chemical Industries Association expressed concern that the scheme is damaging UK industry's competitiveness and creating an incentive to relocate instead of decarbonise. In response, the UK Government recently announced a Carbon Border Adjustment Mechanism (CBAM) to take effect from January 2027. This is not mentioned in the draft CCP. However, it does appear that the impact of the UK ETS is included in the draft CCP baseline level of emissions reductions (and expected to occur without Scottish Government action).

Richard Woolley (Chemical Industries Association) noted that since 2021, in the chemicals sector, 40% of emissions reductions had come from site closures or the closure of production lines. He said only one site had been able to decarbonise and this was not replicable because the only reason it had been able to do it was due to previously selling hydrogen to an adjacent site that had since closed.

Smaller business

Although the draft CCP is aimed broadly at the biggest polluters, it is of relevance to smaller businesses. In Scotland most private businesses are small businesses. The Committee was told there is a disconnect between the draft CCP and small businesses with low awareness and a lack of practical guidance. Stacey Dingwall (Federation of Small Businesses) noted references in the draft CCP to Business Energy Scotland being a key source of support for small business but said feedback from her members suggested it took a couple of months for BES to respond to approaches.

Negative emissions technologies (NETs)

NETs have been given a prominent role in the draft CCP with the expectation that CO_2 transport and storage infrastructure will be constructed to enable carbon capture and storage (CCS). Project Acorn will be key to realising expectations.

There are several types of NETs. The most significant in terms of emission reductions in the draft CCP are Bioenergy with Carbon Capture and Storage

(BECCS) which extracts CO_2 from biomass and Direct Air Capture with Carbon Storage (DACCS) which extracts CO_2 directly from the air.

The Centre for Energy Policy identified carbon capture and storage as a "comparative advantage" for Scotland suggesting it could contribute 3,000 jobs and £300 million per year to economic output by the 2040s "if fully established". However, within the range of new technologies that fall within the descriptor of NETs, some are unproven. There are also questions about long-term scalability and environmental impacts.

The draft CCP places greater emphasis on the contribution of NETs to meeting emissions reduction targets than advised by the Climate Change Committee. Although the draft CCP envisages almost twice the contribution to emissions reduction than was suggested in the Climate Change Committee's "balanced pathway", there is no detail on what Scottish Government assumptions have been used to support the increased role of NETs.

Professor de Leeuw told the Committee there was no way to get to net zero without carbon capture and storage. Both he and Richard Woolley strongly emphasised the importance of making progress with the Acorn project and receiving assurances that it will happen. There are worries, following the withdrawal of the main investor, about maintaining investor interest, planning permissions expiring and the loss of skilled people from the area.

The expectation had been that the UK Government would support all clusters equally to have carbon capture alongside hydrogen infrastructure. Richard Woolley expressed his industry's disappointment at the UK Government announcement last summer that only one regional hydrogen network would be supported (not the Scottish cluster) as this would now limit options for the chemicals industry.

Non-domestic buildings

Decarbonising non-residential buildings is likely to involve a mixture of replacing heating systems with low carbon alternatives alongside energy efficiency measures to reduce energy demand. The draft CCP envisages emissions from non-residential buildings falling more slowly than advised by the Climate Change Committee. In the time available, this was not an area that the Committee took any evidence on.

Just Transition for workers

Witnesses warned that the current approach to transitioning from fossil fuels risks offshoring emissions, with an associated risk to jobs and Scotland's industrial skills base. This would simply repeat historic patterns seen in previous deindustrialisation.

Richard Wooley warned that the loss of jobs in emitting industries would lead to the loss of capability to support national resilience. He spoke about scientists and engineers who had lost their jobs who were previously "making things that we are now importing from China". He also pointed to the pandemic and highlighted the vital role played by the chemicals industry making protective equipment, disinfectants and medicines.

Ryan Morrison (STUC) expressed concern about the level of investment, the return on jobs and the local benefit from the renewable energy sectors compared to oil, gas and nuclear, to deliver on the draft CCP. He pointed to the significantly lower job return per million pounds of turnover in offshore and onshore wind and called for more focus on the manufacturing side of renewables. He agreed with other witnesses that the draft CCP was more of an emissions reductions plan than a climate change plan. It was noted that the draft CCP makes no reference severe weather and the direct impact that might have on workers.

Although significant industrial and economic transformation will be required, ownership was also highlighted as a significant consideration. Trade unions suggested there should be more public and community stakes in, and greater control over, new green industries. This would better ensure benefits and wealth from renewables and emerging technologies were retained in Scotland.

Ryan Morrison said the STUC was interested in opportunities for national and municipal ownership. He pointed to the ScotWind projects in which he said Scotland did not have any ownership share. He referenced the case study in the draft CCP on the Orkney offshore wind farm, expected to return significant profits for the local authority but said there was nothing about it being expanded elsewhere. He referenced the Scottish National Investment Bank's investment in an asset management firm to secure the Iona wind partnership. He questioned why SNIB's investment had not been used to support part ownership for the local authority, instead of supporting ownership by an overseas asset management firm.

Overall, there was concern about the extent to which there was meaningful dialogue between trade unions, Government and employers about how transitions will work. Dougie Maguire (Unite the Union) spoke about workers from the industries that had closed having retrained, yet there being no new green jobs. He said, "we manufacture everything abroad, and everything to do with green energy is also being manufactured abroad". Ryan Morrison agreed and said with the offshore skills passport, qualifications were logged, further training and qualifications gained but there was often no new job. He summarised:

> "The question is whether we are creating a full pathway for those workers that starts with recognising the skills that they have in the job that they are in, understands the timeline of changes that are expected for them, supports them to reskill and then opens up opportunities for them on the other side".

Claire Greer (GMB Scotland) also agreed with that assessment. She told the Committee that workers did not currently see the pathways, that their skills are being wasted and they are moving elsewhere for jobs.

The job prioritisation scheme put in place to support workers following the announcement of the Grangemouth oil refinery was welcomed but there was disappointment that those sorts of measures, and the furlough initiative introduced at Alexander Dennis, were not part of the draft CCP.

Strategy alignment, costs, benefits and risks

Investment in infrastructure and government strategic policy alignment will also be crucial to delivery on emissions reductions targets. Alignment between the draft CCP, the Scottish Government's Green Industrial Strategy and NSET must be strong and consistent.

A key theme from both evidence sessions was the lack of detail on costs and benefits and on the Scottish Government assumptions used to underpin the draft CCP. Professor Karen Turner (University of Strathclyde) said that modelling of the numbers under different scenarios was needed. This would enable an assessment to be made of the key pathways for achieving emissions reductions and ensure that investments, already made, were supported to stay on track.

Professor De Leeuw said Scotland was losing more of its supply chain and workforce capacity than was being replaced by offshore wind and carbon capture and storage. He argued that strategic investment, at scale, ahead of final approval of projects was now required. He observed that between now and the early 2030s, the majority of wind activities would not be in Scotland, but the rest of the world. Most ScotWind developments are not due to happen until early 2030. To get ahead, his call was for Scotland to build supply chain capacity in advance of demand, otherwise "things will be built somewhere else" and the next generation of industry would be lost to Scotland.

Much of the action required to meet emissions reductions targets will come down to co-operation and co-ordination between the Scottish and UK Governments. Professor Turner spoke about the need to consider Scotland's fiscal settlement. Richard Wooley said there was no plan without a funding to back commitments and that what was lacking was industrial decarbonisation funding which is needed "rapidly and we need it to be ensured for a minimum of three to five years".

Committee conclusions

There are legitimate questions about whether the draft CCP is a climate change plan or an emissions reduction plan. There are omissions in relation to resilience, adaptation, emissions and skills pathways broken down by sector.

The draft CCP does not provide an adequate level of detail on the pathways to net zero. It must set out much more clearly what actions are required, and by whom, and the actions that will happen without Government intervention or policy.

There is uncertainty on financing and cost allocation and a lack of data on the assumptions that underpin the draft CCP.

The draft CCP was criticised for lacking credibility and clarity, particularly in relation to providing security for workers. There are also questions about the timing of decarbonisation actions and the resultant gap between jobs lost in high emissions sectors and new jobs in renewables being created. There are also concerns about the nature of future jobs if Scotland is simply importing and not manufacturing.

The rationale for the Scottish Government having departed from the Climate Change Committee's suggested pathway, particularly the choice to place greater reliance on NETs in the draft CCP, is not clear. The Scottish Government's approach would appear to come with a higher degree of risk due to CCS, at scale, being unproven, untested and potentially costly.

The Committee is clear that the current cost of electricity is not a marginal obstacle to industrial decarbonisation but a binding constraint. Evidence repeatedly pointed to electricity prices that are materially higher than those faced by overseas competitors, driven in large part by policy, regulatory and system costs, rather than generation costs alone. In such circumstances, expectations that industry will electrify at pace are unrealistic Given the significant concerns about high energy costs, and particularly the cost of electricity. The Committee concludes this is a major barrier to decarbonisation for industry.

In a 2024 report, the Scottish Fiscal Commission looked at how climate change could affect the Scottish Government's fiscal sustainability. The report considered the potential effects on public finances from damage created by climate change, the costs of adapting to a changing environment and actions to meet emissions reductions targets. The SFC's view is that the required additional public investment in devolved areas is significant.

The challenge of meeting net zero creates an inter-dependency between the Scottish and UK Governments. There are issues of linked funding and the Scottish Government's funding position is influenced by UK Government choices. Meeting emissions reduction targets will require significant multi-year funding.

Delivery of the draft Climate Change Plan is heavily dependent on sustained multi-year public investment, much of which lies outwith devolved competence and is shaped by UK Government fiscal decisions and the limitations of the current fiscal framework. That interdependency makes transparency on costs, on accountabilities of each government and funding assumptions essential.

The Committee is concerned that the draft CCP does not clearly set out the scale of public funding required, the opportunity costs for other public services, or the consequences if anticipated funding does not materialise. Without that clarity, there is a real risk that commitments are made which are neither affordable nor deliverable, undermining confidence in the plan and in long-term fiscal sustainability.

Regarding the UK Emissions Trading Scheme, there are concerns that without low cost electricity, industry will simply become unviable. The Committee heard strong evidence that the UK Emissions Trading Scheme is, in its current form, contributing to site closures and reduced domestic production rather than driving meaningful investment in decarbonisation. In the absence of affordable low-carbon energy alternatives, rising carbon costs risk accelerating carbon leakage, with emissions and jobs displaced overseas, rather than emissions being eliminated.

Committee recommendations

- Considering the questions about the nature of the plan and what has been omitted from it, the Committee recommends more work is undertaken to ensure the information on adaptations, resilience, cost and cost allocation and underlying assumptions are included in the finalised plan.

- The draft CCP needs to be clearer on the relative priority of actions to ensure there is a managed transition, otherwise there is a high risk of history being repeated with the loss of jobs and skills as industries close and emissions and jobs are offshored.

- The Committee calls for urgent reform of electricity pricing and cost allocation, including a review of levies and charges borne by users. Until this structural issue is addressed, the Committee cautions against placing additional decarbonisation obligations on industry, which risk further damaging competitiveness and accelerating de-industrialisation.

- The Committee recommends that any further tightening of carbon allowances should require careful assessment and calibration against energy costs and industrial competitiveness.

- The Committee draws the Scottish Government's attention to the evidence from STUC about national and municipal ownership and urges it to consider where there may be future opportunities for public investment and / or municipal ownership stakes in the energy sector.

- To deliver against agreed net zero targets there is a need for greater integration across the Scottish Government directorates and between Government strategies and policies including industrial strategy, infrastructure project planning, energy policy and economic strategies.

- The Scottish Government must also do more to embed a direct participative role for the workforce, trade unions and professional bodies in climate change planning. Their involvement must be structural and not simply reactive, to ensure genuine participation in shaping the future.