



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 15 March 2023

Session 6



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ECONOMY AND FAIR WORK COMMITTEE

8th 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)

*Jamie Halcro Johnston (Highlands and Islands) (Con)

*Fiona Hyslop (Linlithgow) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Graham Simpson (Central Scotland) (Con)

Colin Smyth (South Scotland) (Lab)

*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Jane Martin (Scottish Enterprise)

Mark Munro (Scottish National Investment Bank)

David Ritchie (Scottish National Investment Bank)

Derek Shaw (Scottish Enterprise)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 15 March 2023

[The Deputy Convener opened the meeting at 09:30]

Just Transition (Grangemouth Area)

The Deputy Convener (Colin Beattie): Good morning, and welcome to the eighth meeting in 2023 of the Economy and Fair Work Committee. Apologies have been received from Claire Baker, Maggie Chapman and Colin Smyth.

Our first item of business is the fourth evidence session of our inquiry into a just transition for the Grangemouth area. Today's session will focus on how innovation and just transition can be supported by partnership working across national bodies. I welcome Derek Shaw, director of innovation and place at Scottish Enterprise. From the Scottish National Investment Bank, I welcome Mark Munro, interim head of investment origination, and David Ritchie, executive director for partnerships and engagement. As always, I ask members and witnesses to keep their questions and answers as concise as possible.

My first question is straightforward. How do the Scottish National Investment Bank and Scottish Enterprise support the decarbonisation of industry in Scotland, particularly in Grangemouth? What constraints and barriers do you face? Derek, please start off on that.

Derek Shaw (Scottish Enterprise): I am delighted to do so. Thanks very much for that question, convener. We support Grangemouth in a number of ways through our global account management service—we support nine international and indigenous companies through investment, innovation and our international activities. We work with foreign direct investors who are looking at opportunities in Scotland to identify potential locations in the Grangemouth area and to promote Grangemouth as a centre of excellence in terms of the existing industrial cluster as well as looking at the emerging opportunities for net zero and decarbonisation.

We work with the company base—I mentioned that there are nine companies there—and we also invest in those companies, where it is appropriate to do so. For example, we have made quite a substantial investment in Celtic Renewables over a number of years. That has allowed that business

to construct a new facility at Grangemouth and we are starting to see the benefits of that. We give wider support to small and medium-sized enterprises through the products and services that we provide. We provide support on sustainability, innovation, fair work and workplace development, as well as on investment and internationalisation.

Specifically on Grangemouth and decarbonisation, we are progressing work on the bioeconomy, and we are undertaking industry and supply chain research to identify and map future opportunities for low carbon at Grangemouth. We are developing a package of research to help to identify new product opportunities and global best practice on industrial cluster development around decarbonisation. We are working with Falkirk Council and other partners on the growth deal and we are looking at a biotechnology and carbon dioxide utilisation and storage facility, as well as at a zero emissions vehicles centre of excellence. We work with Forth Valley College on skills, and we are working, through our Scottish development international arm, to support inward investment in the sector.

The Deputy Convener: You mentioned carbon capture, which is a hugely expensive and as yet slightly untried technology. What sort of investment are you putting into that?

Derek Shaw: Our investment is through our support. It is through our people and through working with partners, including Ineos at Grangemouth, which is part of the Acorn project, of which you will be aware. We are supporting the development of the business case for the Acorn project and promoting it as a centre of excellence in the UK. Where there are opportunities to invest financially, we will do so. To date, our resource and our input and investment has been through people in Scottish Enterprise working with partners to develop that opportunity in partnership with Ineos.

The Deputy Convener: I also asked about constraints and barriers. Where do you perceive those to be?

Derek Shaw: One of the major barriers or constraints is the level of investment that will be needed. The challenge to decarbonise Grangemouth is significant, but the opportunities are massive for both Grangemouth and Scotland. Significant investment will be required to meet that challenge and capitalise on those opportunities, including multibillion pounds' worth of investment in infrastructure, new technologies and companies. We need to work collectively to overcome that challenge.

The second one is around skills. We have a fantastic heritage in skills and experience at Grangemouth, which we need to capitalise on to

have a just transition into the new economy, but, as we know, there is a skills shortage in Scotland and the UK. Therefore, when we look further afield—five, 10 or 15 years down the line—at some of the new technologies that we are looking to capitalise on, such as hydrogen and carbon capture, we will need to ensure that we have the right skills and that we are developing those skills now.

The Deputy Convener: David, would you like to comment on that?

David Ritchie (Scottish National Investment Bank): Yes. Thank you very much for the invitation, convener. I am delighted to participate.

In the bank, we are trying to look across the piece at the decarbonisation agenda, so we are looking at how we can support investments that support the decarbonisation of electricity generation. We are also looking at how the bank can support decarbonisation across heat. We are interested in and focused on thinking about how the bank's investment can support the decarbonisation of transport. We are also keen to support the decarbonisation of industry.

We recognise the significant economic value that Grangemouth brings to the Scottish economy in both gross value added impact and employment. As a bank, we are actively trying to engage with companies in the Grangemouth area to find ways in which we can help to support them to pivot from their existing activity, which might be highly energy intensive and oil and gas related, to low-carbon sectors and industries.

At the bank, we are looking at commercial opportunities to invest in projects and businesses. We work closely with our partners in the Scottish Government and Scottish Enterprise to try to identify a pipeline of credible projects where the bank can offer its commercial support. We are keen to offer not only our commercial investment but our expertise and insight into how the economy can transition in a meaningful way.

We have spoken to several businesses in the Grangemouth area, and those conversations are on-going. As we develop our approach to investment and origination and really begin to focus our activity on how the bank can support the development of the hydrogen economy, for example, there is a fantastic opportunity for Grangemouth that the bank is keen to help enable.

The Deputy Convener: You have not mentioned the constraints and barriers that would affect your ability to invest and engage. Can you elaborate a little bit on that?

David Ritchie: Sure. As Derek just said, one of the big challenges is the scale of investment that is required, but also trying to identify sustainable

investment models and business models that can be invested into. Hydrogen offers a fantastic opportunity. It offers potential opportunities around heat and transport, but, particularly in the context of Grangemouth, it offers a fantastic opportunity as a potential feedstock for the area and the industries that are there. It will also offer an opportunity for export in due course.

At the moment, there is no identified sustainable business model in place that allows the hydrogen industry to develop at scale. One of the key things that we are keen to see and support is the identification of projects that help to prove that business model. We are looking to agitate around that and help to create it, but it is not there at the moment.

Another big challenge is skills. If we look, for example, at the skills that are required for the transition from highly energy intensive oil and gas industries to low-carbon or renewables sectors, a retraining and reskilling process will have to be gone through. That is happening, but I am not so sure that it is happening at the scale that is required. That is a huge challenge.

The Deputy Convener: Mark, would you like to add anything?

Mark Munro (Scottish National Investment Bank): Good morning and thank you. I will build on the points that David Ritchie and Derek Shaw made.

You asked about the bank's role. We see it as providing transition capital in and around Grangemouth and in the other areas that David Ritchie spoke about: the highly energy intensive sectors, as well as the oil and gas areas. That is reflective of debt and equity capital being withdrawn from those sectors over the past few years. We need those sectors to help us transition to the future, so the bank's role in the next three, four or five years will be to provide the bridge of capital to enable investment to move from those industries into the renewable industries of tomorrow.

The Deputy Convener: The Scottish National Investment Bank has three missions that guide investment decisions. Importantly, one of them is about supporting a just transition to net zero. Can you talk me through your approach to the allocation of resources and investment decisions on that? How do you scrutinise a project, and how do you satisfy yourself that it will support a just transition? What is your understanding of "just" in a just transition? David, I will come to you first, or is it Mark?

Mark Munro: I would be happy to start. Which part would you like me to answer first?

The Deputy Convener: Oh, just pick one.

Mark Munro: I will start with how we are set up. Until perhaps six or nine months ago, the bank's set-up was based on the missions, so the investment teams reflected the three missions that we had, but, in reality, every member of the bank has a responsibility to deliver the three missions. We are also much clearer on the opportunities and the demand on the bank since we opened in November 2020. We are now structured around an active origination strategy. That involves identifying the areas where the bank can create the greatest value and have the most impact. At the highest level, those are around scalable technology; the built environment, which is about decarbonising residential and commercial buildings and industries in Scotland; and offshore wind and alternative energies. We now have teams focused on those areas.

To answer the second part of your question on just transition, we seek to ensure that no group or community is disadvantaged as Scotland and the world move from being a fossil fuel powered economy to a renewables powered economy. As I said, the bank's role is to provide transition capital so that businesses and projects that are needed for the future are not without access to capital, be it debt or equity. If the bank can take the necessary catalyst positions, we can count back in the capital that has stood back from those important industries in the past few years.

The Deputy Convener: One of the discussions that we have had over time around this table has been the definition of a just transition. Your quotation is virtually the Scottish Government's interpretation of it, which is fine, but how do you, as a bank, define that and make it part of what you are doing? Just transition means different things to different people, as we have found. How do you weave it into your investment decisions?

09:45

Mark Munro: There are always two lenses to any opportunity that is being presented to the bank. In two years, we have had 815 opportunities presented to us and, in that time, we have developed a portfolio of 24. The first lens is the commercial opportunity and, just as important, the second is the impact created by our investment. We go through quite an extensive due diligence process, which we use to convince ourselves that what the business has said is meaningful. We always look for meaningful action. If we take a business that is, perhaps, more fossil fuel aligned and in the Grangemouth area, what we would like to see is that although it may not have invested a lot of money, the investment is meaningful. For example, first, the business will have declared its strategy to support net zero and a just transition. Secondly, it may have appointed an individual to

that role. The individual may not have had an opportunity to have an impact on that business, but it is meaningful. That is to avoid those businesses that come to us having read the website and regurgitated it back to us. We need to see that meaningful action has occurred in those businesses and projects, and that is supported by the due diligence that we undertake, which will range from technical to financial to management due diligence. It is quite extensive and there are lots of options open to us.

The Deputy Convener: Thank you. I will move on to questions from other members.

Graham Simpson (Central Scotland) (Con): Good morning. I will start with SNIB, if that is okay. The question is for David or Mark. Actually, it is for David. Correct me if I am wrong, but I get the impression that although you are not involved in any companies in the Grangemouth area at the moment, you would like to be. You said that you are speaking to a number of businesses. What sort of businesses are you speaking to in the Grangemouth area?

David Ritchie: We have not invested in any companies in Grangemouth, but we are having discussions with businesses that could be classified as traditionally in the oil and gas sector and that are thinking about transitioning and are already on the path to transition. Those conversations are at various stages of advancement. We have said to those businesses that we are keen to support their transition, but we are also helping them to understand what the bank has been set up to deliver, particularly around the commercial component as well as the mission impact component.

Graham Simpson: Are there restrictions on what you could invest, relating to what you would get back?

David Ritchie: For every investment delivered, we always look to get a commercial return. When the bank was established by the Scottish Government, utilising public capital in a commercial way was central to what we were doing. We also have mission impact considerations at the heart of all our activity.

When we speak to any business, we look at the business through both those lenses. If it is not delivering a commercial return, or we feel that the business model is not sustainable, that will have implications for how we advance that project. That is not to say that we would not do the project, but we would pause and seek reassurance that the business would move into a more commercial space and have a sustainable business model. If the business did not demonstrate that it was able to deliver the impacts that the bank wants to see, whether that is our net zero mission or the place

and social perspective impacts, we would take that into consideration.

Graham Simpson: Okay. Derek, you listed a number of projects that you are involved with. Can you tell us a bit more? I am interested in the zero emissions vehicles centre of excellence. Is that the right phrase?

Derek Shaw: Yes, it is indeed. That is one of the projects that is being developed and, hopefully, delivered through the Falkirk growth deal, which is led by Falkirk Council and is part of its innovative industries theme. We are heavily involved with Falkirk Council and partners on that project, the carbon capture and utilisation project and other projects. That is part of the overall activity that we are progressing as part of the growth deal and the work that we are doing with Grangemouth, in addition to work with the companies that are already located there. We support those companies individually, as well as working through our Scottish Development International division to target inward investors that could potentially locate at Grangemouth.

Graham Simpson: Okay. Will you explain that a bit further? Is that project about developing new technologies that allow vehicles to be zero emission?

Derek Shaw: It is about electrification of vehicles and the testing of new technology that, if it is viable, could ultimately be scaled up and manufactured in Scotland. That is our key focus in working with new, early-stage businesses that are at the cutting edge of technology. We support them with technology development and look at the end prize of the manufacturing potential in Scotland. We want to ensure that the economic impact from those technologies is maximised for Scotland. In many cases, that is about ensuring that the end result, which is manufacturing—which could be years down the line—lands in Scotland, particularly at Grangemouth.

Graham Simpson: You mentioned Celtic Renewables, which is a company that makes biofuels. What is your involvement there? Are you trying to link it with people who might use biofuels?

Derek Shaw: We have been involved with Celtic Renewables pretty much since the company was formed. We provided commercial investment through our growth investment arm, alongside private sector investors. That allowed the initial technology to be tested and developed on a very small scale. We provided support through innovation and account management. Investment in recent years has been to construct a facility at Grangemouth to scale up their technology and that is currently where the company is. Just now, we are supporting Celtic Renewables on that technology development road map and ensuring

that the technology works. That can then lead to commercial success by linking them with partners and customers for the future expansion of the business. That is one example, but we work with other companies such as Petroineos, Piramal Pharma Solutions, Fujifilm Imaging Colorants, Versalis, Syngenta and Suez Industrial Water.

Graham Simpson: Okay. I will ask you what might be a tricky question, but I am not trying to catch you out. The Government is going to produce a just transition plan for Grangemouth. What would you like to be in that plan? I will ask SNIB the same question.

Derek Shaw: The key is ensuring that we maximise the opportunity. It goes back to the question of what a just transition is. I do not know whether this is the correct definition, but, for me, it is in two parts. First, it is about ensuring that the organisations, the people and the communities that are impacted are part of the process of transition and feel part of the engagement on it, so that any negative impacts are mitigated.

Secondly, it is about looking at the opportunities. There are significant opportunities for Grangemouth and across Scotland in our transition to net zero. How do we maximise those opportunities for all: the individuals located at Grangemouth, the companies located at Grangemouth and across Scotland? It is about using Grangemouth and the centre of excellence that we have as a test bed for developing our technologies across the piece. In such a plan, we should ensure that the people and communities who are impacted by the just transition benefit from that transition to a new, greener economy.

David Ritchie: From a business perspective, the plan has to have a focus on existing businesses that are looking to transition, regardless of whether that is by becoming more energy-efficient themselves, or by transitioning into low-carbon sectors, such as away from oil and gas into renewables. That has to be a central component of the plan.

There also has to be something in the plan about not only the existing business base but how you can create opportunities for new businesses to emerge, scale and grow. Those businesses might be spinning out of existing oil and gas businesses or petrochemical businesses but, at the same time, they could spin out of our university sector and be located in Grangemouth, where you could create a real hub of expertise. Those would be two key components of the plan.

The point about having the community and social impact at the heart of this is also important. In all our investments, we look to build in not just the commercial consideration but the social impacts. We try to ensure that local communities

will benefit from an investment, be that through apprenticeship opportunities, skills or general job opportunities. That needs to be a key consideration of any plan that is put forward.

Graham Simpson: You have both made the point that there needs to be a local benefit. That has come out in a lot of the evidence that we have heard already.

Gordon MacDonald (Edinburgh Pentlands) (SNP): We have started to touch on the area that I want to look at. Derek, you said that Scottish Enterprise is carrying out research to identify investment opportunities in the Grangemouth area. I want to ask you about jobs. In response to the committee's call for views, GMB Scotland noted that hydrogen and carbon capture both offer the potential for jobs growth, but that that does not guarantee the retention of current levels of skilled jobs.

Given that Scottish Enterprise has a role to play in not only creating but safeguarding jobs, how do you strike the balance between safeguarding existing skilled jobs and creating job opportunities when you make investment decisions?

Derek Shaw: We undertake an appraisal of all the investments that we make and jobs are at the forefront of that. We consider what economic impact will be delivered as a consequence of the investment that we make. The creation of new jobs—high-value jobs and greener jobs—is a key component of that, as is the ability to safeguard existing jobs. Ultimately, as we look at just transition, we consider how we can support the business base that is looking at new opportunities and transferring its business models, opportunities and markets into new opportunities that require new skills. Overall, in 2020-21, we created and safeguarded over 13,000 jobs with the activity that we undertook. Safeguarding is a key component of what we look at, but so is the creation of new jobs, particularly green jobs.

Gordon MacDonald: I will put a similar question to SNIB. We are in a period in which transition is going on. When you make investment decisions, how do you safeguard existing jobs and not undermine the skills that are currently required in the economy?

Mark Munro: We set impact covenants when undertaking investments. Through them, we seek to ensure that the businesses will provide opportunities for the people in those roles to move across and will provide the training that is required for them to maintain their existing skills and to learn new skills. That is really coming through in a lot of the transition capital finance that we have been asked for in the past 12 months. Going back to what I said earlier, there has been a flight of capital, both debt and equity, from fossil fuel-

based revenue companies, so we ask them to provide that opportunity and to move across without forgetting the skill sets that are important today.

10:00

Gordon MacDonald: David, you spoke about the importance of local communities and you mentioned apprentices, skills and jobs. Grangemouth community council suggested, when it was giving evidence last week, that a percentage of jobs should be kept for local people. Do you guys consider that when making investments?

David Ritchie: We definitely consider the local impacts on the community. We have not built any specific quotas into any covenants or any impacts that we want to see, but, for every investment that we do, we speak to the investee company about engaging with the local community and local providers from an apprenticeship perspective and a college perspective, and we speak in some depth about skills and training opportunities. We actively encourage all the investee companies to engage on those issues and to engage more generally with the community to help it to understand what the business is trying to deliver and how that can be beneficial to the community from not only a wider economic perspective but an employment perspective. On the specific point about quotas and percentages, we do not compel businesses to do that.

Gordon MacDonald: Derek, I put to you the same question about local jobs for local people. In addition, what do you do about considering growing local supply chains when you are looking at investing in the Grangemouth area?

Derek Shaw: We take local people into account. When we are providing support, we do not take it to the extent of specifying in our investment conditions that jobs have to be created in the locality. We encourage management teams to do that through our account management service. I was reflecting on a wider point in that conversation around job opportunities. Whether it is job retention or the creation of new jobs, the wider opportunity for the sectors and the new technologies is, as we discussed, massive. The challenges are massive, but the opportunity is great. We need to ensure that team Scotland—the public sector agencies—is working collaboratively and is co-ordinated. We need to be working with the private sector and joining up with the likes of Skills Development Scotland, Transport Scotland, the bank and other agencies so that when we look at a significant proposition, we bring those collective skills and experience around the table. Particularly around jobs and skills, we need to ensure that SDS is at the table.

On your second question, the supply chain is increasingly a key consideration for us, particularly following Covid and the need to bring supply chains back within Scotland. When we look at supporting companies, whether that is with investment or just wider support, we encourage management teams and companies to think about where they are sourcing their product and whether they can source it in Scotland. To get the biggest bang for the investment that we are making, we make connections between companies that we have relationships with. It is not just about that company and the jobs that it is creating, important though that is; it is about the wider supply chain benefits that could be achieved from that investment overall.

Michelle Thomson (Falkirk East) (SNP): Good morning. We have touched on some of the themes that I will ask about, in terms of the role and involvement of the local community. Last week, we had some quite compelling evidence from Grangemouth including Skinflats community council, which talked about how the community feels as though it bears the weight of providing all that gross domestic product to the Scottish economy but gets no benefit.

Derek, I think that you said—you referenced Celtic Renewables and so on—that you are already investing in local companies. In terms of your impact assessment vis-à-vis the benefits to the local community, can you talk me through the process that you use? In other words, what did you specifically do to ensure that the benefit was felt in the community? I totally appreciate that you have a wider perspective as well.

Derek Shaw: Thank you for that question. I guess that it is about the support that we provide through our account management service. We work with those businesses in their locations and not necessarily just in Grangemouth. We look at where businesses are located and where the skills are that are needed for that particular business and we encourage those companies to source those skills in their local area. As I mentioned, we do not take that to the extent that it is a condition of our support that, ultimately, they have got to secure jobs or recruit people in the local area, but we are certainly focused on working with companies to encourage that.

We work on both regional and local levels. Scottish Enterprise has seven regions in which we work with partners and stakeholders through regional economic partnerships. Those are focused on particular regions and the strengths and opportunities within them. We are also involved at a local level through community planning partnerships, which again bring in communities and individuals to look at issues, challenges and opportunities at a local level and at

how Scottish Enterprise can potentially support those opportunities.

Michelle Thomson: You must have guessed what my next question was going to be, because you alluded to conditionality. I paraphrase, but the sense from the community was that a lot of the activity that was going on was well intentioned in terms of including the community and having a community focus at its heart, but that it lacked substance. What are the circumstances in which you think it would be a good idea to put some conditionality around the funds that you provide? What would that look like and where would you see that working in order to make sure that the community is at the heart of what you do?

Derek Shaw: I will start with the conditionality that we put on companies just now. We were an early adopter of the fair work first approach. We require businesses that receive our support to commit to fair work principles, including paying the living wage. We are implementing the fairer Scotland duty, which asks listed public authorities, including Scottish Enterprise, to do more to tackle inequalities that are caused by social and economic disadvantage. Those principles and policies then embed a degree of conditionality in the projects and the activities that we support. That is a part of our wider equality impact assessment, where we check how the projects that we support have an impact on particular groups in order to ensure that there is equality overall in the provision of funding and in wider support for people.

There could be more that we could do. I will take that back to Scottish Enterprise for discussions about what additional conditionality could potentially be appropriate to implement.

Michelle Thomson: I absolutely understand about the principles of fair work. The discussion that you suggest would be helpful because you are at the coal face and you are monitoring the existing investments. The discussion is about your suggestions for how those principles can be deepened to put the community at the heart of things.

I will turn to SNIB. As you explained, you have not made investments, but how would you, by way of your impact assessment, ensure that the community is at the heart of things? To what extent is there a conflict when, obviously, you are skiting across the top looking at a return on your investment and at your debt to equity ratios and so on? I appreciate that this is in principle, given what you said earlier.

Mark Munro: I will go first. Good business involves the local community. The returns will come with maintaining that social licence, so it is not that it needs to achieve a particular level. I will

let David elaborate, but everything that we do is around maintaining that social licence with the opportunities and the businesses that we have invested in. To that end, examples would be seeking to maximise the local supply chain in and around the area so that the benefits are available, and also, touching on what we spoke about previously, having training and apprenticeship opportunities for local people.

Michelle Thomson: Do you have anything to add, David?

David Ritchie: Sure. When we first start engaging with a business, we encourage it to speak to the local community, not only through the statutory requirements that a business has to undertake, but to be more proactive in helping the local community to understand what the business is trying to deliver.

As I mentioned at the outset, we have not done any investments in Grangemouth, but I will try to give some life to this with examples from some of the other investments that we have done. The Highland Coast Hotels investment was an investment in a series of hotels to improve the infrastructure around the north coast 500 route. We actively worked with the company to get it to not only engage with the community but work with the University of the Highlands and Islands to help develop the skills that are required for that sector so that those in the local community could be skilled and take advantage of the job opportunities that would emerge in due course. We do that regularly when it comes to apprenticeships with other businesses as well.

Another area that we worked quite extensively on was when we did the M Squared investment, which was a technology investment in the Glasgow area. We worked with that business to encourage it to undertake initiatives to promote female participation in science, technology, engineering and mathematics subjects, where female participation was underrepresented. We actively speak to the companies, identify areas where we feel that they can make a meaningful impact and encourage them to have that dialogue with the local community.

Michelle Thomson: Can I assume that you assess the outcome, as compared to initial—

David Ritchie: Yes. In April we will publish our impact report, which will give comprehensive insight into how the bank measures impact and create a very good baseline for us to track progress against. We have only been operational for two years and, as Mark Munro mentioned, have made only 24 investments. Trying to identify short-term impact has its challenges, but we feel that collecting the right data in the right areas gives us an excellent baseline against which to

track progress over time and to assess ourselves, as well as for the Parliament to hold us to account.

Michelle Thomson: I will finish off this bit. Derek, can you see the benefit of building in community benefit requirement mechanisms to square the circle in respect of some of these investments?

Derek Shaw: How companies that we work with support local communities and businesses through supply chains is definitely a consideration. We work with businesses to maximise opportunities in terms of skills and supply chains at a local level.

Michelle Thomson: I have a slightly different question before I finish up. Am I correct that you are involved in the Grangemouth future industry board?

Derek Shaw: Yes.

Michelle Thomson: Tell me a bit more about your involvement. Also, what is your understanding of GFIB's governance model?

Derek Shaw: Alongside the Scottish Government, I am the co-chair of the Grangemouth future industry board. It is in its third year of operation. In our submission to the committee, we mentioned that it has been through three phases. The first phase was pretty much its inception: getting GFIB up and running, putting the governance structure in place and getting partners involved. The key purpose of GFIB, as you are aware, is to ensure that there is collaboration, visibility and co-ordination across the public sector. A number of public sector organisations—the councils, the Scottish Environment Protection Agency, Skills Development Scotland and the Scottish Government, among others—are partners in GFIB.

10:15

The second phase was taking the governance structure forward in terms of development and delivery. We established five key workstreams, each led by a partner in GFIB that developed the workstreams. Scottish Enterprise leads on project development and strategic investment. As part of that second phase, we started to build a pipeline of activity. Now we are in the third phase, which is engaging with industry and the Scottish Government leading on the development of a just transition plan for Grangemouth.

In the first phase of the just transition plan, we will look at baselining, which includes looking at the companies and the number of jobs that are already there, the emissions in the industrial sector and the opportunities that can be taken forward in the transition. We will engage with industry and local community groups on the vision

for Grangemouth and the just transition going forward.

As I mentioned, all the GFIB partners are engaged with industry day in, day out in various forms. The key for me now, in the third year, is ensuring that the public sector, the private sector and the industry that is there, as well as the industry that could be located there, work jointly on the challenges and significant opportunities in a co-ordinated fashion. As I said, we are doing that individually, but now there is an opportunity to frame that as a collective.

Michelle Thomson: You have given me a lot of helpful information about what you are doing in your various phases, but I must admit that I am not any clearer on the governance model and who specifically is ultimately accountable for GFIB's output.

Derek Shaw: Ultimately, it is ministers.

Michelle Thomson: I mean on the GFIB itself. Surely there is an accountable person. How is that structured from a governance point of view?

Derek Shaw: The board is co-chaired by Scottish Enterprise and the Scottish Government, with the partners represented. Annually, we agree priorities for the year ahead. Ministers sign off those priorities and are updated regularly on progress against the plan. I believe that the Scottish Government and, I think, Andy Hogg, who is the fellow co-chair, are coming to the committee in April. Officials are updating ministers about the future direction now.

Michelle Thomson: Okay. Thank you.

Fiona Hyslop (Linlithgow) (SNP): Good morning and thank you for joining us. I want to follow up a wee bit on the Grangemouth future industry board. Is that the body that will produce the just transition plan—or the majority of its content—for Grangemouth?

Derek Shaw: The Scottish Government will lead on the development of the plan with significant input from GFIB. It will not be just GFIB in isolation. Industry and the community will be involved as well. That is the next stage in the process. The vision is collectively coming together. GFIB partners, industry and local community groups will input into the vision for a just transition for Grangemouth.

Fiona Hyslop: What we have heard to date—we heard it specifically last week—is that it is not just the future industries that have an interest in a just transition in Grangemouth but the rest of the business sector. Where do they get a voice if they are not on the future industry board?

Derek Shaw: We intend to develop a workshop approach in order to develop the vision for a just

transition plan for Grangemouth. Industry and the existing companies that are there will be an essential part of that process. We—the public sector and the private sector—are coming together collectively to discuss the challenges, the opportunities and, ultimately, what we believe the vision is for a just transition for Grangemouth. Industry and the companies that are already there will be a central component of that process.

Fiona Hyslop: How the rest of business in Grangemouth can be part of this may be something that we will explore separately.

There are a lot of overlapping policy initiatives affecting the Grangemouth area and the transition. We have the Falkirk growth deal, the Firth of Forth green freeport, the UK Government's levelling up investments and, as we just heard, the upcoming just transition plan. How does Scottish Enterprise specifically engage with all those different policy initiatives to steer what it can add value to?

Derek Shaw: There is a lot of policy in place. Scottish Enterprise is clear in its focus, which is to support companies to innovate, to scale and to transform the economy. Ultimately, we do that in the context of existing Government policy. For Scottish Enterprise, in particular, that policy is the national strategy for economic transformation. There are then other policies, on energy and hydrogen, for example, that come underneath that.

We have very good relationships with Government colleagues from a policy perspective. With our knowledge and experience, and the views from our customer base, particularly business, we help Government in shaping policy. Ultimately, it is for the Government to develop policy, but, as I said, we have good relationships that allow us to input to that process.

Importantly for Scottish Enterprise, it is about delivery: looking at existing policies and how Scottish Enterprise can have a role in delivering against those ambitions. It may well be that some activity in some policies is not for Scottish Enterprise, and that is absolutely fine. We need to be clear what our role is in delivery against the Government's ambitions.

Going back to the point that I made earlier, it is absolutely key for us and other organisations that we work collectively as a kind of team Scotland in delivery of policy in our own objectives and are not working in isolation. We have seen increasingly, over the past couple of years in particular, that we are having a much more joined-up approach with other agencies to look collectively and holistically at how we can support the Government. That may mean that, on some occasions, it is for partner organisations to take the lead and for Scottish Enterprise to support; on other occasions, it may be for SE to lead and others to support.

Fiona Hyslop: I will turn to the Scottish National Investment Bank. Which, if any, of all those different policy initiatives are you directly involved in, or are you just monitoring them to look for opportunities?

David Ritchie: We are not directly involved in the shaping of those policies. We interact with the Government, as you would expect, given that it is our sole shareholder. The main strategy and policy that guide us are the long-term missions that ministers have set us, such as net zero transition. That takes us to 2045 and we are focused on that. We have engaged with the Government on the development of the national economic strategy and we feel that that is entirely consistent with the missions that have been set for us. We have regular interaction when significant strategies are being developed, such as the energy and innovation strategies at the moment; we feed into those.

However, we are guided by the missions that have been set for us and how those fit into the macroeconomic strategy for Scotland, which is around economic transformation.

Fiona Hyslop: What is striking is that Grangemouth could fit all three missions: place, innovation and net zero. Being ambitious about what could happen, the opportunity for the people and the community of Grangemouth to benefit from hydrogen heating or transport and so on is quite striking. Are you actively involved in looking at that, and would that be an ideal fit?

I am not saying that you have to commit your money, resources and decision making just now, but does that look as though it could be a potential fit for the National Investment Bank where there are not other investments to come? Is there even an opportunity for you to crowd in the private investments that would be interested in what would be very innovative work in this area?

David Ritchie: Absolutely. It is almost right in the sweet spot for us. There is a transition component from existing businesses that are looking to pivot, but, as I mentioned earlier when we were talking about what should be included in the Grangemouth plan, it is absolutely critical that there is a space in that for new and emerging businesses. That fits very neatly with what we are trying to deliver through our innovation mission.

As we discussed with Michelle Thomson earlier, we are really thoughtful about the local impact of our investments and are really keen to see that local supply chains are used and that there are local employment opportunities and opportunities to link with local colleges and universities in order to improve skills. The scale of the challenge around Grangemouth and the opportunity around Grangemouth speaks to all the bank's missions.

When we engage with businesses and projects, we do so through that lens.

Mark Munro: I will just add to that. When we say, "new businesses," we actually mean existing businesses as well. It is more that they will have new products or service lines that will be suitable for what that next phase looks like. It does not just mean a business that does not exist on paper today; existing businesses in the community and in the local area can be part of that as well. We support that.

Fiona Hyslop: That is critical because place-based also means existing businesses; it is not all about new businesses.

Mark Munro: It is also about being innovative. Businesses might want to change the way that they do something or to evolve one of their products or their service, and the bank has a role in supporting that. When we say, "new businesses," it is more those new products and services that are needed for the future.

Fiona Hyslop: That helps us, because part of what we want to do is say what we think should be in a just transition plan for Grangemouth, and it will not always be about new businesses. That is why I will come back to Derek, if that is okay. [*Interruption.*] I apologise; it was my phone that went off. I was trying to google whether Celtic Renewables is a Scottish company or an Irish company, so it was my fault for causing the interruption. Can you tell me?

Mark Munro: It is a Scottish company.

Fiona Hyslop: Okay. Scottish Enterprise's focus on hydrogen is very welcome. I am very pleased to see that. To what extent are you focusing on trying to help existing businesses that could potentially be in the supply chain for what could happen in hydrogen? We know that, historically, Scottish Enterprise and Scottish Development International have had a focus on inward investment, which is understandable because of the innovation and the investments that have come from inward investment. Is that focus rebalancing so that you can help smaller companies, or maybe existing companies, pivot into potential supply chain development?

Derek Shaw: Yes. It is absolutely both. It is about working with existing companies that are looking at new opportunities, which might be new opportunities in the low-carbon space, opportunities around productivity, or innovation—finding better ways of doing things and using more efficient ways of process innovation and product innovation. That can lead to greater levels of productivity.

It is also about supporting existing companies by looking at new market opportunities and

helping them to pivot into those new market opportunities, where that is right for a business. We have lots of examples, particularly from during Covid, of where we supported companies with new opportunities in pivoting their business models. It is absolutely a combination of working with existing businesses and promoting those new opportunities, as we see them, and the supply chain is absolutely key to that.

One of our greater focuses now is the green energy supply chain or the low-carbon supply chain: we are looking at how the electrification of vehicles, decarbonisation of heat, hydrogen and offshore wind all come together and what the supply chain for that looks like, particularly around high-value manufacturing. It is also about how we can support existing companies—small, medium and large—to capitalise on those opportunities, as well as working with inward investors who are looking to invest in Scotland, sometimes for the first time, though some may already be located here and are looking at expansion plans. It is a combination of both.

10:30

Fiona Hyslop: Moving on to the potential for carbon capture, utilisation and storage, we hope to get an announcement from the budget—who knows? However, the Net Zero, Energy and Transport Committee that I also sit on produced a report expressing cross-party concerns about Acorn being on the reserve list when, clearly, that project going ahead in Grangemouth will unlock so much in this area. What is Scottish Enterprise's specific role currently, and what will it be if we can get that movement and investment for Acorn to go ahead?

Derek Shaw: Currently, our role is to work with partners as part of the Acorn project—Ineos is part of that—and to support those partners in building the best possible business case for capturing the opportunity at Grangemouth. I believe that a United Kingdom Government announcement on phase 2 is imminent, so we might hear about that shortly.

Just now, it is about supporting those partners to build the best possible business case. If we are successful in securing that, it will be about looking at what support Scottish Enterprise, along with partners, could provide to capitalise on that amazing opportunity. It goes back to the point about the supply chain, looking at the assets that are already in Grangemouth and how that connects with other regions in Scotland, so that, ultimately, it is not only Grangemouth that benefits from the opportunity but the wider economy across Scotland and other parts of the region, including the north-east.

Fiona Hyslop: Does the Scottish National Investment Bank have an interest in the Acorn project? Where do you see your position? Is it that, between the private investment from Ineos and others and Scottish Enterprise, you may not need to be in that space?

Mark Munro: We have engaged with partners of Acorn. In short, if it is necessary, the bank's role will be to provide capital to deliver the project once the model is clear for the partners.

Fiona Hyslop: Okay. Can you share with us your understanding of the scale of the impact of the Acorn project, once it is approved? We are hopeful. It is delayed, but it will be welcome if it is announced. What will the impact be not just for Grangemouth but for the rest of Scotland, and will that put Grangemouth in the pilot position for the massive movement into that space, particularly for hydrogen production?

Derek Shaw: I do not have the detail of job numbers that it could lead to, but, clearly, it would be a massive coup for Grangemouth and for Scotland to have that opportunity. Strategically, it would also position Grangemouth really well for the wider piece on just transition. With carbon capture, utilisation and storage, the opportunities around hydrogen and working with Ineos and its declared investment in the blue hydrogen plant, you can see parts of the jigsaw firming up for significant future opportunities. At this stage, I do not have the information at hand, but I can certainly share it after the committee if that would be helpful.

Fiona Hyslop: Yes. Convener, that would be welcome.

My final question is for the Scottish National Investment Bank. Clearly, you have your missions, and you have a responsibility to all of Scotland. We know that Grangemouth is particularly strategically important and will be in the future. How do you balance the spread of investment so that you serve all of Scotland but are strategic about where to invest? Who does that, how do you do that and how do you do it in balance with Scottish Enterprise and other agencies?

Mark Munro: When we see an opportunity, the first lenses that we apply are the mission lenses. We monitor the spread of our portfolio across those missions and across Scotland. As it stands, of the £380 million that we have invested, £193 million has been invested across 13 net zero projects across Scotland; £111 million across seven projects within the place mission; and £74 million in innovation across 10 projects, again across Scotland. Every region of Scotland has received investment from that £380 million. We also monitor our portfolio monthly to see what it would look like if we were to execute on the

pipeline. At the moment, there are 56 live opportunities, with an ask of £750 million of the bank. We are cognisant of how that would shape the portfolio so that we do not end up underserving one mission or one particular area of Scotland.

Fiona Hyslop: The bank's patient capital approach lends itself to technologies that are not there yet but will be needed at some point in the future. When it comes to carbon capture, utilisation and storage, hydrogen and the existing companies in the Grangemouth area that could, as you suggested, provide new products and services, does that provide the potential for your investment to meet all your different missions?

Mark Munro: It is a mission hat trick, which we all look for, across the three.

Fiona Hyslop: Is "mission hat trick" an official Scottish National Investment Bank term?

Mark Munro: No, it is a strapline perhaps. In all seriousness, such investment would come across all our missions.

David Ritchie: I agree with everything that Mark said. We look at the merits of projects on an individual basis, but we also think about the big, strategic opportunities for Scotland. ScotWind is a good example: we are not looking at an individual project; we are looking at the opportunity that ScotWind might bring and we are thinking about the role that the bank can play in that regard.

The same can be said for Grangemouth. Grangemouth delivers significant economic value to Scotland through high-value jobs, lots of expertise, lots of knowledge and lots of technology that can be applicable to the transition. The bank sees itself as playing an important role in that. It is critical that we try to engage with those businesses, identify how the bank's capital can support them to transition or scale or grow, and identify what those business models are. That is pretty important to us.

Jamie Halcro Johnston (Highlands and Islands) (Con): Good morning to the panel. I am sorry that I cannot be there in person to speak to you. It has been very interesting. I will direct my questions to the Scottish National Investment Bank. I will leave it to Mark and David to decide who is best to answer.

We have heard a lot about hydrogen during this inquiry and previously in evidence that we have taken in other areas. I am very keen to learn about where you feel that that sector will play its role. There seems to be a lack of understanding about what that physically means, which sectors hydrogen will play a role in and how it will be delivered and contracted. How does SNIB see

that? How are you supporting the infrastructure side of hydrogen?

Mark Munro: Thank you for the question. Hydrogen has a key role in decarbonising the economy. It is a significant economic opportunity. I think that it is fair to say that we are not convinced that it will be used for heating in houses, although there may be areas on the islands that are more closed loop or some areas of Scotland that are not on the current gas network. Nor will it be used for personal transport, although that does not mean that it will not be used for transport more broadly—it could be applicable to heavy goods vehicles and public transport.

David touched on this: there is a huge opportunity around Scotland and the supply chain, given that hydrogen is a key by-product. To be honest, we are still answering the question ourselves. I think that it can be part of the plan that is being put together. Scotland can provide the supply of hydrogen. We have the skill sets and, as I said, the opportunity that I have just spoken about. We need more clarity around where the demand is for the hydrogen and how we get that hydrogen to where it is needed. Some more work around that is needed.

Jamie Halcro Johnston: That is very helpful, Mark. Thank you for that. Honesty is very welcome. What I am getting from some of the discussion is that, although the idea of using some of the power that we generate to create hydrogen is fantastic, when it comes to practical use, the vision may not be there.

You talked about demand, and identifying where the demand will be. Are you able to say where that work is happening? You say that it needs to happen. Do you know where it is happening, or are you perhaps waiting to step in if you see opportunities to provide support?

Mark Munro: Work is on-going. Bodies such as the Net Zero Technology Centre have done a lot of work in that area and have a view as to where it is appropriate. The creation of things such as ammonia is where the demand is, but it is about applying it from beyond that and having—dare I say it?—the commercial business model that supports the supply that we can create. As I said, one example of who we work with is the Net Zero Technology Centre. Some universities in Scotland are looking into that area as well, and we have had a couple of conversations on that.

David Ritchie: Another area that has emerged recently and that we are quite keen to understand in a bit more detail is hydrogen as a potential substitute for gas-fired power stations. Methane is what is predominantly used in a power station, but greenhouse gas emissions are associated with that, which presents challenges if you are looking

to have a zero carbon generation mix. Most people recognise that there is still a requirement for some form of base load to complement renewable generation and there has been thinking and discussion recently about hydrogen potentially being a feedstock source for those power stations. We have not got into sufficient depth on that yet, but it is an area that we are keen to look at and which could potentially complement hydrogen use, not just as a feedstock for existing industrial capacity and the potential export that that might bring but for domestic use from an electricity generation perspective.

Jamie Halcro Johnston: Thanks for that, David. Is work being done to develop that kind of idea?

David Ritchie: Yes. Some of the early thinking on it has emerged from the Climate Change Committee, which recently released a report that discusses hydrogen as a potential source for electricity generation and helping to manage the base load. We are keen to get into that in a bit more depth. We are speaking to the Climate Change Committee about that and we want to crystallise our own views on it.

Jamie Halcro Johnston: That is very helpful.

This question is not particularly related to the inquiry, but I want to ask it. Obviously, we have Scottish Enterprise in today. How are you engaging on projects with Highlands and Islands Enterprise, which is my local enterprise board? Are there specific areas that you are looking at? That question is for you, David.

David Ritchie: We have very good engagement with Highlands and Islands Enterprise. We speak to it frequently about projects that it is invested in or businesses that it is supporting that might be moving into the sort of scale that the National Investment Bank could then take over. That is related to a few projects, Orbex Forres being a recent one that you might be familiar with. We also made an investment in Highland Coast Hotels, which we spoke about a lot with Highlands and Islands Enterprise. We have frequent interaction and discussion about its pipeline and our pipeline and how we can work in partnership and collaborate.

Jamie Halcro Johnston: That is very helpful. In previous inquiries, we have thought about the move from smaller businesses out of Business Gateway into Highlands and Islands Enterprise not always being so good, so it is encouraging to hear that that is happening.

That is all from me. Thank you very much indeed for your information.

Graham Simpson: I want to ask again about the membership of the Grangemouth future

industry board. I was just looking at its membership on the Scottish Government website. It seems to be entirely from the public sector. This question is for you, Derek, because you are on the board. Is there any private sector membership?

10:45

Derek Shaw: No, not currently. The objective behind the establishment of the Grangemouth future industry board was to ensure that there was a co-ordinated approach across the public sector. What we were finding in advance of GFIB's being set up was that our respective organisations were having numerous conversations and having the same conversations with different partners and stakeholders, but that was not being joined up. To ensure that we were not siloed, the Scottish Government established GFIB as an opportunity to bring public sector partners together. The next stage of GFIB is about how we then ensure that we are joined up with industry and, going forward, with the business base at Grangemouth.

Graham Simpson: Surely the private sector is key to delivering a just transition in the Grangemouth area and, indeed, across Scotland. Surely, if you are going to have as important a board as this is, you would want to have private sector involvement. The just transition plan that you will produce sounds like it is led, in effect, by the Scottish Government. It is, essentially, writing the report for itself. It is not bringing in anyone from outside. In one of our earlier sessions, we heard from the Federation of Small Businesses about its real frustration at not being involved. Why can you not involve the private sector on this board?

Derek Shaw: We would definitely look at that as part of phase 3. We have got to the point now where we have the governance, structures and work streams in place. As I mentioned before, we are engaged, through our respective organisations, with industry and the business base at Grangemouth on a day-to-day basis. Going forward, we would look at the opportunity to potentially bring that together into that collective forum through GFIB.

Graham Simpson: Okay. My final question is about the plan that is being produced. When will it be ready?

Derek Shaw: Kicking off the process, the Scottish Government is, as I said, leading on that just now in the first phase, which is on baselining and the overall vision. That will be in the next couple of months, bringing together that workshop, particularly around the vision, and partners to support that. I am not quite clear on when the final just transition plan will be ready, but I can certainly

take that back and ask Scottish Government officials.

Graham Simpson: Okay. That would be useful.

The Deputy Convener: Perhaps leading on from what Graham Simpson was talking about, we are talking very much about public sector investment into the Grangemouth area. How is that being leveraged to attract in private investment on the back of that or in partnership with it? Mark, are you the best person to respond on that one?

Mark Munro: With regard to the Grangemouth area?

The Deputy Convener: Yes, as an example.

Mark Munro: Sure. I am sorry: I do not have a particular example to use, but, when the bank makes investments, we do seek private sector investment alongside ours. To go back to the numbers, the bank has invested £380 million and has crowded in £650 million from private capital. That is over £1 billion of investment in Scotland. We would apply that model to any investments that we make in support of Grangemouth and the surrounding areas.

The Deputy Convener: You have described that you are already in discussion with a number of companies there. Obviously, we do not know what stage that discussion is at. Presumably, part of it will be to find a way in which to draw additional capital and investment into that area.

Mark Munro: Of course. In the opportunities that we look at, private capital investors would invest alongside the bank.

The Deputy Convener: So that is an active consideration along with what you are doing?

Mark Munro: It is.

The Deputy Convener: Derek, what about you?

Derek Shaw: There are three practical considerations when it comes to leveraging private sector investment into opportunities at Grangemouth. The first is ensuring that we work with companies to develop investable propositions. It comes back to the point that David Ritchie made earlier. We can have fantastic companies, as we do in Scotland, and we can have fantastic technology, which we do, but if we do not have investable propositions that investors are keen to invest in, it will be difficult to leverage private sector investment. Working with companies on the funding that they need and developing an investable proposition is the first thing.

Secondly, we know that some of the technologies are a long-term play: it could be five,

10 or 15 years before they are commercially viable and that is not attractive to a lot of investors who are looking for short to medium-term return. The public sector needs to continue to de-risk propositions at the early stage so that, further down the line, they are at a point where private sector investors are interested in investing.

The third thing is engagement with investors: identifying and working with UK and international investors who operate in the space. Increasingly, as you would expect, more investors are interested in low-carbon technologies. It is about linking those investors, through engagement in the relationships that we have with them, with the company base that we are supporting to develop investable propositions so that we maximise the opportunity to get investment into companies.

If we continue to develop those three areas, we stand a good chance of optimising private sector investment in some of the new technologies.

The Deputy Convener: I am not sure that I like the term “de-risk”. It makes it sound as though a proposition carries no risk, whereas, in effect, we are transferring a degree of the risk to the public sector. Perhaps we should find another term.

If members have no more questions for the panel, that brings us to the end of the evidence session. I thank the panel members for attending and for giving their time.

10:52

Meeting continued in private until 11:05.

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