OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 10 May 2023

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

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ECONOMY AND FAIR WORK COMMITTEE
14th 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:

Colin Cook (Scottish Government)
Gary Gillespie (Scottish Government)
Neil Gray (Cabinet Secretary for Wellbeing Economy, Fair Work and Energy)
Jonathan Hoare (United Kingdom Government)
Graham Stuart (United Kingdom Government Minister for Energy Security and Net Zero)
Nick Young (Scottish Government)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 10 May 2023

[The Convener opened the meeting at 09:02]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning, and welcome to the 14th meeting in 2023 of the Economy and Fair Work Committee. Agenda item 1 is a decision on taking business in private. Do members agree to take in private at this week's meeting the evidence that we will receive this morning and our approach to the paper on the Bankruptcy and Diligence etc (Scotland) Bill and, at next week's meeting, our draft annual report?

Members *indicated agreement.*

Scottish Government Policy Priorities (Wellbeing Economy, Fair Work and Energy)

09:02

The Convener: Agenda item 2 is an evidence-taking session on the Scottish Government's policy priorities, with the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy. I welcome to the meeting the cabinet secretary, Neil Gray, who is joined by Colin Cook, director of economic development; Gary Gillespie, chief economist; and Nick Young, head of carbon capture, utilisation and storage and industrial decarbonisation, all at the Scottish Government.

As always, if members and witnesses can keep their questions and answers as concise as possible, that will be helpful. I invite the cabinet secretary to make an opening statement.

The Cabinet Secretary for Wellbeing Economy, Fair Work and Energy (Neil Gray): Thank you very much indeed, convener. I also thank the committee for giving me the opportunity to be here today to share the Government's priorities in my portfolio area.

The impacts of the cost crisis, the pandemic, Brexit and fiscal instability resulting from United Kingdom Government decisions have brought untold damage to our economy, with persistent high inflation and unprecedented drops in living standards. Coupled with the climate and nature emergency, these crises have exposed fundamental weaknesses in the current economic system, and that backdrop underlines the need to transform our economy into one that is resilient and which prioritises wellbeing—an economy that serves people, not the other way round.

As we transition to a wellbeing economy, we will embed equality, inclusion and human rights in everything that we do. I am committed to the First Minister's three interlinked missions of growing a fairer and greener economy, seizing the opportunities of net zero and creating better communities.

At the heart of a wellbeing economy will be economic growth for a purpose—that is, to drive improved living standards, promote wellbeing, reduce poverty and deliver sustainable high-quality public services—through harnessing and combining the economic power and opportunity of Scotland's rich renewable energy resources.

The skills and talents of our people and businesses will be critical to achieving that. We will work closely with the private sector and the public sector, locally, nationally and UK-wide, and we will engage directly with communities and partners in the third sector.

Working with my Cabinet colleagues, we will deliver our national strategy for economic transformation, with a sharp focus on policies and actions that have the greatest potential to grow and change Scotland's economy, expand the tax base to fund excellent public services and make people's lives better. That will require a new approach to the Government's relationship with business, so at the First Minister's request, I will engage widely with business leaders to develop and agree with the private sector a new deal for how we will work with business to deliver a growing economy that increases wellbeing.

In the First Minister's prospectus, I have laid out my priorities for what I want to deliver over the next three years, and you will no doubt want to hold me to account on them. Those priorities include: more people being in work; more people earning at least the real living wage and a narrowing of the gender pay gap; more business creation and more businesses growing to scale; increased investment in productive assets; internationally competitive clusters of excellence, including in green technologies, health and life sciences, digital and advanced manufacturing; greater regional and local economic empowerment, including through our programme of community wealth building; more growth in exports; and more high-quality inward investment.

A just transition for our energy sector is, arguably, the biggest opportunity that we have. We have a huge opportunity to establish Scotland as an exporter of green hydrogen to Europe, and analysis shows that, overall, the number of low-carbon jobs in energy production could rise to 77,000 by 2050. The potential can be seen in the ScotWind offshore leasing round, which has already delivered more than £750 million in revenues and will bring billions of pounds of investment into the Scottish supply chain and the wider economy. Indeed, the recent announcement that the Japanese company Sumitomo Electric Industries will be coming to Scotland to build a cable manufacturing plant demonstrates the strength of investors' confidence in our net zero economy vision.

I look forward to discussing some of those points with the committee in greater detail, and I appreciate the opportunity that you have given me to set out my stall.

The Convener: Thank you very much, cabinet secretary. You have covered a wide range of issues; the committee, too, will be covering a broad range of issues, and we look forward to establishing a constructive relationship with you as we consider our inquiries and future work programmes.

Perhaps I can open with a question about the change of emphasis in your job title, in which the reference to "economy" has been changed to "wellbeing economy". Now that it is just over a year since the publication of the 10-year economic strategy, is there any intention to look again at it—at the priority areas and the five programmes of action? What will reflect the change of emphasis in the economy role?

Neil Gray: Wellbeing economy elements already run through NSET. Indeed, we have built in a wellbeing economy metric that allows us to continually monitor our progress in the areas that we want to chart, including our sustainability, our child poverty targets and ensuring that we are narrowing the gender pay gap and that more people are going into employment.

The job title has been changed to refocus things and ensure that prominence is given to wellbeing elements. The First Minister has also set me the very clear task of resetting the relationship with business and ensuring that that relationship is strong and that business continues to perform well so that we can deliver the wellbeing elements of what we want to achieve in Government.

There will be no change to NSET. We will be sharpening our focus as a result of the policy prospectus, which covers the areas that I have set out and which come directly from the national strategy, but we are also committed to delivering the priorities in the strategy.

The Convener: With regard to the introduction of a wellbeing economy, there has been some criticism that the issue has been oversimplified or that it has been a matter of ambition over delivery, given the tensions between, for example, our international trade policies and our co-operative policies. One example that has been highlighted is the deposit return scheme and how it has tried to balance various interests. It is fine to declare that we have a wellbeing economy, but how do we deal with the tensions that arise from it? How does the Government plan or intend to get to the nub of that?

Neil Gray: NSET is the guiding light—it has the metrics and measures to ensure that we are tracking our progress. I do not think that there are tensions. There are areas where we need to ensure that we are delivering well for people and for our planet; the deposit return scheme is one example of that. However, the DRS is also an economic opportunity because, if we can get recycling rates right, that will show that there is a clear business opportunity for dealing with commodities that come through the waste market.

Major opportunities are coming forward. The wellbeing economy elements ensure that we are focused on delivering for people; we are not focused just on the traditional gross domestic product growth elements. Growth is important for the purpose of ensuring that we are delivering better lives for people across Scotland.

The Convener: When Kate Forbes published the strategy just over a year ago, the focus was on entrepreneurship and encouraging growth in the economy. Is that still the focus?

Neil Gray: Yes. That work is on-going. You can see the work that has been done with the tech scalers network. Currently, we are analysing Ana Stewart and Mark Logan's report on women entrepreneurs. We are looking at what more we can do to make Scotland an entrepreneurial hub.

The Convener: When the former Deputy First Minister spoke to the committee on the topic, he said that the first annual progress report covering NSET would be published in 2022. Has that been published yet? If not, is there a timescale for doing that?

Neil Gray: I will bring in Gary Gillespie.

Gary Gillespie (Scottish Government): The report has not been published yet. I think that it is due towards the end of May.

The Convener: That would give the committee an opportunity to scrutinise it then come back to the issues.

Ms Hyslop, do you have a supplementary question on the opening statement?

Fiona Hyslop (Linlithgow) (SNP): I want to ask about two issues, one of which is to do with your opening remarks, minister. In which areas is the Scottish economy vulnerable, and what measures are you taking to support it?

Neil Gray: Clear damage has been done to Scotland's economy by decisions that have been taken that were outwith our control. Brexit has had a major impact on Scotland's economy—its impact has been greater than that of the Covid pandemic. The UK Government's mini budget, which was delivered by Kwasi Kwarteng and Liz Truss, has also had a devastating impact.

The key risks to Scotland's economy come from areas that are outwith our control. We are doing what we can to mitigate those by providing increased business support and by looking at where we can maximise growth and job opportunities—for example, through the entrepreneurial tech scalers network that I mentioned.

Fiona Hyslop: You also mentioned in your opening remarks the importance of building a resilient economy. You may be familiar with the committee's report "Scotland's Supply Chain". We need to build a resilient supply chain not only so that it can withstand risks but so that we address issues such as embodied carbon, carbon miles, smart procurement and advanced manufacturing. We also need to create domestic supply chains that are shorter, greener and more resilient. Is that something that you will look at? If so, will you draw on the committee's report when you do so?

Neil Gray: Yes, absolutely. Ms Hyslop and I spoke about some of that yesterday. We discussed the need to ensure that we have a strong domestic supply chain to feed our offshore wind opportunities. We will continue to do what we can to make sure that that is brought forward.

I will bring in the chief economist to supplement that and give more detail.

Gary Gillespie: The supply chain element started during Covid. We were looking at how we could boost local supply, given the supply chain issues that resulted from Covid, which also brought particular health issues.

We are, I think, seeing our economy resetting. The point about resilience does not apply just to Scotland and the UK. Businesses are looking for shorter supply lines and are trying to take out carbon elements and make supply chains more secure, so that they are not impacted by external events in other countries. That is continuing in Scotland.

The best example is probably to do with the ScotWind programme in which, along with offshore licences, there is a commitment to build the supply chain. That is what we need to do. However, we need to do that not just in that sector. Since exit from the European Union, there has been a reorientation of trade, with fewer imports and more local supply coming to the fore, because it is more difficult to trade—both inwards and outwards.

Rebalancing is happening in the economy, which is both a challenge and an opportunity. Businesses in Scotland have a chance to embed the opportunity to supply much more locally and in a much more sustainable fashion.

Fiona Hyslop: We are interested in knowing what you are doing to help to support that shorter supply chain, not just in Scotland but in the wider economy.

09:15

Neil Gray: I will respond to Ms Hyslop's previous question about the risks to Scotland's economy. I should have mentioned that Scotland's economy is performing resiliently considering the difficulties that we have faced following Brexit, Covid and the UK mini budget. Economic growth here currently outstrips that of the rest of the UK; last year we had much stronger economic growth than the rest of the UK had. We will continue to do what we can to support our economy through the difficult challenges that businesses and the third and private sectors are facing.

Graham Simpson (Central Scotland) (Con): You have a massive brief that covers an awful lot, so I will focus on something that the Auditor General for Scotland said in his report on Scottish Government investment in private companies. He made some tough comments, and said of the Government's involvement in Burntisland Fabrications Ltd, Ferguson Marine Engineering Ltd, Glasgow Prestwick Airport Ltd and the Lochaber smelter that

“Financial support for these four companies has not delivered expected outcomes and is unlikely to achieve value for money.”

I will ask you about Prestwick first, then about Ferguson Marine. Of Prestwick, the Auditor General said that it was bought

“by the Scottish Government in November 2013 and has had loan support of £43.4 million up to 31 March 2022.”

When the Auditor General wrote that report, the loan support was valued at £11.6 million. Do you know what the value is now?

Neil Gray: I will bring in Colin Cook at this point. I do not know the current value off the top of my head.

Graham Simpson: Perhaps Mr Cook knows.

Colin Cook (Scottish Government): No. I am afraid that I would have to come back to the committee with a precise valuation. It is worth saying that we work continuously with the board of Glasgow Prestwick Airport and we receive offers to purchase the asset; it is recognised as a strong asset nationally and, in particular, for Ayrshire's economy. The matter is kept under review. I will come back to the committee if we have an updated valuation.

Graham Simpson: Is there any current interest in buying the airport?

Neil Gray: I have not had any interest signalled to me, but we continue to discuss such opportunities with the management of Glasgow Prestwick Airport. As Mr Cook suggested, the business is profitable. The most recent information that we have is that the operating profit was £1.9 million and the profit before tax was £1.2 million. It is a good-going concern, so I expect that commercial interest will be forthcoming. When interest arrives with the Government, we would of course look to support Prestwick returning to the private sector as soon as is practicable.

Graham Simpson: Is it still your intention to sell the airport?

Neil Gray: Yes.

Graham Simpson: You said that you are not aware of any interest in buying the airport.

Neil Gray: Nothing has come to me.

Graham Simpson: What about your officials?

Colin Cook: There have been, and there are, regular approaches of various quality and standards about Prestwick. There is nothing on the table at the moment that we would regard as a going offer, let us say.

Graham Simpson: I see. That is interesting, because I am aware that an expression of interest in buying the airport has been put to the board. I am therefore concerned that you, cabinet secretary, are not aware of that. It seems to me that you should be aware of it. I am not blaming you for not being aware of it, but there seems to be a problem in that you have not been given that information.

Colin Cook: The process that is followed is that if we receive an offer, the board of Glasgow Prestwick Airport considers that offer. If it believes that there is something in that offer or that it is in the right ballpark and we should be interested, the board talks to us then we move forward and involve the cabinet secretary at that point. At the moment, there is no offer on the table that the board considers to be realistic and sustainable. That might well change because, as I said, people are constantly interested in what is a fantastic asset for Ayrshire and Scotland.

Graham Simpson: It is a fantastic asset.

It seems to me that what you are describing is that, if the board of the airport decides that an offer or expression of interest is not worth telling the Government about, that is where it ends.

Colin Cook: No. The board would always talk to us about any offer that was received. We would receive the offer and consider it and we would take the views of the board as the starting point of our analysis. If there is something in an offer and we think that it is worth pursuing, we would do what we always do in such situations, which is draw in external specialist advice and make sure that we get a good deal for the Scottish taxpayer.

As I said, that process is not being carried out on any particular offer at the moment. However, if we get an offer that on the face of it looks worth while, we would do that.

Graham Simpson: Okay. I have informed you that I am aware of an expression of interest, so I expect you to have a look at that.

I will ask about the loan. It was a big loan. Will the Government ask for that money back, at any point?

Neil Gray: Obviously, we keep the situation under constant review and we will seek to recoup the money that has been invested in Prestwick as best we can, to ensure good value for the public purse. I am sure that Graham Simpson would expect that.

Graham Simpson: I will move on to Ferguson Marine, if that is okay.

The Convener: Mr Simpson, I am prepared to allow time for that questioning, but I hope that you do not intend to go into BiFab after Ferguson Marine. I do not have enough time to cover all areas in which you might be interested.

Graham Simpson: No—I said I would ask about Prestwick and Ferguson Marine.

The Convener: That is fine.

Graham Simpson: I will be quick.

The Convener: That is no problem. Go ahead.

Graham Simpson: We know the issues around Ferguson Marine. We do not need to rehearse them. I refer to the questions that the Auditor General raised in his recent report. He does not know what the future holds. What do you think the future holds for Ferguson Marine? What are the prospects for that yard, in your view?

Neil Gray: I hope that Ferguson Marine can continue to make progress towards being a commercially successful yard. The intention behind saving the last commercial yard on the Clyde was that we would ensure that we protect the jobs, the manufacturing base and the traditions of Scottish manufacturing.

Clearly there have been challenges at Ferguson; they are well documented. However, we continue to work with the management and the workforce to ensure that the two vessels will be delivered as quickly as possible and that Ferguson then has the opportunity to bid for more work and make itself commercially successful.

Graham Simpson: This is the same question that I asked about Prestwick, really. Is it your intention to return Ferguson Marine to the private sector at some point?

Neil Gray: Yes.

Graham Simpson: How will you get to that point?

Neil Gray: The better Ferguson performs, the more likely it is to return to private ownership. If interested parties come forward to talk to the Government or our agencies, we will take that interest seriously and do what we can to ensure that the yard is returned to private ownership as quickly as possible, as a commercial going concern.

Graham Simpson: I will leave it there.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Cabinet secretary, I want to explore a couple of areas. First, will you update us on the review of the skills landscape that is being led by James Withers, and on the plans to refresh the climate emergency skills action plan? On the back of that, can you tell us how the two reviews will be joined up?

Neil Gray: We expect Mr Withers's report very soon. When it arrives, I and colleagues across Government—after all, the issue touches not just on my areas of responsibility but on those of Jenny Gilruth, Graeme Dey and others across Government—will ensure that we respond timeously and that we take seriously what he says.

As for the climate report, I turn to Gary Gillespie to fill in the detail.

Gary Gillespie: It might be better if we were to follow that question up in writing. The climate emergency skills action plan, which is central to what we are doing in that space, is currently being updated. It will also link to the report that we are expecting, so both interlinked aspects will come together.

Neil Gray: We will ensure that we follow that up with the committee in writing as and when Mr Withers's report comes back. To give Mr Beattie confidence, I can confirm in answer to his question that the two elements will be joined.

Colin Beattie: I would like to explore one other area, which is money. None of what we have discussed will happen unless sufficient investment is available. Government investment will probably be somewhat limited in comparison with the sum that will be needed if we are to succeed with the just transition, which has been described as "eye watering".

We have also been assured that plenty of private capital is available. However, the calculation was done not just for the UK but on a global basis. How do we know that sufficient capital will be available for Scotland to cover those specific costs?

Neil Gray: That is work in progress. Part of the area that we touched on in an exchange with Ms Hyslop at yesterday's meeting of the Net Zero, Energy and Transport Committee was how we ensure that we have both a successful supply chain and a successful infrastructure to enable us to deliver on our net zero ambitions.

Mr Beattie is right to say that public finance is finite. We have already touched on the current challenges in the sector, because of the areas that have been impacted in recent years thanks to decisions outwith our control. However, we continue to work with the likes of the Scottish National Investment Bank and our investor panel on where we can leverage private capital to ensure that we are able to meet such demands both on investments, in the form of private capital coming into the supply chain, and on the required infrastructure.

The scale of that will be challenging. National Grid Electricity System Operator Limited estimates that the grid infrastructure alone will require investment of £7 billion; in any case, a substantial amount of capital will be required. We will do what we can both on our investment priorities, to deliver as much as we can within that envelope, and on working with private capital to ensure that we can meet those demands.

Colin Beattie: People with private capital will only come in if there is reasonably managed risk and they get a return on their money. Given the highly speculative nature of some of the initiatives that are under way—we are still dealing with emerging technology, for example—how will we derisk things? Moreover, derisking means not that the risk is eliminated but that it moves somewhere else. Would that entail the Scottish Government taking on additional contingent liabilities?

Neil Gray: Mr Beattie is right in his assessment of where private capital will arrive. As I have said, we are working with the likes of the Scottish National Investment Bank on ways of making Scotland as attractive as possible for inward investment. It is already punching above its weight on such investment when compared with the rest of the UK, so we are already giving the market some confidence that we are a good place to invest in. I have just returned from Japan, where a significant decision has been taken by Sumitomo Electric Industries on inward investment to support the supply chain for our offshore wind opportunity. It is looking to build a substantial factory here in Scotland to produce the cable that will be required for the offshore wind industry.

Mr Beattie is right that we cannot be complacent, but we can already see the market having confidence in Scotland as a good place in which to make investment decisions.

09:30

Colin Beattie: The assessment has already been made that adequate private capital is available globally, which to me seems a bit odd. Given that private capital is much in demand to finance our existing industries, it seems strange that there would be a massive surplus of capital waiting to come in. However, I realise that that was a global calculation. What is the calculation of the availability of capital in the Scottish and UK markets, for which we do not have to compete with other countries?

Neil Gray: The honest answer is that we are competing—we are competing on an international scale. That is why our international network and the work being done by the likes of Scottish Development International and by our office network internationally are so important. They build the relationships, such as the one that we have with Sumitomo Electric, to provide confidence and they outline the opportunities that investing in Scotland gives. We will continue to work with Scottish Development International and our international network to ensure that our investment priorities—which, as we have already outlined, are around our net zero commitments and the supply chain—are communicated to potential investors globally.

If you look at investments that have been made both in the United States and in Europe through the green deal, you can see that we are competing in a highly competitive international market. We cannot afford to allow ourselves to be left behind at a time when our net zero ambitions are very challenging, and when the decisions that are taken over the next couple of years on areas such as offshore wind and hydrogen will be crucial in determining whether we continue to be a world leader in offshore wind and whether we will still have the opportunity to be first to market with green hydrogen. I therefore encourage the UK Government to look at matching some of the investment incentives that have been made by the European Union and the United States, to ensure that we are not left behind on a competitive front with regard to those nations and regions.

Colin Beattie: Thank you, cabinet secretary.

The Convener: Cabinet secretary, we will be taking evidence from Graham Stuart, the UK Government's Minister of State for Energy Security and Net Zero, after this session, and I am sure that some of these issues will come up again.

Neil Gray: I look forward to listening to that.

Michelle Thomson (Falkirk East) (SNP): Good morning, cabinet secretary and officials. I have a slight feeling of "plus ça change ... " as I address four men on my favourite theme of how we alleviate some of the issues around women's representation in the economy. I am sure that none of you will be surprised by that.

With regard to narrowing the gender pay gap, which you mentioned earlier, I have seen that being promoted, but there is so much—I repeat, so much—more that we have to do to address the systemic issues in our economy. In a chamber debate last week, I remarked that wellbeing in particular must be seen through a gendered lens; indeed, that is utterly fundamental. If I am being completely honest, I have to say that I feel as though we are, if anything, moving backwards instead of forwards. I say that, bearing in mind the fact that my colleague Ms Hyslop made sure that a women's business centre was inserted into the Government's priorities with a spend of around, as I recall, £50 million; that was incorporated into what we looked at in relation to the Ana Stewart review.

My first question is this: can you give me more of a flavour of what specifically you are looking at in the Ana Stewart review? When will you be able to come back with recommendations that you are able to support?

Neil Gray: First, I accept the charge of a "manel" being before the member. I was cognisant of that before we came to the meeting and I made that very reference to colleagues. I should say that yesterday, when I went before the Net Zero, Energy and Transport Committee, I was flanked by two incredibly able women. We have incredibly strong women across the Scottish civil service, as well as very able men, such as the ones who are before you now.

Ms Thomson is absolutely right to focus on the opportunities that will arise from our narrowing not just the gender pay gap but the gender employment gap and from ensuring that women are able to get on in enterprise. It will be a massive economic opportunity as well as the right thing to do. If we are to succeed in our aims for economic growth opportunities, having women get on in enterprise will be incredibly important.

I happen to be meeting Ana Stewart later today, and I look forward to discussing her report and how we might be able to implement it. I am committed to ensuring that we honour its findings as best we can in the timescale that is allowed by our resources. That is absolutely central to the opportunity that we have to transform our economy into one that is not only innovative and agile but one which ensures that women are able to continue to perform well within it. After all, that will drive the economic growth that we want.

Michelle Thomson: One area of Ana Stewart's report that I want to emphasise is encapsulated in recommendation 30, on the collection of data. At the moment, we do not have the data sets that would enable us to gather the data that we need, to measure it and to use it to effect change. Moreover, we do not apply any conditionality to public sector funding, whether it relates to women's representation or equalities matters in general—which I accept is a wide area. Will you give an indication of how open minded you are to at least taking—and I must emphasise this—the first step? We cannot measure and improve our data if we do not even collect it. That is why, in my opinion, we are at a pretty low marker. Are you willing to commit today to considering that as a minimum?

Incidentally, I had an undertaking on that from the former Deputy First Minister. That did not come to pass either, so I really have to push you on this.

Neil Gray: Ms Thomson absolutely gets to the nub of the issue: we need to understand the landscape within which we operate if we are to have informed policy decisions aimed at improving the situation.

To answer her question directly, I have to say that I am more than open minded. The first step would be to ensure that we are working on that initial recommendation. I cannot give a full commitment until I have met Ms Stewart and we have published our response in detail, but I can say that Ms Stewart will certainly have a sympathetic ear from me in that regard.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Good morning, cabinet secretary. I want to ask you about Scotland's export performance. The target for growing exports from 20 to 25 per cent of GDP, as set out in the strategy published in "A Trading Nation", was quite ambitious. We are now in year 4 of that strategy, and we have had to face being taken out of the EU against our wishes as well as a global pandemic. Will you update the committee on where we are in growing our export market?

Neil Gray: My colleagues will correct me if I am wrong, but I think that we are currently sitting at 21 per cent, despite the challenges that, as Mr MacDonald has mentioned, we have faced with Brexit and the global pandemic. Decisions of the UK Government, which are outwith our control, have clearly hampered our performance.

As I have already outlined, our international network does an incredible job of supporting not only inward investment into Scotland but our exports. I have seen that in the international engagements that we have carried out, as indeed one of my predecessors, Ms Hyslop, was able to do. In particular, the SDI network does an incredible job of embedding itself in target markets, understanding those areas, building strong relationships with business and also understanding domestic business needs for exporting. We continue to support the 1,200 target businesses in Scotland that have the greatest propensity for export in that important area.

Gordon MacDonald: You mentioned having strong relationships with countries where we are aiming to grow our exports. How important is the GlobalScot network to that process?

Neil Gray: It is very important. We have more than 1,000 GlobalScot members. Earlier this year, Mr Robertson outlined the importance of the GlobalScot network in meeting business, academic and other needs. When I was in Japan, I was able to meet one of our newest recruits to the network, operating across Japan, America and Europe. They give us incredibly strong contacts and advocate for Scotland, so we should utilise them more, not less.

Gordon MacDonald: Going back to the situation with the EU, I note that nine of the top 15 markets identified in the strategy are in it. We have been taken out of the EU against our will, given that 62 per cent of our population voted to remain in it. What impact has that had on Scotland's exports? Do we need to refocus our attention on the other countries listed in the strategy? In that respect, I am thinking about America, Canada, Switzerland, Norway and China.

Neil Gray: Being out of the EU has undoubtedly had an impact on our political and trading relationships. In recent years, we have seen incredible uncertainty and difficulties in trade. I welcome the progress that has finally been made on trade with the Windsor framework, but it follows a number of years of incredible difficulty for our exporters into Europe.

On a political level, we are trying to ensure strong working relationships with our friends in Europe and will continue to do so, because it is an incredibly important market for us, as Mr MacDonald has outlined. The other countries that he mentions are also important, which is why our SDI network does such an important job. The network ensures that we deliver on our ambitions in areas where we have particularly strong trade with certain countries, or where there are strong sales of certain products.

Mr Cook or Mr Gillespie might want to say more.

Colin Cook: I would point to the alignment between the domestic economic agenda and our international ambitions. We see the same priorities in the work on developing Scotland's innovation strategy in life sciences and technology and within SDI, where Government gives support for exports.

You are absolutely right, Mr MacDonald—we are studying markets such as the USA and Canada to find opportunities. We are not looking either at Europe or at elsewhere; we are looking at both, and we are trying to support Scottish industry in those new markets.

Gordon MacDonald: What is the role of the trade board in supporting Scottish industry to find new markets or to innovate? I know that the membership of that board was updated in June 2022. Why did that happen, and does the board have a new focus?

Neil Gray: We will get back to Mr MacDonald in writing on that question, as it is about something that predates my involvement in trade.

Gordon MacDonald: I believe that there has been a delay in publishing the most recent export statistics. Can you give us some background on that?

Gary Gillespie: Our main publication is "Export statistics Scotland", which gives figures for exports from Scotland to the rest of the UK and to the rest of the world, broken down by market. We paused the survey during the Covid pandemic in 2020, because we felt, for a number of reasons, that it was not appropriate to put the information out at that time. We have collected the data for 2020 and 2021, which is now being processed and which we will probably publish towards the end of this summer.

Because that delay has given us more time, we have also reviewed the methodology to see whether we can improve the data. We will publish the updated statistics later this year and will soon survey the 2022 data. That data is really important, because it gives us a breakdown. We will update that and any changes in methodology will be taken back through the series of publications to give consistency. There has been a delay, which was partly Covid-induced, but as I have said, it has given us the opportunity to have a better survey.

09:45

The Convener: Before I bring in the next questioner, can I just check that the target that Government is working towards is still that of increasing exports to 25 per cent of GDP by 2032?

Neil Gray: Yes. We are currently sitting at around 21 per cent of GDP.

The Convener: My first question was about tensions in relation to the wellbeing economy. There is often a focus on how trade policy marries up with the idea of a wellbeing economy. Gary Gillespie talked about a move towards more local supply, and Fiona Hyslop mentioned our supply chain inquiry, which pointed towards such issues—in particular, to concerns about climate change and emissions from transportation. Have the wellbeing economy and climate change pressures led to any reflections on whether our trade policy target is still relevant to the shaping of the economy?

Neil Gray: We continue to reflect on that, to ensure that our work as a trading nation is ethical and sustainable. We continue to take the areas that you have suggested into regard, to ensure that, where possible, we do our work in a sustainable way that ensures economic performance that is not too much to the detriment of our net zero ambitions.

The Convener: You say that you take it into regard. Colin Cook mentioned that there were reports on our export figures. Has the way in which we view those exports, or where we look for growth sectors in exports, been changed in any way to take into consideration a wellbeing economy approach?

Colin Cook: [*Interruption*.] I am sorry, convener; I am struggling with my voice here.

I was referring to studies that are being carried out specifically into markets in the USA and Canada. Those are in-depth studies about export potential, not about the way in which figures are reported.

The Convener: Has that research been carried out by the Scottish Government, or is it independent? Does it take into account the Government's approach to a wellbeing economy and the areas that we want to expand for exports or imports?

Colin Cook: I would have to come back to the committee on the organisations that are carrying out the research on our behalf. The ambitions of the wellbeing economy are clearly articulated in NSET. That remains our extant strategy. Everything that we do is linked to the achievement of NSET, so there will be a flow-through.

The Convener: I have one final question before I bring in Colin Smyth. Will the annual report on NSET, which we now expect in May, focus on an evaluation of what the wellbeing economy is and whether we are delivering on it?

Neil Gray: Yes, is the short answer. A wellbeing economy metric flows through NSET and the pillars that form it, so there is a wellbeing economy lens on the performance and delivery of NSET.

Gary Gillespie: Obviously, the strategy was published in March last year, and this is the first annual report, which will chart the progress over the year of the actions that have been taken forward under NSET.

Colin Smyth (South Scotland) (Lab): Good morning to the panel. One of NSET's priorities is to capitalise on the opportunities of the transition to net zero. Would it be a fair assessment to say that, although the growth of renewables has significantly reduced carbon emissions, it has not delivered for Scotland the economic benefits that it might have delivered? We were promised 130,000 green jobs by 2020. The Fraser of Allander Institute put the actual figure at 27,000. Recently, the trade unions highlighted the fact that only around 3,100 jobs have been created in offshore wind. Why have we failed to deliver the real potential in jobs from the growth in renewables?

Neil Gray: We have created a new offshore wind directorate to ensure that we learn from the process that was under way with onshore wind and the supply chain that feeds it. You will see the early stages of that coming to fruition in some of the potential investment decisions that are coming through, which will ensure a strong domestic supply chain here in Scotland—for example, you can see that in the Sumitomo announcement, but also in the potential investments in the likes of Ardersier, Kishorn and other ports, where, I hope, we will be able to realise the economic and jobs benefits that the renewables revolution has the potential to produce.

Colin Smyth: You talk about learning the lessons from onshore wind, but the trade unions recently highlighted analysis that showed that we are also failing to deliver when it comes to offshore wind. Their analysis highlighted that the latest Office for National Statistics low carbon and renewable energy estimates showed that

"In 2014, every £1 million in income made by offshore wind companies translated to 7 jobs for workers in Scotland"

and that

"this plummeted to 1 job per £1 million"

of turnover for offshore wind farm companies in 2021. Therefore, the big wind farm companies seem to be doing rather well out of it, but why is that not translating into jobs? Why do we appear to be going backwards?

Neil Gray: That is exactly what we are looking to address in the work that we and our international network are doing to attract investment into Scotland and procure a domestic supply chain that feeds not just our growth that is still to come in onshore wind but the massive growth that is still to come in offshore. Mr Smyth's points are well made. We continue to reflect on them and provide as much support as possible to ensure that we have a strong domestic supply chain.

I made that point to the Net Zero, Energy and Transport Committee yesterday in response to the strong but fair challenge from Ms Hyslop. It is important that communities that neighbour onshore or offshore projects are able to see discernible benefit. That comes not just through community benefit but through the economic performance that is derived from having a strong Scottish supply chain and domestic jobs that feed it. We are absolutely committed to that and will continue to do the work to ensure that we honour that.

Gary Gillespie: With regard to the figures that Mr Smyth quoted, those sectors, including onshore wind, are highly capital intensive so, once they are set up, the actual multipliers in local benefit are much reduced. However, the capacity that is required to bring on renewables provides opportunities through the wider economy, and that is about energy resilience and economic resilience. In capital intensive industries, a lot of the benefit comes in the early investment stage and, thereafter, it is about maintenance. However, we are now seeing the benefit of having that energy through the investments that have come to Scotland to develop it into other forms of energy, whether that is hydrogen or other sources. It is a two-way thing.

Colin Smyth: The figures that I quoted from the trade unions showed that, in the seven years to 2021, turnover for those companies has gone from £95 million to £2.594 billion, and 3,100 jobs have been created in Scotland. That is a lot of money for the wind farm companies and not a lot of jobs. What will we do differently in Scotland to make sure that we actually get those jobs? Will the Government have a target? Of course, ScotWind will create jobs, but will it create the potential that we believe that it can and should? Will we have a very clear target for the number of renewables jobs that will come from ScotWind?

Neil Gray: I have already outlined the potential for green jobs that comes from having a good just transition, and we will continue to work with the supply chain development programme to ensure that we maximise those opportunities for a strong domestic supply chain that feeds a growing and incredibly strong potential for our renewables programme. We are world leading in that regard.

To refer again to my engagements in Japan, the Japanese and others around the world are looking to what Scotland is doing as the first to market in developing offshore wind—particularly floating offshore wind—into green hydrogen, but we cannot be complacent about the fact that we are world leading. We need to keep pedalling fast to ensure that the investment opportunities are there and that there is discernible domestic economic benefit, which includes ensuring a strong domestic supply chain and strong jobs performance. That is the way that we ensure a just transition.

We have made a number of investments through the just transition fund, including in the skills passport, to ensure the transfer of jobs from the traditional oil and gas sector into the renewable sector. We will continue to make those investments to ensure that communities are not left behind in the way that they were in the deindustrialisation under Thatcher in the 1980s and early 1990s.

Colin Smyth: Do you have a target for the proportion from Scotland of those supply chain jobs?

Neil Gray: The chief economist has already said that it would be difficult to make a specific target because the development of the projects is capital intensive. Depending on the project that we are talking about, we can sometimes see clear and discernible benefits with regard to jobs. The establishment of the new directorate in the Government gives credence to the fact that we are determined to ensure that we have a strong domestic supply chain that delivers good jobs from the renewables revolution.

Colin Cook: The cabinet secretary has spoken about the creation of ScotWind, which is a really important marker of our ambition. It is worth pointing out, too, that the enterprise agencies in Scotland—particularly Scottish Enterprise—are refocusing all their actions and prioritising renewables as the markets of the future. That is really significant, because it shows that the whole of the economic development infrastructure of the Scottish public sector is focusing on the same target. You can have some comfort and assurance that we are focusing on that point strongly throughout that network.

Colin Smyth: You should do that, because it is an opportunity for growth. However, there is deep concern that we will not meet the potential, particularly if we do not even know what proportion of the supply chain jobs will actually come to Scotland, and that we will make the same mistakes that we have made in the past—for example, none of the wind turbines that pepper the landscape in my region were built in Scotland. We need to ensure that we do not make the same mistake with ScotWind. It is slightly concerning that we are not able to set a target to measure the proportion of supply chain jobs that will come to Scottish companies.

Do I have time to pivot to a completely different subject, convener?

The Convener: Yes.

Colin Smyth: This is a whole new subject, which means that you will need to completely change your papers, minister. The committee is keen to hear from the Government on the role of co-operatives in the wellbeing economy. What do you see as the role of co-operatives and how will the Government support their growth as a model?

Neil Gray: I should declare an interest as a member of a co-operative and highlight that I am incredibly supportive of the work that they do. They are the embodiment of what a wellbeing economy is all about—good, strong and ethical business practice that sees clear discernible benefits to local communities—so we will continue to do what we can to support the co-operative movement and ensure that it continues to flourish.

Colin Smyth: I should declare my interest as a Co-operative Party MSP, convener.

What does that mean in practical terms, minister? What proportion of the Scottish economy should co-operatives make up as a result of the support that the Government is likely to give them?

Neil Gray: We want them to continue to succeed. With regard to Mr Smyth's question, we do not have a particular target, but I would be happy to provide more information to the committee on the work that we do to support the co-operative network on the back of this session.

I think that Mr Cook wants to supplement my answer.

Colin Cook: I point to two actions. First, I point to the work that we have been doing on community wealth building and the consultation that has just closed around future legislation, which creates a framework in which to promote different forms of business models. Secondly, I point to NSET, which talks about our economic ambitions to create a diverse economy and an entrepreneurial mindset in all sectors of the economy, which includes alternative business models.

We are taking action and we will use the economic development network to which I referred to focus on promoting alternative business models.

10:00

Maggie Chapman (North East Scotland) (Green): Good morning, cabinet secretary. Thank you for joining us this morning and for what you have already said.

Like Colin Smyth, I want to focus my questions on two different areas across your portfolio, the first being fair work. The Scottish Government has pledged to make Scotland a fair work nation by 2025. I am curious to know how you see that being measured, where you think the challenges are and how things are going, given that 2025 is less than two years away.

Neil Gray: I was pleased that one of the first meetings that I had on taking office was with the Fair Work Convention. Its role as a partner is important but it is also a critical friend in that it holds us to account and ensures that we are doing all that we can to honour our fair work commitments.

Our refreshed fair work action plan was published in December last year. It sets out our approach to embedding fair work and tackling workplace inequalities.

Maggie Chapman: Thank you for that, but I am wondering where you see the challenges. It is all very well to say that we will be a fair work nation by 2025, but what will that actually look like? Do you have any concerns about areas in which we will not be able to realise that ambition?

Neil Gray: It is a constant challenge. I have the responsibility of ensuring that I drive a fair work agenda across Government. We are already doing well. We have the highest number of employees being paid the real living wage anywhere in the UK, and the lowest number of employees being paid below the real living wage anywhere in the UK. We also have incredibly strong labour market statistics that give opportunity but also pose a challenge. A tight labour market gives us opportunities to discuss with employers the importance of advancing the fair work agenda to reduce workplace attrition and ensure the continued support of employees.

We will continue to progress that alongside the work that we do with the Fair Work Convention and the Scottish Trades Union Congress. I believe that I am due to meet Roz Foyer soon. I was with her at the anti-poverty summit that the First Minister hosted last week and we had a very good conversation off the back of that.

We will continue to do all that we can to ensure that fair work drives success, wellbeing and prosperity for individuals and businesses, and to ensure that employers continue to understand the importance of demonstrating fair work, not just because it is the right thing to do from a social perspective but because it drives economic benefit to their organisation.

Maggie Chapman: One of my areas of interest is pushing conditionality as far as possible. We know that employment law is reserved, so there are limits to that. Are we pushing fair work conditionality in public sector grants as far as we could? Where do you see progress still to be made in that space?

Neil Gray: As a result of the Bute house agreement, conditionality will be attached from, I believe, 1 July, when public sector procurement will have fair work principles attached to it. That is an important first step, but we will keep the effectiveness of that conditionality under review and look at whether there will be opportunities to go further. However, we will need to ensure that there is time, from the start of that process on 1 July, to monitor its effectiveness so that we can see whether there are opportunities to reform it in any way.

Maggie Chapman: My second set of questions is on local and regional economic development. In your opening remarks, you spoke about economic empowerment for local communities creating better communities. Engaged and resilient local communities with decision-making powers and a real say in their local and regional economies are key to the realisation of a genuine wellbeing economy. Will you identify your priorities for the regional economic partnerships and explain how you see those being developed over the coming months and years?

Neil Gray: Yes, I will. We are looking to build on the city and regional growth deals; to respond to the regional economic policy review; to work with regional economic partnerships to ensure that there are regional intelligence hubs; and to simplify the funding landscape. I am due to meet our enterprise agencies over the coming weeks, when I will be seeking to discuss that, the suggestions that they have and how I respond to those over the coming weeks and months.

Maggie Chapman: In some ways, the issue is linked to or extends the questions that Colin Smyth asked about how we ensure that benefits from investments such as ScotWind are retained in communities. We do not want to recreate a two-speed economy such as we have seen in different places in previous times. Key to that is a clear place-making agenda, and we have seen that in work that this committee has done in previous inquiries. However, how does place making fit into that regional economic development agenda, and where are the barriers to achieving that?

Neil Gray: Place is incredibly important. I represent a constituency with an incredibly strong feeling of place, but I also come from Orkney, where place-based economic development is well defined and there is a very strong feeling of place. Therefore, I understand well the importance of place.

As I said, we have discussions with our enterprise network to ensure that there is good, strong support for economic development in their regions, but we are also ensuring that we capitalise on the good work that is going on indigenously in those areas, as well as responding to the economic priorities that we have set out in NSET and in our just transition strategy, to ensure that we are taking advantage of the opportunities in different areas across Scotland.

It would be a challenge for us to say that there will be a homogeneous approach across different areas, because each region, area and place will have its own strengths, so we must build on the strengths of each area to ensure that we see the best economic performance possible. I think that Mr Cook wants to come in.

Colin Cook: I hope that you will see the answer to that question in the two things to which we have referred over the past few minutes: first, the economic review, which we accepted—as the cabinet secretary says, we are now prioritising work on the funding landscape and intelligence hubs, and we have a commitment to working with regional economic partnerships to ensure that the regional priorities are reflected—and secondly, the work that we do on community wealth building to encourage those regions to use that as the vehicle for ensuring that the benefits come to communities.

Therefore, in the combination of the two—the regional economic policy focus and community wealth building—you start to see the answer to the question that you pose, Ms Chapman.

Maggie Chapman: Thanks for that. One of the challenges with that is how, when we have city region deals, community wealth building and all those aspects that we try to fit together, we can retain economic development coherence and, within that, policy coherence. It is perfectly possible to see a situation in which we have alignment around a regional economic partnership that actually jeopardises some of the community wealth building agenda or priorities that elements within that community or region might have. How are you assessing that overall coherence across all the different economic development opportunities and agendas?

Colin Cook: We share your understanding that coherence is important. If you are pursuing a strategy that is based on regional priorities and on the interests of local communities, there will be diversity, because that is implicit in that approach. We in Government try to find ways of supporting regional economic partnerships to acquire the intelligence that they need to realise their ambitions and to promote the concept of community wealth building at local level. We also work with the UK Government to ensure coherence in how the Scottish and UK Governments view the regions of Scotland and support the work at that level. That is a really important part of the overall argument about coherence that you have been making.

Maggie Chapman: Are you confident that we have the tools and structures in place to do that?

Neil Gray: I am hopeful.

The Convener: Before I bring in Jamie Halcro Johnston, I return to Colin Smyth's question about co-operatives. Although there is no target for co-operatives, there is a target to have 500 employee-owned businesses in Scotland by 2030. The cabinet secretary might not be able to give us a progress update on that today, but perhaps he could write to the committee about that.

Neil Gray: I am happy to do that.

The Convener: I bring in Jamie Halcro Johnston, to be followed by Fiona Hyslop. I remind members that we must finish this item of business by 10:25.

Jamie Halcro Johnston (Highlands and Islands) (Con): I will cover a couple of subjects. The first follows on from Graham Simpson's questions. You will be aware of the issue of the relationship between the Scottish Government and the GFG Alliance and Sanjeev Gupta. Have you met Sanjeev Gupta yet, or do you plan to do so?

Neil Gray: I have not met Mr Gupta and have no current plans to do so.

Jamie Halcro Johnston: What is the level of regular engagement between the Scottish Government and GFG Alliance?

Neil Gray: To quote the question back to you, there is "regular" and strong engagement to ensure that business at the smelter continues going well and that the requirements that are placed on GFG—and the developments that are expected as a result of those—are realised.

There is regular and strong engagement, which Mr Cook leads on, and there is a strong team to ensure that the investment in Lochaber continues going well.

Jamie Halcro Johnston: You talk about investments going well, but a lot of jobs were promised when the deal was signed. Do you have any concerns that the projected number of jobs will not be met? I think that the projection was into the hundreds, but only around 50 jobs have been delivered so far.

Neil Gray: On-going decisions about investments will lead to job creation. I will bring in Mr Cook to provide more detail.

Colin Cook: Mr Halcro Johnston, you are correct to say that the investment has not yet been made. GFG Alliance is still planning to invest in a billet plant in that region and money is being allocated to that investment. The money has not all been allocated to that investment yet, but we are making progress and have seen the start of the planning phase for that investment, so we are hopeful that it will continue.

That is one of the things that we discuss regularly with local management. Our main focus has been on the plant and on the performance of the smelter and the hydro. We also discuss that when we get more general access at ministerial and official level to GFG Alliance.

Neil Gray: It is also important to stress that the guarantee generates income for the Scottish Government and that GFG Alliance is up to date with its fee payments. We will make sure that that continues to be the case with the investment decisions that Mr Cook has given more detail about.

Jamie Halcro Johnston: I am trying to remember the figure for the liability. In 2019, it was roughly £570 million. That will have decreased, so do you know what the current liability is?

10:15

Neil Gray: It has decreased substantially. I have a rough figure in my head, but I do not want to provide an incorrect number to the committee. I will make sure that that is followed up in writing so that Mr Halcro Johnston's inquiry can be satisfied.

Jamie Halcro Johnston: That would be helpful. Do you have any concerns at the moment that there is any likelihood that payments will be made to GFG Alliance, or are you anticipating that you will have to make any payments to the company?

Neil Gray: Nothing is anticipated. Progress is good. As I say, the asset is currently generating income for the Scottish Government, but we will keep monitoring the situation closely to ensure that our investment continues to be strong and that the commitments, including on the billet factory, are met.

Jamie Halcro Johnston: I will move to another vital area. We know that there is huge pressure on our tourism and hospitality sectors. Cabinet secretary, I am sure that you will have had plenty of representations from those sectors about the pressures that they are facing, and you will have seen the gaps in the high streets and the issues that local areas are facing. A number of eligible businesses in England are receiving a 75 per cent discount on business rates bills this year. That money was available through Barnett consequentials. Has there been any consideration about introducing a similar discount in Scotland?

Neil Gray: We have made significant investments to support businesses through and post Covid. We have allocated £500 million beyond the support that we received from the UK Government to do that. We also have the most competitive poundage for non-domestic rates in the UK and the most competitive small business bonus scheme in the UK. We continue to provide business support where we can.

Mr Halcro Johnston is right. My colleague Mr Lochhead and I engage regularly with the hospitality and tourism sectors, and we will continue to do so as it is a vital component of Scotland's economy. Earlier, we spoke about regional economic performance and placed-based policy making, so we understand the importance of tourism and hospitality and continue to engage with those sectors on the asks that come forward.

Jamie Halcro Johnston: A number of the asks will be for funding support, and, I imagine, on regulation. A number of policies impact the tourism and hospitality sectors or the communities that they are in. As has already been mentioned, there has been uncertainty around the DRS and the costs that are involved with it. Concerns have also been raised about the licensing of short-term lets and the tourism levy. We could even consider highly protected marine areas here—in rural communities such as the ones that you and I are from, there is a real concern about that and the wider investment coming in. When you are looking at the asks from those sectors, what consideration are you giving to some of the policies that the Scottish Government has been pursuing over the past few years? Could some of those policies be reconsidered, as has already been done in some cases?

Neil Gray: A panel meets with business to consider regulation. I have already set out the new deal for business that will be discussed over the coming months. We are looking at all those areas to see whether there is anything more that we can do, and we can consider how we can provide greater support. We have listened to business and have delayed the DRS, and we will continue to respond as best we can.

Mr Halcro Johnston has raised the issue of short-term lets. There is a competing issue, because we both know about the challenges that people living in rural areas face when trying to access housing. There is support for our looking to do what we can to make more rural housing available. The decisions that we are taking are about trying to make those situations easier for people.

It will always be a balance. We take feedback from colleagues who represent rural areas—or who, like me, are from those areas and still have family there—to ensure that we continue to get that balance right. I take seriously the feedback that Mr Halcro Johnston has given and we will continue to consider the matter as best we can.

Jamie Halcro Johnston: If I could just ask a question on that point on rural housing, convener—

The Convener: Sorry, Jamie. I want to bring in Ms Hyslop before the end and we have to move on as we have the UK Government minister coming in.

Neil Gray: I am happy to take the question and perhaps respond in writing, convener.

The Convener: That is fine.

Jamie Halcro Johnston: That is great. The Scottish Government's rural and islands housing scheme was extended and has not been fully used—only half of the funds were spent—so I look for an assurance that the minister will review the scheme to determine how it can be made more attractive and easier to use. At the moment, it is clearly not meeting the needs that it should be.

Neil Gray: I am happy to do that, and I will ensure that I follow up in writing with the committee.

Fiona Hyslop: I welcome the fact that the economy and energy portfolios have been brought together. The consultation on the draft energy strategy and just transition plan closed yesterday. When do you expect to respond to the consultation? When will you publish the energy strategy and the just transition plan?

Neil Gray: We have received incredible interest in that consultation. I believe that, at the previous count, there were more than 1,400 responses to it, which is almost seven times the number of responses that we had the previous time that we consulted on an energy strategy, so there is clear interest in it. We need to ensure that we give that proper consideration, but we will seek to publish our final strategy as quickly as we can off the back of considering the consultation responses.

Fiona Hyslop: The renewables industry welcomed the draft, which focused on electricity. The criticism was that it was so broad that it captured everything that had been done to date. Previously, the strategy was about generation, so we should be in a position to look at what that means for delivery, surely. The draft talks a lot about potential, but will you assure us that the final strategy will be about delivery on that potential as opposed to a description of it?

Neil Gray: Yes, I absolutely take that suggestion from Ms Hyslop and will ensure that it is given due consideration as we examine the consultation responses. I cannot pre-empt that process, obviously, but I expect to go into some of the areas that she has laid out. We will ensure that we have a concrete strategy that ensures that we can realise the potential and have a just transition that does not leave communities behind in the way that they were left behind in the 1980s and 1990s under Thatcher.

Fiona Hyslop: In our inquiry into a just transition, we have heard that there is a potential gap in jobs and skills, particularly for the supply chain. The contracts might not be realised for some time and we might not be able to scale up in time so, when demand emerges, it might have to be met internationally. There is a gap in the funding for the skills and jobs for the supply chain. How can that be filled?

Neil Gray: We are working on that now with the investments that we are making and through the energy skills passport to ensure that we offer opportunities for people who work in the oil and gas sector to transition. That will be an on-going process, but we will maintain a focus on ensuring that we give as many opportunities as possible to our indigenous workforce. However, we will also put pressure on the UK Government to ensure that the international labour force—which we must accept will need to play a part—is able to play a part in some areas.

Fiona Hyslop: Skills passports will not necessarily address the technology issues for companies. That needs to be considered.

We have heard about the need for billions of pounds of investment to realise our net zero goals. How fundamental is the carbon capture, utilisation and storage Acorn cluster for the just transition not only for the north-east but for Grangemouth? There is £1 million from Ineos sitting on the table ready to move for the industrial cluster with the biggest emissions in Scotland. What is your view on that?

Neil Gray: It is fundamental. Grangemouth produces 8 per cent of our carbon emissions. As Ms Hyslop rightly outlines, it is our greatest emitter. Ensuring that there is a just transition means that we need the UK Government to move much faster on delivering Acorn from track 2. It is an absolute priority for us to continue pressing the UK Government for that, and I am sure that it will come up in the discussions with Graham Stuart following my appearance today.

Fiona Hyslop: Thank you.

We have finished on time, convener.

The Convener: Thank you very much, Ms Hyslop.

I thank the cabinet secretary and his officials for their evidence. We will suspend briefly for a changeover of witnesses.

10:25

Meeting suspended.

10:30

On resuming—

Just Transition (Grangemouth Area)

The Convener: Our third item of business is an additional evidence session for the committee's inquiry into a just transition for the Grangemouth area.

I welcome Graham Stuart, the UK Government Minister for Energy Security and Net Zero. He is joined by Kathryn Aggarwal, who is head of the track 2 team, carbon capture, usage and storage, and Jonathan Hoare, who is deputy director in the clean growth directorate. As always, it will be helpful if members and witnesses keep their contributions as concise and focused as possible. I invite the minister to make a short opening statement.

Graham Stuart (United Kingdom Government Minister for Energy Security and Net Zero): Thank you, convener and committee members, for inviting me and my officials to join you to talk about our net zero ambitions and our powering up Great Britain announcements in the context of your inquiry into the decarbonisation and just transition of the Grangemouth area.

The UK Government continues to engage positively with Scotland and the other devolved Administrations across various policy priorities to support energy security and net zero. Committee members are fully aware of issues around carbon capture, usage and storage, hydrogen and nuclear energy, floating offshore wind generation and, of course, the UK emissions trading scheme, in which we are all equal partners. I am grateful for the engagement, and I look forward to it continuing.

For too long, this country has taken cheap and plentiful energy for granted, but Putin's illegal war in Ukraine and decades of overreliance on fossil fuels from abroad, despite the UK's having very little exposure to Russian gas, have combined to push up energy prices. That is why the UK Government stepped in this winter to pay around half—half—the typical household energy bill and why support has now been extended for domestic and business consumers alike.

Our longer-term challenge—and opportunity—is to bolster our energy resilience as a nation so that a tyrant such as Putin can never again hit the pockets of every family and business in Britain. The path is clear: we must diversify our sources of supply, decarbonise and move towards greater energy independence, so that we have the cheap and clean energy that Britain needs to prosper in the future. That is why, in March this year, we published a suite of documents, including our net zero growth plan, under the “Powering Up Britain” banner.

Our transition to a green and sustainable future will provide new opportunities. As Chris Skidmore said, following his review, it is probably the greatest opportunity that Britain has at the moment to grow and level up the UK economy and support hundreds of thousands of green high-skilled jobs, while ensuring that the environment is in a better state for the next generation.

The policies and ambitions that we set out will help to leverage about £100 billion of private investment as we develop new industries and innovative low-carbon technologies, with ambitions to support up to around 500,000 jobs by 2030.

Of course, the UK has already made tremendous progress on decarbonising its economy and decoupling emissions from economic growth. Between 1990 and 2021, we cut emissions by 48 per cent while nonetheless growing the economy by 65 per cent. We truly are the world leader among major economies, and the path to net zero that is outlined in the net zero strategy is, we believe, still the right one. In the net zero growth plan—our update—we are bolstering our delivery further.

The proposals and policies that we have set out reach far into the future, with plans set out to the end of carbon budget 6 in 2037. That means that the current package represents one of a series of steps to full decarbonisation of the economy by 2050.

Given our success in decarbonisation to date, we are confident in our approach, but the plan does not intend to predict the exact shape of the British economy in 2037 or later, and neither should it.

The Prime Minister’s decision to create the Department for Energy Security and Net Zero was a clear statement of intent that the UK Government is prioritising those two important issues, and, in our comprehensive “Powering Up Britain” document, which was published just 50 days after the establishment of the new department, we have demonstrated that we are driving real progress to deliver energy security, meet net zero targets and lower our energy costs in the long term so that we have among the most competitive electricity prices in Europe by 2035 and secure economic benefits that will be felt throughout the UK.

The Convener: Thank you, minister. Our inquiry focuses particularly on the Grangemouth area. As you will know, Ineos is based in Grangemouth, and it is described as the biggest polluter in Scotland. Its emissions are greater than those of any other site or company that is based in Scotland. If the UK Government is serious about cutting emissions, it will recognise the importance of taking action at Ineos and in the Grangemouth area.

The Scottish Government is working on a draft just transition plan for the Grangemouth area. What discussions are you having with it about the plan? Which of the measures that you have outlined are relevant to the Grangemouth area and will assist in the delivery of its just transition?

Graham Stuart: Thank you for your question. There are a number of components in the net zero journey. Decarbonisation of the electricity supply by 2035 is an ambition, but we also have to move to net zero in land use and agriculture. We have transport to deal with, and we have to decarbonise industry—and that part is most relevant to Grangemouth. That is why, as set out in the “Powering Up Britain” document, we are moving forward with intent on two technologies that are absolutely fundamental to delivering the decarbonisation of industry, and those that are hard to decarbonise, in particular.

In addition to increased electrification and the greening of our electricity supply is carbon capture, usage and storage, and that is why we moved forward with track 1, which involves the east coast cluster and the HyNet project in the north-west of England.

We highlighted that we were launching track 2, and we said that the Acorn project—part of the Scottish cluster—and the Viking storage project off Lincolnshire are in pole position for that, because they are the most advanced. We opened track 2 so that we could have expressions of interest for being included in it. We also said that we would look for an extension of track 1, because, if we are going to decarbonise industry and industrial areas—whether in the Humber, the north-west of England, Scotland or Wales—we will need carbon capture, usage and storage.

Hydrogen—perhaps blue hydrogen—is the other fundamental technology, initially. We set out ambitions for 10GW of hydrogen production capacity by 2030, of which at least half should be green hydrogen, which is electrolytic hydrogen. We have made announcements on that front, as well, with various awards in Scotland.

Scotland has a really exciting opportunity as we roll those technologies out, because, if we can lead the world in cutting emissions—as we have—we can lead the world in developing genuine net zero industrial clusters. Not only is that big business in its own right but it will unlock the reindustrialisation of and massive inward investment into those areas, given the environmental, social and governance and other environmental obligations that companies have entered into. The UK has an opportunity in Scotland, in particular, and, if we get it right, perhaps the Grangemouth area has a huge opportunity to unlock development in not just energy but more broadly.

The Convener: Okay, thank you. Colin Smyth is next.

Colin Smyth: Good morning, minister. You touched on the issue of carbon capture and the committee has heard how vital the Scottish cluster carbon capture project is to supporting the transition of Scotland's industries, especially in the central belt of Scotland.

You said that the Acorn project is one of two projects in pole position in the track 2 process, but we have had few details on what that actually means at a time when Ineos has said that it is committed to investing £1 billion to decarbonise Grangemouth and support the cluster.

Will you tell us more about the track 2 process? Will the planned update in the summer set out once and for all whether the UK Government is committed to ensuring that the Acorn project is taken forward?

Graham Stuart: We are grateful to the Scottish cluster for its continued engagement, and, as I have just said and as you reflected in your remarks, we recognise the maturity of the proposals. We have stated our view that, based on engagement to date and the track 1 process, Acorn meets the track 2 eligibility criteria and does not need to submit an expression of interest.

My colleague Lord Callanan, who is the minister responsible for CCUS, has previously engaged with the Acorn project, including by speaking at the recent Acorn reception in the Parliament. At a working level, there has been regular dialogue with the Scottish Government, and we are always happy to facilitate further engagement if it is thought to be fruitful.

We are working to deliver the track 2 process as quickly as possible, ensuring that we learn the lessons of track 1 while ensuring competitive tension and value for money. However, as you will be aware, there are risks associated with all infrastructure projects, and the Scottish cluster is still working through questions. Allowing all eligible transport and storage systems an opportunity to express an interest in the track 2 process is in line with our objectives of ensuring that track 2 optimises delivery and represents value for money.

There is a lot of work going on beneath the surface, and I am pleased to say that the Government has invested around £40 million, I think, into Acorn to date.

As you will be aware, if we are to meet our legal obligations to deliver net zero, we need to move at pace and we need to decarbonise not just major clusters such as the Scottish cluster but industry right across the country. We are seeking to move at pace, and I think that there is a positive future for Acorn in CCUS.

Colin Smyth: I agree, minister, that we need to move at pace, but the Acorn project has been under development for more than a decade, and I am sure that you appreciate that there is considerable frustration among potential developers.

Will you tell us why there has been what appears to be such a lack of progress in supporting that project? Also, to go back to my first question, will we get a clear announcement in the summer on whether the UK Government supports taking forward the Acorn project?

Graham Stuart: As I say, we are moving as quickly—[*Inaudible*.]—due diligence on that. I am not trying to be deliberately evasive, but I am trying to avoid giving you a definite date if we might not be able to deliver it. That work is under way, we are moving at speed and I hope that the date will be sooner rather than later. I am afraid that that is the best I can give you today, unless my officials scribble down something else for me. However, I do not think that they are going to because we are moving at speed and, if I give you a date and we miss it, that is unhelpful all round.

Colin Smyth: I will give the officials more time to scribble, if you wish, minister. Do you accept that, without the Acorn project, we will not decarbonise Grangemouth and we will not have a just transition in that area?

Graham Stuart: As I have said, we need to decarbonise all our industries across the UK, so we are seeking to move in a methodical manner. As you will be aware, other people around the world are looking at this, and it is a tough challenge to get it right. However, we are blessed with industrial geographies coupled with the geology that make it possible for us to lead the world in developing those technologies. If we cannot decarbonise Grangemouth, we will not be able to deliver the net zero targets that are set in law in both Scotland and the United Kingdom.

10:45

Colin Smyth: Do you accept that, without the Acorn project, we cannot decarbonise Grangemouth on the scale that is required?

Graham Stuart: I do not have any alternative ideas, so we have to have a project to do that. As the Government has set out, Acorn is in pole position, it has met the track 2 criteria and further announcements will be made in due course. I do not think that I can give you any more than that. We have to do it, Acorn is in pole position and it has met the criteria—it is looking pretty good, is it not?

Colin Smyth: I hope so, minister.

The Convener: Gordon MacDonald might try to get more on that.

Gordon MacDonald: Good morning, minister. To continue on Colin Smyth's theme, I am aware that Andrew Bowie, who is the Parliamentary Under-Secretary of State for Energy Security and Net Zero, told our Net Zero, Energy and Transport Committee on 27 April that he

"would be overwhelmingly delighted should Acorn be successful through the track 2 process."

He also said that

"it is vital to Scotland's 2045 net zero ambition ... that we get more carbon capture and storage on stream across the whole of the United Kingdom."—[*Official Report, Net Zero, Energy and Transport Committee*, 27 April 2023; c 10.]

Do you agree?

Graham Stuart: Yes.

Gordon MacDonald: Why is it then that we are still seeing delays to funding in the project? It is inexplicable to many observers that Acorn was excluded from track 1 status. I know that you have responded to questions from Colin Smyth on that point, but can you add more detail about why Acorn is considered secondary to the clusters that the UK Government selected to receive track 1 status?

Graham Stuart: Acorn has met the eligibility criteria for the track 1 process and performed to a good standard against the evaluation criteria. However, during the competitive and rigorous application and evaluation process, the HyNet and east coast clusters were selected as the track 1 clusters. The sequencing decision was made following a robust specialist-led assessment and was not subject to political intervention at any stage. Ensuring that the result reflected that assessment was crucial in upholding key principles of transparency and value for money, and we have as dispassionate a framework as we possibly can to ensure that we do that in the right way.

As we deliver the work and get it out there, we will cover the whole country in due course. We are moving methodically at a scale that has never been seen and in a way that has never been done in the world previously. That is why we are working in that fashion; why the right way to do so is in that layered manner, with a fair competition and neutrally determined outcomes in place; and why Acorn did very well and made the reserve but did not make it into track 1, on competitive and dispassionate grounds.

Gordon MacDonald: You have mentioned the east coast cluster a couple of times, which was announced for track 1 funding from November 2021. However, in recent weeks, the National Grid has withdrawn, as has Shell, indicating that it would focus on the Acorn project in Scotland. Drax has recently paused its investment in the project, too. What does that do to the viability of the east coast project? Does that give you an opportunity to review funding and bring Acorn closer to getting UK Government funding?

Graham Stuart: Our CCUS targets remain on track, as does the delivery of the east coast cluster, with the world-leading capabilities of BP, Equinor and TotalEnergies driving the project through the northern endurance partnership. Shell has made clear that it is committed to the technology, with a focus on other projects in the UK. The Government will continue to work with the industry on our ambition for four CCUS clusters by 2030.

As I have said, Acorn remains the reserve cluster for track 1. Naming a reserve cluster allows the Government to retain the option of elevating the Scottish cluster into track 1 in place of either HyNet or the east coast cluster in the event that material barriers to delivery should arise.

Gordon MacDonald: When would the first opportunity come around for a review to take place and possible elevation of the Acorn project?

Graham Stuart: That would be in the event of material barriers to delivery arising.

Gordon MacDonald: You have had three major players either withdraw from or pause investment in the east coast project. Does that not cause you to review the east coast project?

Graham Stuart: We are confident that the east coast cluster is progressing right now. If that were to change, in light of the circumstances that you refer to or others, we would be in a position to review it. However, at the moment we are confident that it is on track.

Fiona Hyslop: I very much appreciate your joining us today, minister. The issue of the Acorn cluster is critical, not only to Grangemouth, which is the subject of our inquiry, but to a just transition in the north of Scotland. You refer to maturity and infrastructure being key factors in your decision making. This project is the most mature and the most developed and it uses existing infrastructure. You make the argument that we cannot decarbonise Grangemouth without having the Acorn project and that, if we do not decarbonise Grangemouth, we will not meet our net zero targets. The third leg of that is that the Climate

Change Committee has said that the UK and Scotland will not meet our net zero targets unless we have CCUS. That all leads to one place.

The issue then is the timescale, and you have talked about 2030. For Scotland to meet its targets, we need to start sooner than that. Will you be cognisant of the timing of this when talking to your colleague Lord Callanan about any final decisions?

Graham Stuart: I did not quite understand the question at the end—apologies.

Fiona Hyslop: The issue is around net zero targets for the UK, and you talked about 2030. For Scotland to meet its targets, we need to start on our carbon capture, utilisation and storage journey sooner than that. If that is the imperative, and the logic of your argument is that the Acorn project is well placed, will you, in your discussions with Lord Callanan—whom you said is the lead minister on this—emphasise that the timescale is critical to Scotland, and probably more so than to the rest of the UK, although it is critical to the UK as well?

Graham Stuart: The Scottish Government makes its own determinations of targets. The Climate Change Committee has remarked on Scotland's pathway towards those targets and specifically on the 2030 target and how realistic it is. I will leave that to the Climate Change Committee and the Scottish Government to worry about.

We are delivering the UK Government's policies that are aimed at delivering net zero by 2050. Given that we set the national framework, it would be sensible for areas of the country, including the devolved Government in Scotland, to ensure that their policies are compatible with ours, perhaps, rather than the other way around.

Fiona Hyslop: However, as a UK minister, you are responsible for all the United Kingdom, and it is clear that, on energy policy, the UK Government has a key power in relation to carbon capture, utilisation and storage. Is that the case?

Graham Stuart: Indeed, and we have set out the strategy to have four clusters by 2030. Whether that fits with the Scottish Government's targets is a matter for the Scottish Government to deal with.

We are clear about doing it, and we do it while listening closely to the independent Climate Change Committee. We are making sure that we deliver. We are leading the world in this. There is a danger of coming up with impractical targets that cannot be met. We have to work in a coherent manner, which we do everything possible to do, while we engage with the Scottish and other devolved Governments to ensure that we are working in an aligned manner.

As I said, there is a tremendous opportunity not only to protect the jobs that we have but to create the foundation for a much more successful Grangemouth area, if we get it right. We will continue to implement our policies as set out in successive policy statements from the UK Government.

Fiona Hyslop: I refer the minister to the report that the Scottish Parliament's Net Zero, Energy and Transport Committee produced last year on carbon capture, utilisation and storage. It had all-party support and it perhaps sets out the case in a stronger way than we have time to do today.

I will move on to the wider hydrogen economy. Clearly, Scotland and the UK have significant ambitions in that regard. We have heard that, to advance on the broader hydrogen economy, we will need further work on developing credible business cases to help to draw in the private investment that you talked about and to bring to market the various technologies that we require.

What is your view on that? What can be done and what is the UK doing to support the technology for hydrogen to reach maturity and attract the significant investment that is needed? There is an element of risk, so I suppose the question is: what is the UK prepared to do to help to move that market on?

Graham Stuart: We have just published the list of successful applicants for strands 1 and 2 of the net zero hydrogen fund, which will support the development and deployment of new low-carbon hydrogen production, exactly as you suggest. The announcement confirmed the first projects to be offered grant funding through the NZHF, with a total of £37.9 million for 15 new hydrogen production projects across England, Scotland, Wales and Northern Ireland. From memory, four of those projects are in Scotland.

We intend to launch a second competition round for strands 1 and 2 of the NZHF in the spring, which will be delivered by UK Research and Innovation. The second competition round will support the development of a diverse and secure hydrogen economy that is fit for meeting the UK's ambition, which I have already mentioned, of having up to 10GW of low-carbon hydrogen production by 2030.

In addition, five Scottish companies have been shortlisted to proceed to the next stage of the process for the first electrolytic hydrogen allocation round, or HAR1—I always say that my department is particularly bad at naming things, but there we are—to kickstart the low-carbon hydrogen economy across the UK and meet our wider net zero targets. Those are ERM Dolphyn, Pale Blue Dot Energy, SSE Renewables, RES and Octopus Hydrogen, and Scottish Power. In addition to the net zero hydrogen fund, we have that electrolytic hydrogen allocation round, and Scotland is playing a full part in both.

Picking one of those at random, I note that Octopus Hydrogen's Lanarkshire green hydrogen project plans to deploy 15MW of electrolysis that is directly connected to an onshore wind farm with the aim of producing over 3.5 tonnes of green hydrogen per day. When I was at the European Marine Energy Centre in Orkney not long ago, I was delighted to see that it is one of the first producers of green hydrogen. I was told that it powered the first Royal Air Force flight with sustainable aviation fuel—[*Inaudible*.]

Fiona Hyslop: Convener, I think that the minister's connection has frozen again.

The Convener: Minister, you froze for a moment, but you are back.

Graham Stuart: I have finished my answer.

Fiona Hyslop: Green hydrogen represents a considerable opportunity, not least because of the extensive renewable energy that can be released from ScotWind and so on. You talked about energy security, which is obviously important not just for the UK, but more widely in Europe. We have been told by industry that the export of green hydrogen represents a real opportunity. How seriously is the UK Government taking the opportunity to export green hydrogen to meet the demand from our colleagues in Europe?

Graham Stuart: That is a great question. The UK's primary ambition is to have 10GW of low-carbon hydrogen production capacity by 2030 to decarbonise our UK sectors and contribute to our legally binding carbon budget. That is at the top of our hierarchy. However, that increased ambition, as set out in the British energy security strategy, also opens up the opportunity for exports.

If we look at a map of Europe and the British isles, we can see that we have a remarkable and special opportunity. We are not only world leaders in fixed-bed offshore wind but in developing floating offshore wind, which also has enormous global potential. If we can capture all that wind power in an economically sensible way, we can deliver among the lowest-cost electricity systems in Europe by 2035, which is our aim and, as you rightly highlight with the example of what is going on in Orkney and elsewhere, we can harness all that and convert it into highly competitive green hydrogen that will decarbonise our industry and trigger additional investment in the UK, including Scotland.

11:00

I do not know about you, but I can imagine a future in which we might have pipelines going into Europe. We have gas and electricity interconnectors at the moment and they make both sides more resilient as a result. In future, we could have CO_2 pipelines bringing in CO_2 for us to store. After all, we have 78 gigatonnes of capacity for carbon storage in the North Sea. It gave us wealth when we emptied those wells of oil and gas and it would be fantastic to get further value by using them to store carbon. We could also have hydrogen flowing in the other direction.

I share your enthusiasm. If we get this right, we can create the foundation for economic prosperity in the 2030s and beyond so that we could lead the world in tackling the environmental challenge. If we get it right, we could also come out as a more economically competitive and richer nation with better jobs and greater energy security. That is the golden prize that we are after and, of course, Scotland has an outsized role to play in delivering that.

Hydrogen offers a way of producing energy, converting it and creating industrial jobs in Scotland while making sure that Scotland benefits from its unique position and ability to generate energy and contribute to not only the UK's energy security but Europe's.

Fiona Hyslop: Thank you for setting out Scotland's strength in our energy now and in the future. With that, convener, I pass back to you.

The Convener: Graham Simpson is next, to be followed by Maggie Chapman.

Graham Simpson: Good morning, minister. We have dealt with hydrogen, so we will move on to sustainable aviation fuel.

Last July, the UK Government produced a jet zero strategy in which you said that by 2025—just three years away at the time—at least five UK SAF plants would be under construction and an SAF mandate would be in place with a target of at least 10 per cent SAF by 2030. That is of relevance to us, because we want Grangemouth to be one of those plants. What are you doing to ensure that you get those five plants in place?

Graham Stuart: As you have said, last July we made a commitment in "Jet Zero Strategy: Delivering net zero aviation by 2050" to make the UK a world leader in the development, production and use of sustainable aviation fuel. Since then, we have made excellent progress; indeed, we recently announced a series of big steps forward. We published our second consultation on the SAF mandate, which provides a strong incentive to use SAF and offers price support for it. We have launched the second application window of the advanced fuels fund, making a further £56 million available to support UK SAF projects through to construction and to accelerate novel SAF production pathways to market. We are also setting up a UK clearing house to support testing and certification, with the University of Sheffield announced as the delivery partner.

In parallel, the Government has been considering what longer-term actions might need to be taken to stimulate SAF investment in the UK in addition to the SAF mandate and the grant funding for SAF plants. Last October, we commissioned Philip New to lead an independent evaluation of the development of a UK SAF industry, to identify the conditions necessary to create a successful UK SAF industry and to make supporting recommendations. We published his report alongside our Government response, which sets out the actions that we are already taking to address many of his recommendations, including, for instance, working with industry on stabilising the UK feedstock market for low-carbon fuels. Our response recognises that revenue certainty remains a barrier to investment, and it commits to working with industry on options to overcome that particular barrier so that those fuels become investable.

While noting the leading role that industry can play, we have committed to working on options to provide additional revenue certainty in order to deliver the investment that is needed. If required, we will, following that work, launch a formal consultation this summer.

Graham Simpson: So there will be a consultation this summer, but you said previously that, in three years, you wanted to be in the position of having five SAF plants under construction. It sounds as though we are nowhere near that at the moment. Is that correct?

Graham Stuart: The UK's SAF programme is one of the most comprehensive in the world, with, as you have said, a highly ambitious mandate for 2025. That provides a long-term signal that now is the time to invest. We have made £165 million available from the advanced fuels fund to deliver the five plants—or, at least, to have them under construction—in the UK by 2025, and we are helping to establish a UK clearing house that will support the testing and certification of innovative fuels. Together with the SAF mandate, which, of course, drives an awful lot of this, we have measures that both support the supply and create the demand for SAF.

We are confident that that framework of measures puts the UK in a leading position to reduce aviation emissions and to start a UK SAF industry. We recognise that there are calls to go even further by building a long-term supply industry in the UK, and we are working in partnership with industry and investors to determine what further actions industry or Government might be able to take.

Graham Simpson: Thanks, but you have basically just repeated your first answer and have still not answered the question. You set a target of having five plants under construction within three years. From what I am hearing, however, you are doing some stuff but, as far as timescales are concerned, we are not yet at the point at which any of those plants is under construction. Is my analysis correct?

Graham Stuart: As far as I am aware, there is none in construction right now. As you have rightly said, Mr Simpson, the calendar for getting this done is challenging, but we are working flat out to make it happen. Of course, carbon capture has a part to play in SAF production. Getting that in place and making sure that it can be delivered, which we are interested in doing, involves a lot of moving parts.

Jonathan Hoare (United Kingdom Government): The sustainable aviation fuel programme is led by the Department for Transport. We can certainly get you some more detail on the level of progress being made against the five-plants target, but the £165 million from the advanced fuels fund, which the minister has already mentioned, is the key thing that is supporting plants through to development.

This is a market, so it is all about where Government can stimulate, provide grant support and provide the market certainty that enables investors to make the decisions to do those things. It is not His Majesty's Government's SAF plants that we are putting in place, but quite a lot of support is going into SAF and a lot of progress has been made on it this year.

Graham Simpson: Yes, it is market certainty that we need.

Finally, minister, you talked about seeing the importance of Grangemouth, as we do. Have you visited it yet? If not, do you plan to?

Graham Stuart: I have not visited yet, but yes, I do plan to. I do not have it in my diary as yet, but Grangemouth is clearly a very important plant. I have specific responsibility not only for renewables but for oil and gas, and Grangemouth is very important as we move forward.

Maggie Chapman: We have had some discussion about the different timescales and the pace of change required. It is clear that, globally, transition is taking place at a fast pace, with competition for skills, labour, finance and investment. The United States and the European Union have announced significant investment in renewable energy, and you have outlined that that is a key sector for Scotland and the wider UK economy. How can we ensure that projects, companies and workers in Scotland benefit from the investment that will be available? How can we ensure that we are best able to compete and have access to equivalent financial incentives, particularly for renewables?

Graham Stuart: We have made tremendous progress. As I have said, we have decarbonised more than any other major economy in the world. The cross-party consensus on the need for action and the ability to convert that into action has been a significant feature of Conservative-led Governments since 2010.

You will be aware that, in 2010, just 7 per cent of our electricity came from renewables; that figure is now more than 40 per cent and is heading towards 50 per cent and beyond. We have set up the contracts for difference scheme, which, because it has been extremely successful, is now being widely copied. It has helped to bring scale to things such as offshore wind, the viability of the economics of which was not obvious when we went out into the North Sea. We went from £120 a megawatt hour—or whatever it was—in the first auction in 2015 as a guaranteed revenue requirement to build to just £39.50 two auctions later, in 2019.

However, we should not be complacent just because of prior success. We are looking at issues such as non-financial criteria, and I am working closely with industry on that and on how we create incentives in a way that meets our international obligations but which strengthens the UK supply chain.

We have built an enormous amount of business and prosperity in the UK through supporting our renewables development, but I would like us to have done better. Going forward, I want us to do better not only in offshore fixed-bed and floating offshore wind but in CCUS hydrogen, too. I want to make sure that we, as you have suggested, really sweat how we create the frameworks in order to make it more likely that sustainable long-term jobs in Scotland and the rest of the United Kingdom will be built around our world leadership in this area.

You mentioned the competitive environment. On the one hand, we have commented that the Inflation Reduction Act in the US, with its "buy American" facets, is unwelcome in that particular way. However, to have the United States investing heavily in renewables and green technologies is tremendous, because it will help to drive down cost, and I am actually confident that, notwithstanding that, they should—[*Inaudible*.] Issues such as CCUS hydrogen and renewables offer an opportunity for us to deliver the kind of low-cost system that we want.

However, we have competition, because the rest of the world is playing catch-up with us. We have led the world in cutting emissions, but our frameworks for renewables, and indeed carbon capture and hydrogen, are pretty strong, too. We are still seen as world leaders; indeed, we have moved from the biennial auctions that we used to have for contracts for difference to having, this year for the first time, an annual auction. We will see how that goes. These things are always commercially sensitive until we close everything out, but in the past, we have been tremendously successful in getting investments, and I am pretty confident that we will continue to be so.

There are new technologies, too, such as tidal, where we are the world leader. Allocation round 4—that is, last year's CFD round—was the first time that tidal technology had been included, and we have retained a specific pot for it this year, too. When I was in Orkney, I saw Orbital's O2 tidal energy production unit, around 80 per cent of which has come from suppliers in the UK. I am determined to do everything that I can, including through the development of non-financial criteria in partnership with industry, to increase and strengthen the UK supply chain, and that will have a big impact in Scotland.

11:15

Maggie Chapman: Thanks for that. I appreciate what you said about our having achieved significant changes in recent years. However, we know from the Intergovernmental Panel on Climate Change report that the pace of change that we will need to achieve in the coming 15 to 20 years is actually even greater than the pace of change that we have seen to date, given the climate emergency that we face.

I want to ask about the investment that, as you have said, you are certain that we can continue to attract. Is it your intention—or the UK Government's intention—to ensure that that investment comes with conditions attached with regard to how it is delivered in Scotland? We have heard from people in and around Grangemouth that previous energy transitions have not been as just as they might have been and that, as a consequence, there have been widening inequalities. Indeed, we are seeing that elsewhere in Scotland. How do you intend to ensure that the investments that we get drive a just transition and do not create or enable the development of two-speed or multiple-speed economies such as those that we have seen in the north-east of Scotland?

The Convener: Before I invite you to respond, minister, I understand that you need to leave by 11:30 and I still have two members who wish to ask questions. I am going to allow Michelle Thomson to ask her question on the back of Maggie Chapman's, as I believe that they are connected and so that you can address both together. I hope that I can then bring in Jamie Halcro Johnston before you have to leave.

Michelle Thomson: Good morning. The questions are somewhat loosely connected, but I hope that you will be able to pick up Ms Chapman's question, too.

I want to probe the issue of capital requirements. Globally, hundreds of trillions of dollars of investment are required to meet what we need to do. My colleague Gordon MacDonald touched earlier on the withdrawal of National Grid and Shell from the east coast cluster. That will have been noted by international investors, and a view will have been reached on whether that was about competence or other reasons. However, it will have influenced the appetite for investment. In general terms, what specific risks do you have in your risk register for attracting international investors? What risks do you have that you are therefore seeking to mitigate to get to the scale of investment that we need?

Graham Stuart: I will deal with both questions. On the just transition front, before I went to Orkney, I went to Port of Nigg and Aberdeen, and what I saw was that the support businesses—practically all the ones that I talked to—were working in oil, gas and renewables, because the subsea skills, fabrication, engineering and the rest of it are all allied.

It is important that we recognise that we are in a transition, and I find it unhelpful that the Scottish Government appears to be so opposed to managing a naturally declining basin in the North Sea. Over time, we expect that the amount of business that some of the businesses, including the ones that I met, get from renewables will grow and that the oil and gas business will reduce.

However, it is so important that we do not seek to abandon North Sea oil and gas or we will not have that just transition. Worse than that, we would, for instance, end up importing additional liquefied natural gas, which has two and a half times the production emissions of Scotland-produced gas. Oil and gas production is falling at around 9 per cent a year—we could, with new licences, arrest the rate at 7 per cent—which is faster than our demand is reducing. We have to recognise that, in Scotland, oil, gas and renewables are now one supply chain. If you want a just transition, you do not play to the gallery—you have to recognise that, in order to produce power in Britain, for Britain, you need oil and gas, during the transition, while we ramp up renewables, as one way of delivering that.

On Ms Thomson's questions about capital requirements and what is on my risk register, the key qualities that we should have are stability, certainty and continuity, as well as being open to innovation. The Climate Change Act 2008, which we amended in 2019 to change the target from 80 per cent to net zero, gives us legal certainty. My secretary of state is legally obliged to ensure that we are on track to deliver net zero.

We are not quite in a unique situation, but we were the first major economy to legislate in that way, including on things such as the independent Climate Change Committee and five-year carbon budgets. That creates a certainty that we are legally obliged to go in that direction, and the cross-party consensus that supports it helps to give investors confidence, as does the fact that we have always been, I would say—I used to be the investment minister—possibly the most investible country in the world because of our stability and the rule of law, and because people know that, no matter where they are from, they will be treated fairly by our systems.

That combination of solid regulatory and legal systems coupled with legal, statutory certainty about the direction of travel is how we have been able to attract so much investment so far, and it is why I am confident—I do not think that I ever said that I was certain, but I am confident—that we will be able to continue to do so in the future.

Michelle Thomson: Thank you for that—you have certainly set out what you see as some opportunities. My specific question, however, was about risks. Given the significant international competition for the funding that is required, can you give me more of a flavour, or set out more detail, as to what you think are the risks that external investors see in investing in the UK at the scale that is required, and what mitigations you are putting in place?

Graham Stuart: One of the risks would be a refusal to grant any new licences for oil and gas in the North Sea, even though—

Michelle Thomson: We are talking specifically about investing in renewables.

Graham Stuart: Well, exactly. As I said, oil, gas and renewables now tend to overlap completely in one supply chain. In order to deliver the transformation at Grangemouth, and to deliver CCUS and hydrogen, you need the engineering, the balance sheet and the supply chain of existing oil and gas companies. One of the big risks to the transition, therefore, is the removal of support for the on-going development and production of oil and gas in the North Sea. That might sound ironic, but you asked me what is on my risk register, and that is right up there.

Otherwise, with regard to the risks, there is clearly competition, but we welcome that. In my experience previously as the investment minister, and now as the Minister for Energy Security and Net Zero, there is an enormous appetite to invest in the UK. That is building up rather big challenges for my department, and we work with the Scottish Government and others to build the regulatory and legal certainties to allow investment. No one has done what we are doing. For example, no one had done what we did in offshore wind, but we found a solution, and I pay tribute to the brilliant officials in my department who helped to deliver that.

Looking forward, it is important that we get in place the transport and storage regulations and standards around hydrogen, green hydrogen and carbon capture. That is another risk; I was challenged earlier on the speed with which we can get SAF up and running, and whether we can get those three plants going by 2025. We are running at 100mph and trying to be more coherent and joined up than ever before.

Another key issue is the grid and connections. All this generation is great, but, if we cannot get the electricity to where the demand is, we have a problem. That is why we now have a minister for nuclear and networks in the form of Andrew Bowie, who is focused on working with the grid, regulators and others.

We have a complex set of regulations, and we have to be able to deliver programmes and projects in a timely manner. If we do not do that, we will not be able to meet our targets, and we will put off investment.

Michelle Thomson: You are absolutely—

The Convener: I am sorry, Ms Thomson, but we are running out of time and Jamie Halcro Johnston is waiting.

Michelle Thomson: I will finish with one final point. If you ask what is in international companies' risk registers in terms of investing in the UK, it is going straight after the Acorn carbon capture and storage project, which represents the most commoditisable investment for those companies. I am therefore rather surprised that that is not on your risk register.

The Convener: I will now allow Jamie Halcro Johnston to ask a question before we finish up.

Jamie Halcro Johnston: Minister, you talked about Orkney, and I am dialling in from there today. I want to get an idea of how the UK Government is supporting developments in more remote and island communities. You have talked about networks. How is that investment happening?

Graham Stuart: That is a good question. I do not claim to be an expert but, having visited Orkney, it is fascinating to see what is going on up there with the potential for offshore wind and continuing oil and gas to ever-higher environmental standards. The North Sea transition deal commits the industry to reducing emissions from production by 50 per cent by 2030 voluntarily and in a world-leading way. For that, Orkney needs to facilitate, encourage and incentivise investment to electrify, for example.

There is also tidal energy and, while I was there, I heard that there are plans for major port investment and investment in looking at harnessing the huge energy production potential in the islands.

Orkney is, by definition, an awfully long way from the core English demand centres, and we have to get our locational pricing signals right. Some of the biggest potential is in Scotland, but, if we do not reflect the economic cost and political challenges of delivering network reinforcements, we are going to get ourselves in trouble. We are wrestling with that as part of our electricity markets arrangement review.

When I was there and hearing about the opportunity to work on the ports and develop greater green hydrogen production in the islands, on the one hand if we have a system that properly reflects the costs of reinforcement for connection, and if that creates an incentive to do more with the energy in the islands—[*Inaudible*.]

The Convener: Every time I start to explain that the minister's connection has frozen, it starts up again.

Minister, before you leave us, I realised that I cut Michelle Thomson off when she was asking a question. Would you return to that? If there is time, Maggie Chapman would also like to briefly come in before we close.

Michelle, do you want to repeat your final question?

Michelle Thomson: I suspect that the minister has got the gist about Acorn. The point was probably well made.

After the 26th United Nations climate change conference of the parties—COP26—there was a great deal of optimism among investors. However, in giving evidence to this inquiry, the Association of British Insurers noted that there was still a shortage of packages that its investors could crowdfund. That speaks to risk, appetite, packages and so on. Are you able to give a bit more flavour on that? There is clearly a huge appetite for it, but we need things that people can invest in. Will you tell us more about your thinking on that, because we are not getting to the scale that we need to, at the moment?

11:30

Graham Stuart: In March and April, we published updated net zero investment road maps for hydrogen and CCUS, as well as two new road maps for offshore wind and heat pumps. That addresses your point about trying to make it as easy as possible for people to understand the landscape and opportunities.

Those road maps articulate investment needs and opportunities alongside relevant Government policy and the funding support that is available to investors, and we plan to publish further road maps later this year to support the net zero transitions. We will refresh them as necessary when there are significant developments.

Maggie Chapman: I will ask a very brief question. Minister, how do you intend to ensure that any investment that we get is conditional on it being key to delivering a just transition so that we do not get a two-speed economy, as we have seen in previous situations—such as in the north-east of Scotland? A just transition for communities is very important.

Graham Stuart: I am not entirely clear what you are getting at. A market economy is a market economy. If we can bring investment in, with people competing for workers and colleges training people up for jobs, we will, I hope, have good and sustainable long-term jobs. I am not sure that there is some magical government framework that risks standing in the way of investment—that makes it overcomplicated.

Maggie Chapman: How will you ensure that people and communities do not get left behind? Some people and communities have been left behind in previous energy transitions.

Graham Stuart: Okay. Forgive me for not really picking up on the reference.

The most important thing that we can do is get investment, lead the world on the environmental challenge and make doing so an economic opportunity. If we do that, there will be more and more jobs and opportunities, and, if we work closely together, as we are doing—it is great to appear before the committee today—with the Scottish Government and educational institutions, we can ensure that we have people with skills ready for when the demand for those skills arrives and that people get good and well-paid long-term sustainable jobs.

I agree with you that we do not need to have a revolution going on in which lots of people feel marginalised and sidelined. We have to ensure that there is something in it for local people when major infrastructure is put in place. I co-chair the green jobs delivery group, and we try to make sure that we have the right apprenticeship frameworks and other programmes in place so that, when the jobs appear, they do not just all go to people who come in from outside. There is an opportunity for good jobs—not only low-paid jobs—for local people, but that takes a certain amount of co-ordination.

I am trying to ensure that we get signals from the market and that we ask business to give us the data, so that I can work with the Department for Education, in England, to ensure that the right educational and skills development—whether it is T-levels, apprenticeship frameworks or short courses—is in place to avoid people sitting and watching outsiders come in and take jobs that they could have had if only they had known about them and had been able to train for them.

The Convener: I thank the minister and his officials for their contributions this morning and for their contribution to the inquiry that we are carrying out into the Grangemouth area.

11:33

Meeting suspended.

11:34

On resuming—

Subordinate Legislation

Public Procurement (Miscellaneous Amendments) (Scotland) Regulations 2023 (SSI 2023/124)

The Convener: Agenda item 4 is consideration of an Scottish statutory instrument. The committee is invited to note the Public Procurement (Miscellaneous Amendments) (Scotland) Regulations 2023.

The purpose of the instrument is to amend the Scottish public procurement regime to implement the procurement chapters of the free trade agreements between the UK and Australia, and the UK and New Zealand. We previously considered legislative consent motions on this agreement. I invite members to note the instrument.

Members *indicated agreement.*

11:34

Meeting continued in private until 11:45.

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