



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 17 January 2024

Session 6



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ECONOMY AND FAIR WORK COMMITTEE

2nd Meeting 2024, Session 6

CONVENER

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

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Maggie Chapman (North East Scotland) (Green)

*Murdo Fraser (Mid Scotland and Fife) (Con)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Colin Smyth (South Scotland) (Lab)

*Kevin Stewart (Aberdeen Central) (SNP)

*Evelyn Tweed (Stirling) (SNP)

*Brian Whittle (South Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Ash Regan (Edinburgh Eastern) (Alba)

Graham Stuart (United Kingdom Government Minister for Energy Security and Net Zero)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 17 January 2024

[The Convener opened the meeting at 10:02]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning, and welcome to the second meeting in 2024 of the Economy and Fair Work Committee. I welcome Ash Regan MSP, who is joining us for the evidence session.

Our first item of business is to decide whether to take items 3, 4 and 5 in private. Are members content to do so?

Members *indicated agreement.*

The Convener: It was previously agreed that we would take item 6 in private.

Petroineos Grangemouth

10:02

The Convener: Our next item of business is an evidence session on Petroineos Grangemouth. In November, it was reported that the oil refinery at Grangemouth would be transitioned to a fuels import terminal, possibly as early as spring 2025. Media reports suggested a net loss of up to 400 jobs. We have questions about the future of the site as a key employer and driver of economic activity in the area, as well as Scotland's and the United Kingdom's energy and industrial strategies.

Last year, the committee held an inquiry into a just transition for the Grangemouth area. We visited the Ineos site but, at that time, we were not made aware of those plans. On 13 December, the committee took evidence from Ineos Grangemouth, Petroineos Manufacturing Scotland Ltd and the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy. This meeting is an opportunity to discuss with the UK Government the announcement on the site's future.

I welcome Graham Stuart MP, who is Minister of State for Energy Security and Net Zero in the UK Government. I ask members and witnesses to keep their questions and answers as concise as possible. I invite the minister to make a short opening statement.

I think that we are having difficulty with the broadcast at this point.

Graham Stuart (United Kingdom Government Minister for Energy Security and Net Zero): I still cannot hear anything. I do not know whether you can hear me.

The Convener: We can hear you.

Graham Stuart: Do you want to try to change the sound thing again?

The Convener: Can we make sure that the minister can hear me? We can hear the minister. It might be helpful if I speak to see whether he can hear us. Can you hear me, minister? We asked the minister to make an opening statement, but I assume that he still cannot hear us. Shall we briefly suspend the meeting while we resolve the issue?

Graham Stuart: I can hear you now.

The Convener: Thank you.

I will briefly recap, minister. Thank you for joining us this morning. You may be aware that, in the summer, we carried out a short inquiry into Grangemouth. At the time, we were not made aware of the plans that have recently been announced. We have heard from Ineos,

Petroineos and the Scottish Government. We are pleased that you are joining us this morning. I invite you to make a short opening statement.

Graham Stuart: Thank you very much for inviting me to participate in this meeting regarding the Petroineos announcement on the Grangemouth refinery.

I recognise that the start of work to enable the transition of Grangemouth refinery into an import terminal will be a concern for many, particularly those in the workforce, their families and those in the surrounding area. The UK Government continues to engage positively with the Scottish Government, and it is committed to ensuring continued fuel supply, the protection of jobs and the creation of opportunities in Scotland. As Minister of State for Energy Security and Net Zero, my responsibility is for the energy security of the UK as a whole, including fuel supplies into Scotland.

As the committee knows, no final decision on the refinery's future has been made, and no changes are expected before spring 2025. Petroineos has taken a commercial decision that reflects its inability to make the refinery sustainably profitable. The UK Government and the Scottish Government have encouraged Petroineos over many years to invest in the site, and they are working together to understand all the options for its future. Petroineos's announced plans should maintain Scotland's fuel supply capacity and capability, and add flexibility to the site by adapting the infrastructure so that it can accommodate imports via larger ships.

As the committee knows, the local economy and jobs are devolved matters, but the UK Government is committed to maximising opportunities in Grangemouth. I will join the Grangemouth future industry board tomorrow as part of our efforts to support that.

The UK Government is already supporting the Falkirk Council area through the UK shared prosperity fund and the Falkirk growth deal in order to create high-value jobs and help to boost the local economy. We are working with the Scottish Government to deliver the Forth green freeport, in which Grangemouth is a key location. That is to drive investment in jobs and a transition to net zero by 2045. The UK Government remains absolutely committed to supporting the North Sea oil and gas sector as it inevitably declines.

I will finish by reiterating to the committee the UK Government's commitment to work closely with the Scottish Government to ensure a smooth transition if and when the company decides to convert Grangemouth into an import terminal. We will continue to ensure that the fuel supplies for Scotland are maintained and that the focus on

attracting investment and creating opportunities for communities in Scotland is maintained.

The Convener: Thank you, minister.

I question the statement that "no final decision ... has been made".

The evidence that we heard from Ineos and Petroineos sounded very much to be a case of "This is the decision." The final decision might be about when it happens, but there seemed to be no doubt that that is the plan for Petroineos, and that it intends to close the refinery.

We welcome the fact that you are going to the future industry board tomorrow. One of our recommendations in the report was that the UK Government should be involved in discussions around the future industry board. Will you update the committee on discussions that you are having with the Scottish Government? I think that you spoke to it most recently on 29 November. Have any discussions taken place since then?

Graham Stuart: I am sorry, but can you repeat that? I am hearing you now, but the volume is quite low. We are struggling a bit.

The Convener: Is it possible for broadcasting to adjust the volume? I will try to speak up.

My understanding is that your most recent meeting with the Scottish Government to discuss the future of Grangemouth was on 29 November. Have any discussions taken place since then?

Graham Stuart: The secretary of state spoke to the chief executive officer of Petroineos Manufacturing on 23 November last year, I think, to emphasise the importance that the UK Government attaches to maintaining energy security and support for the workforce. Previous ministers have met the senior management of Petroineos and shareholders of Ineos and PetroChina on many occasions and, alongside the Scottish ministers, over a number of years, ministers have used those meetings to press for investments in the site in order to maintain fuel and job security.

The Convener: What discussions have you had recently with the Scottish Government about a just transition for Grangemouth? At the start, you said that the measure was part of a move towards changing our energy needs and that it was part of a just transition. However, the committee's concern is that the announcement appeared to be quite sudden and that the timescales that were initially reported were quite short. There are concerns that that will have a negative impact on the local community, and particularly on the supply chain.

Graham Stuart: I was emphasising the point that we want to ensure a just transition and we are

working hard to deliver it, rather than saying that any decision on Grangemouth is particularly facilitating that. It is a commercial decision by the operator, which has said that it has been unable to make the refinery profitable for some time.

My department has well-established official-level structures to ensure alignment with devolved Administration counterparts, and we aim to have discussions taking place at least every six months, with the next scheduled for April 2024. We look forward to continuing to work together through those meetings, other fora and bilateral conversations. As I said, I will attend the Grangemouth future industry board at official level on 18 January. That is where an awful lot of the contact takes place.

The Convener: The announcement broke in the newspapers on 23 November. Is it fair to say that the UK Government and the Scottish Government were aware for a length of time, through conversations that they were having with Petroineos, that the closure of the refinery was coming at some near point in the future?

Graham Stuart: We did not know until 23 November, but, as you suggest, we were aware that Petroineos was not making money and that it was not making investments in order to change the site and make it profitable. The announcement therefore did not come out of a clear blue sky, but the first that we knew about the change of situation was on 23 November.

The Convener: Thank you. I will bring in Colin Smyth, who will be followed by Evelyn Tweed. I ask members to speak up, as that will assist the minister to hear the questions.

Colin Smyth (South Scotland) (Lab): Good morning, minister. I want to follow up on the point about when the UK Government was first made aware of concerns about the future of the refinery. It has been suggested in recent days that, two years ago, the Scottish Government held talks with Petroineos in which the then Scottish Cabinet Secretary for Net Zero, Energy and Transport, Michael Matheson, was warned of the refinery's potential closure because of the market pressures that the company faced. Is it therefore fair to say that the UK Government was aware two years ago of the potential closure of the refinery because of market pressures and the direction of travel that we are following for the energy transition?

Graham Stuart: My understanding is that the first we knew of this was on 23 November. I am therefore not aware of, and I do not know the detail of, any correspondence or information sharing with the Scottish Government. It may be that it was given more specific information. We did not know of any specific plans, and I do not think that I can go further than that. As I understand it,

that is the situation, although we were aware that the refinery had not been making money for a long time.

We and the Scottish Government had engaged with Petroineos, sought to find out about the situation, and encouraged it to make investments in order to sustain the refinery. We knew that that investment was not happening but, other than that, as far as I am aware, we did not have any specific information. If it turns out that we have any other information, I will immediately share it with you. However, my understanding is that we had nothing specific, other than a general understanding that the refinery was not profitable and that something needed to be done in the form of investment, if Petroineos could make the numbers work. We were aware that the refinery was an unprofitable asset and that it was possible that Petroineos would look to close or change it at some point, but I do not think that that had been said in terms.

Colin Smyth: Thank you for that, minister.

One of the challenges that the committee has had is in fully assessing the likely impact on jobs should the refinery close in spring 2025. It has been suggested that there will be a net loss of 400 direct jobs, but it is clear that the potential job losses will include indirect, supply chain jobs, particularly in the local area. Does the UK Government have clear figures for how many direct jobs and, crucially, indirect jobs are likely to be lost if the refinery closes in spring 2025?

10:15

Graham Stuart: I do not think that we do. Obviously, economic affairs are devolved to the Scottish Government to lead on. My understanding is that there are currently around 400 direct roles and that that number might reduce to around 100. That suggests that 300 direct jobs will go rather than 400, but you might be better informed than I am. As I said, the Scottish Government leads on the economic piece.

Colin Smyth: It seems strange that, if we are trying to support the company and the community to transition, we do not really have a full grasp of the number of jobs that we need to support. Are you confident that the new opportunities in the energy sector will be available in time to allow the workforce—whatever the number of people in supply and direct jobs is—to transition to new opportunities in the Grangemouth area?

Graham Stuart: That is an excellent question. The UK has a strong base of low-carbon businesses to build on, with more than 400,000 jobs now in low-carbon businesses and their supply chains across the country, and a turnover that was estimated to be over £41 billion in 2020. We expect there to be at least another 80,000

green jobs being supported or in the pipeline because of Government policies between now and 2030. The offshore wind industry alone has suggested that the number will go from the current number of roughly 30,000 to more than 100,000 by the end of this decade. That is a substantial increase. I think that Robert Gordon University suggested that 90 per cent of the UK's oil and gas workforce have medium to high skills transferability to the offshore renewable sector.

Obviously, we cannot give cast-iron guarantees, but there is very high growth in transition-related industries. Therefore, there should be every expectation of a good opportunity. The Robert Gordon University report suggests that most people in the oil and gas workforce have transferable skills, so that gives us a reason to be positive.

Colin Smyth: Crucially, many of the opportunities that you talk about are in offshore wind, for example. You talked about Robert Gordon University in the north-east of Scotland. What is the UK Government able to do to ensure that those opportunities in the Grangemouth area exist for the workforce, particularly the supply chain workers in the local community? With the best will in the world, a transition should not be about workers having to leave their communities to find opportunities. We should be trying to create those opportunities in their local communities.

Graham Stuart: That is another good question. One example of how we are seeking to support green industries in the supply chain is the recent announcement of £960 million for the green industries growth accelerator. That will support the expansion of strong, home-grown clean energy supply chains across the UK, including in carbon capture, utilisation and storage, the transformation of electricity networks, hydrogen, nuclear and offshore wind.

A vast amount of work is going on, and investments are being made as part of the UK leading the world—as we are—in decarbonisation. We have cut our emissions more than any other major economy on the planet, and the United Nations expects us to decarbonise faster than any other major economy between now and 2030. That has seen hugely significant investments in a whole series of industries, and not least in carbon capture, which I expect to be an important factor in Scottish economic prosperity in the long term. We announced £20 billion for carbon capture, utilisation and storage—CCUS—in the 2023 spring budget, and the policies and ambitions that we have set out have led us to expect around £100 billion of additional private investment in the period to 2030. There is an enormous amount happening.

I was, until recently, a co-chairman of the green jobs delivery group. One of the biggest challenges for us is to find the people to fulfil all the roles because so much is going on in this country to facilitate the green transition.

I recognise the point that you have rightly made about specific workers in a specific area, but your questions about that are probably better directed to the Scottish Government, which has that local responsibility.

I have already highlighted the support that we are giving to Falkirk. We also have the Forth green freeport, which is made up of a large consortium of businesses that are focusing on manufacturing and green initiatives. That will encourage regeneration and job creation in the region.

I mentioned the £6.1 million from the UK shared prosperity fund for Falkirk Council. That will look to deliver a range of interventions that support local businesses, communities, people and skills. We are happy to work with Falkirk Council to look at ways that best support the community that is impacted.

We also have the Falkirk growth deal, which is supported by the Scottish Government and the UK Government. It has a firm focus on the themes of innovative industry and great places, and it will see £40 million invested by the UK Government in projects that will create new high-value jobs for the future and make the area a great place to live and work in.

In addition to those things, the UK Government invests through other programmes, such as the levelling up fund and the community ownership fund, to maximise the investment and opportunity in Grangemouth and other places like it across the country.

The Convener: The minister has limited time this morning, so I ask members to be more direct in their questions; if the minister could provide briefer answers, that would allow everybody to come in. I will allow Maggie Chapman a supplementary question on employment before I move to Evelyn Tweed.

Maggie Chapman (North East Scotland) (Green): Good morning, minister, and thank you for joining us. I will follow on from Colin Smyth's questions. In your opening statement, you mentioned maintaining opportunities for communities in the Grangemouth area, and, in response to the previous question, you said that there is on-going work with Falkirk Council to support communities, in particular. Will you say a bit more about that? What specific work is the UK Government involved in to support not only the workers who are directly employed by and affected by Grangemouth but the wider Grangemouth community?

Graham Stuart: I just set that out as best as I could. The key components are the Forth green freeport, the shared prosperity fund and the Falkirk growth deal, as well as the levelling up fund and the community ownership fund. You will forgive me, but, further than that, as an energy minister, although I am here to represent the UK Government—and you can ask me any question that you like and expect me to be able to answer it—I cannot claim to be fully aware of the exact detail of how it is implemented and what the mechanics are of the relations between the local area and/or the Scottish Government and officials in different parts of the UK Government.

It is a pretty significant set of issues, which sits against the backdrop of the transformation of our energy system. However, according to Robert Gordon University and others, there will, one would hope and expect, be a great deal of opportunity for these skilled workers—highly trained, trained in safety and trained technically—to be able to get new opportunities. I want to send a positive message to the local community and individual workers that we are standing behind them. We are working closely with the Scottish Government. We are not at knives drawn or in a blame game. We are working together and seeking to do our best to help the workers and the community, in general. I am positive and optimistic for the future.

Maggie Chapman: Another thing that you mentioned in response to one of Colin Smyth's questions was that the UK is cutting emissions faster than elsewhere. One of the questions that the just transition commission raised was around how we ensure that, as Grangemouth shifts away from refining, we do not offshore our emissions that have been associated with Grangemouth, with those emissions taking place elsewhere. What is your answer to the just transition commission on offshoring emissions?

Graham Stuart: We recently announced that we will bring in a carbon border adjustment mechanism, which the committee might be aware of, that the European Union has already legislated for. That is where, in effect, you put a tax at the border to create a level playing field between operations within the border and operations that are outside it that are not subject to the same carbon price threats. That is one of the key things that we have announced that we will bring in, following the EU. It is one method of doing that.

Different things will close at different times. You cannot follow every operation. Sometimes an operation will close that will mean that supply comes from somewhere else. Equally, we will be developing more of our own.

Of course, the big context in refining is the expectation that demand for oil and gas will fall

over the coming years, not just in the UK but across wider markets. Therefore, European refining is expected to reduce. It is also in competition with newer and more efficient refineries in the likes of the Middle East, India and west Africa, which will further increase the pressure on European refining margins in the coming decades. That means that we are likely to see further refinery closures or conversions to import terminals or biorefineries in that timeframe. Sea bans and other measures such as that are designed to ensure that we have a level playing field; otherwise, as you rightly say, we will congratulate ourselves on being green while we see higher emissions somewhere else. We do not need the supply of anything to be done with higher emissions elsewhere substituting for a lower emissions system in the UK that does not compete. That is exactly what we are seeking to engineer.

Evelyn Tweed (Stirling) (SNP): Good morning, minister. What steps will the UK Government take to extend the lifetime of Grangemouth?

Graham Stuart: Subsidising operations at the refinery is unlikely to be value for money as it has been loss making for several years. We are working with the Scottish Government and Petroineos to understand all possible options for the future of the refinery. Grangemouth is one of Europe's oldest refineries. Petroineos says that its configuration makes it inherently inefficient and has resulted in Grangemouth bearing a higher unit cost of production than is borne by other refineries. In addition to public subsidy not necessarily making economic sense, it would likely draw legal challenge from its competitors in England and Wales, as well as from elsewhere in Europe.

Investment in assets or infrastructure at the Grangemouth refinery to improve profitability would require significant capital investment, which would be a commercial decision for Petroineos. It has not approached us with a request for financial support. It is, ultimately, a commercial decision for Petroineos. We have not been asked to contribute, and, at the moment, it is not obvious why we should invest in an oil refinery for which the operator is unable to make a commercial case for further investment.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Minister, I will ask you about energy security, which falls 100 per cent within your remit. When oil was discovered in the 1970s, there were 18 refineries in the UK. There are now only six major refineries left. At the time of the closure of Teesside in 2009 and Coryton in 2012, the UK Parliament Energy and Climate Change Committee said that

“the loss of further UK refining capability may pose a risk to security of energy supply as a result of increasing dependence on imports”,

and the International Energy Agency issued guidance that stated that

“import dependence greater than ... 45% ... is high risk to a country’s energy security.”

In 2012, 56 per cent of jet kerosene, 48 per cent of diesel and 44 per cent of heating oil were imported. More refineries have closed since then; we are down to six. If Grangemouth were to close, that would take the UK down to five, and there would be no oil refineries north of Leeds. What is the energy security situation today, given the background that was flagged up by the ECC Committee back in 2012?

10:30

Graham Stuart: Thank you for your question. One of the reasons for my taking through the Offshore Petroleum Licensing Bill to ensure that we have annual licensing in the North Sea is that, as that basin declines—it is expected to fall, with new licences, by 7 per cent a year—our import dependency will increase. If we do not have new licences, we will undermine the UK oil and gas sector, undermine investment in it and undermine the ability to lower its emissions from production, and all that we will do is destroy oil and gas jobs in the UK while substituting them with oil and gas jobs in other countries, because it will make no difference to our consumption. As I said, our consumption is coming down in a world-leading way, but, nonetheless, it will continue for decades to come.

It is so important that we support the oil and gas industry in the UK and do not fall for the trap of thinking that it is not net zero compliant. It is falling faster than is required globally; it has a lower carbon footprint than bringing in imports; it supports up to 200,000 jobs in the UK, most of which are in Scotland; and it brings in tens of billions of pounds in tax. That is always at the top of my mind because—

Gordon MacDonald: What you were saying—

Graham Stuart: Go on.

Gordon MacDonald: What you were saying is that, by issuing more licences, there will be more oil. However, most of that oil is exported for refining; we then have to buy it back on the international market, and we are subject to currency fluctuations that make the price more expensive. Again, where do you see us with energy security in 2024, given the background of the ECC Committee report that said that dependence of more than 45 per cent for any individual fuel is a high risk to a country’s energy supply?

Graham Stuart: I hear you. Effectively, there is a European market. For historical reasons, as you will know, the refining of most UK oil takes place in other European countries, and then, as you rightly say, we buy that product. Our output and the output that will come from new licences goes into helping European energy security, which is a market of which we are part. It is worth making that point. It seems odd to focus on energy security at the same time as not supporting and maximising the supply of gas and oil that is local to us. If it is refined in other European countries, and the vast majority—90 per cent—of it is, that is done in friendly neighbouring countries. You do not have to get through the Strait of Hormuz to deal with that product.

The UK already imports significant amounts of diesel and crude oil from a wide range of global sources and, given the diverse nature of supply of finished petroleum products, that transition does not make the UK or Scotland’s fuel supply inherently more vulnerable. Therefore, we do not accept at face value the argument made by the ECC Committee. We currently import crude oil from a variety of sources, with the USA and Norway accounting for more than 66 per cent of crude oil imports in 2022. Other significant sources include north and west Africa. Similarly, the UK already imports refined petroleum products, including diesel and jet fuel, with the Netherlands, Belgium, India, Kuwait, the United Arab Emirates and Saudi Arabia being major partners. It is likely that the imported products that would replace the production at Grangemouth refinery would come from similar locations, although that will depend on the status of the market at the time.

As I said, the refinery sector is expected to decline across Europe over the next 10 to 20 years. It is because of the expected decline in regional demand alongside increasing energy costs, an increase in carbon pricing and the growth of global competition that we expect that to happen. I have mentioned the more efficient refineries in the middle east, India and west Africa, and, as I said, that means that we will have more closures. On quality, which might be another concern, the UK has strict regulatory standards that all fuel must meet.

You gave numbers on imports as a share of demand. To update you, in 2022, imports constituted about 25 per cent of demand for petrol, 56 per cent for diesel and 81 per cent for jet fuel. One of the benefits of our leading the world in cutting and decarbonising our economy is that we can reduce our dependence on foreign fossil fuels. In the past couple of years, we have seen the economic impact of being dependent on them. That is why we are expanding renewables and the like, but, even as the most decarbonised major economy on earth, we are still dependent on oil

and gas for around 75 per cent of our overall energy needs right now. We will need oil and gas in 2050 and beyond, even when we have met net zero. Given that, and given that our production has lower emissions than imports have, not supporting the 200,000 jobs and the tens of billions of pounds in tax is a crazy policy position if you care about energy security—it is, to my mind, and I urge all those who hold that position to move.

Gordon MacDonald: My final point about crazy policy situations is that we were told by Iain Hardie from Petroineos, when he gave evidence on 13 December, that discussions were taking place with the UK Government on steps that could be taken to ensure that the refinery continues to operate. He also highlighted that, to operate beyond May 2025, the refinery requires investment of £40 million so that it can have an operating licence to continue to refine. Will you give us a flavour of those discussions? Given the figures that you just mentioned and the fact that, since oil was discovered here in the 1970s, the UK Exchequer has received £300 billion in revenues, surely £40 million is a drop in the ocean to secure energy supply in the UK?

Graham Stuart: I know that you are there to ask me the questions rather than me put them back at you, but, as I said, if Petroineos cannot see the commercial sense of investing in a refinery that it has been unable to make profitable over a substantial period and that it says is inherently inefficient, I do not think that that would be a sensible use of British taxpayers' money. That is the case, especially as our estimate is that changing the site from being a refinery to an import terminal will not fundamentally affect the energy security of the UK or, indeed, of Scotland.

The Convener: I will allow Ash Regan one supplementary question before I move to Brian Whittle.

Ash Regan (Edinburgh Eastern) (Alba): Good morning. I want to follow on from Gordon MacDonald's question. The figures for 2022-23 show that the revenue from Scotland's oil and gas activity was £10.6 billion, which was a record amount. That £10.6 billion from Scotland's oil and gas activity flowed into the UK Treasury. It has been reported that it would take an investment in Grangemouth of about £80 million to not only extend its life but make it profitable. That, ultimately, is what we are discussing this morning. Does the UK Government not understand that, in that context, the people of Scotland would reasonably expect a share of the revenue that comes from oil and gas to be invested back into Scotland's infrastructure?

Graham Stuart: Some of the oil and gas industry is in Scotland, but Scotland is a part of one United Kingdom. Of course, those tax receipts

go to the Government. Over the past few years, they have allowed the Government to subsidise household energy bills in Scotland and everywhere else. The expectation is that cost of living support between 2022 and 2025 will total more than £104 billion.

We have one of the highest tax rates on oil and gas in the world, which is why the industry is expected to bring in £30 billion in tax revenues over the next five years. That, of course, would all be put at risk by those who would refuse to allow new investment and new licences. A managed decline of the North Sea industry would put at risk tens of thousands of jobs in the north-east of Scotland and 200,000 jobs across the UK. It is absolutely right that we need a joined-up rational policy that optimises both energy security and the welfare of our people.

Ash Regan: Can I follow up on that, convener?

The Convener: Briefly.

Ash Regan: The minister talked about one United Kingdom, but it is Scotland that produces 90 per cent of the oil and gas for the UK, and it is Scotland that will be left with no refinery. Would the UK Government be so relaxed about the situation if the boot were on the other foot and England had no capacity to refine oil?

Graham Stuart: We are the United Kingdom Government, so we look at the numbers and assess energy security for the whole of the United Kingdom; we do not look at things through a separatist lens. We treat everybody as having equal value, and we work together. It is that union that has been the great strength of this nation for such a long time, and I am confident that it will continue for many years to come.

Ash Regan: [*Inaudible.*]—refinery when it produces 90 per cent—

The Convener: I am sorry, but we need to move on.

Brian Whittle (South Scotland) (Con): Good morning, minister. Thank you for giving us your time. You touched on the expansion of the green freeport policy. It has been suggested that there could be future development such as a potential biofuel refinery at Grangemouth. Some of my colleagues will talk about the potential for hydrogen and for sustainable aviation fuel. The Scottish Government and Ineos suggested that the planned import terminal was not incentivised by the green freeport policy but that other industries might be. How can the Scottish and UK Governments ensure that any activity that benefits from tax incentives in green freeports represents the kind of additionality that we would like to see?

Graham Stuart: As you rightly say, Petroineos said that there were potential benefits from the

Forth green freeport relating to a biorefinery at the Grangemouth site.

Generally speaking, Scottish green freeports will support businesses to create high-quality and well-paid new jobs, to promote growth and regeneration and to make a significant contribution to meeting our net zero ambitions. Outline business cases for the two Scottish green freeports, including the Firth of Forth green freeport, have been submitted. The business cases articulate the strategic visions for the green freeport areas, and they are being appraised by the Scottish and UK Governments.

Green freeports will extend the freeports model that is being delivered in England, which provides simplified customs processes and offers tax measures to incentivise private business investments. Having carefully considered planning reforms, we believe that freeports will facilitate and speed up construction, and there will be additional targeted funding for infrastructure improvements in freeport areas so that we can level up communities and increase employment opportunities. Freeports will also have access to seed capital funding, innovation support and trade and investment support. In total, the UK Government, in close collaboration with the Scottish Government, is providing up to £52 million for the delivery of two green freeports in Scotland.

Brian Whittle: It occurs to me that, given my colleagues' earlier conversations with you about trying to maintain high-quality jobs in the community, incentivising those particular industries is a way of maintaining a high level of skill at the Grangemouth facility. Are the Scottish and UK Governments looking specifically at incentivising those kinds of industries in green freeport areas to make sure that there does not need to be a migration of jobs away from Grangemouth?

Graham Stuart: Sorry—to which particular industries are you referring?

Brian Whittle: I am talking about using the Grangemouth facility for biofuels, hydrogen or SAF. That seems a logical way in which we could maintain a high level of jobs at the Grangemouth facility.

Graham Stuart: As you said, we might come on to those issues when your colleagues ask their questions. There is a great deal of potential in those areas. We recognise that the Scottish Government leads on economic development, but both it and we, while promoting net zero and transition industries in particular, try to be as technology neutral as possible. Through the incentives, we are trying to create a framework in which various kinds of businesses can participate.

Otherwise, the danger is that I, sitting at my desk in Whitehall, and someone sitting in Edinburgh will think that we know better than the market what the best opportunity is in a certain area.

10:45

We came up with our biomass strategy last year. SAF mandates and policies are being worked on, and we are also working on hydrogen, so we are specifically supporting and promoting a series of areas. I hope that we will combine those national-level policies with the very specific support mechanisms that green freeports can deliver, and I hope that those industries will be encouraged to work in the Grangemouth area. As you said, that will ensure that the jobs come to the people, rather than forcing the people to travel to the jobs.

Colin Beattie (Midlothian North and Musselburgh) (SNP): The committee has heard that the regulatory environment has to be right to support the development of a hydrogen industry in Grangemouth and, indeed, across the UK, including regulation of the transportation of hydrogen. I have two questions about that. First, what is the UK Government doing to ensure that the Scottish Government and UK Government's ambitious targets for hydrogen activity are supported? Secondly, has the minister had any discussions with the industry about the potential for hydrogen production at Grangemouth?

Graham Stuart: Thank you for that question. We are working flat out because we cannot see a route to net zero without hydrogen, and we are seeking to support that.

I guess that you can think of it in three parts. There is the production of hydrogen, because no one will alter their processes until they know that they have a regular supply. We are trying to do that while reassuring those who are producing it that their business model means that they can invest, even though they do not know where they are with the demand side. Second is the transport element and getting the rules and the business model for that, and then there is storage and supporting the demand side.

As a Government, we are moving as fast as we can. As you know, in December, we announced the 11 projects that are being supported. We are also looking to speed up our business model for transport and storage as quickly as possible.

Forgive me; this is not my specific policy area, but we aim to have opened our allocation round before the end of this year while continuing to work in parallel on a business model so that, in 2025, we will not only have a business model, we will be able to quickly allocate and initiate work in the transport and storage space.

Rather than doing pilots, the aim is to try to come up with the right approach up front for the long term and get projects off the ground so that we can get production, use, transport and storage, including the infrastructure that needs to be built for it, up and running as quickly as possible. That is the aim, but we expect to need a great deal more hydrogen. The first thing to do is de-risk the process by showing that we can build it at a commercial scale with all the component parts, and that is what we are working on.

You asked specifically about Grangemouth. I do not know whether we have had those conversations, but our door is open and we will talk to people from any and every area. We are keen to talk to people at a political and technical level about the potential to develop the hydrogen economy, which is an area of big potential for the whole UK, including Scotland.

Colin Beattie: Thank you for that. To be absolutely clear, does that mean that there have been no substantive discussions about hydrogen production or the potential for it at Grangemouth?

Graham Stuart: I do not want to misinform you, so, if I get permission, I will write to the convener with the answer. I am not aware of the specifics, but I know that we are involved in multiple engagements across many fronts on hydrogen, CCUS and a whole series of other things. I do not want to misinform you one way or the other.

Colin Beattie: Thank you for that.

Kevin Stewart (Aberdeen Central) (SNP): Good morning, minister. Would the UK Government be so hands-off if it were the Fawley refinery in Hampshire that was earmarked for closure and job losses?

Graham Stuart: I do not recognise that we are hands-off. We have a devolved settlement and the Scottish Government leads on certain things, but we work closely with it. I have turned up to give evidence today. I am attending the future industry board tomorrow. The Secretary of State has met people.

I can see the politics of suggesting that we are hands-off and that we treat Scottish assets with less interest than we do English ones. It suits your agenda, but I do not think it is fair. Considering the evidence that I have given, I do not think that you could support that as a case. I would hope that we are very much hands-on while respecting the roles of the parties concerned.

Kevin Stewart: Okay. I want to follow up on the questions about hydrogen that Colin Beattie has just asked. One of the difficulties in moving forward with hydrogen, whether at Grangemouth or elsewhere, is the snail's pace of the UK Government in setting out the regulatory regime

for the production, transportation and even use of hydrogen and injecting it into the natural gas supply. When will the UK Government be in a position to have those regimes in place so that we can get on with it like some of our competitors?

Graham Stuart: Mr Stewart, I think that I answered that when I said that we would have the business model for transport and storage in 2025, which is when we said we would do it, and that we are bringing forward the start of the allocation process to this year so that we can move forward. As soon as we have developed that business model, we can take it forward at pace.

We are actually moving more quickly than we originally said we would. As I have said, I am not a particular expert on hydrogen, but I am not aware of many jurisdictions that are ahead of us in the development of business models for transport and storage. Perhaps you could enlighten the committee.

Kevin Stewart: We can perhaps send you some of that detail, Mr Stuart. Again, you said that—

Graham Stuart: You told me that we are way behind, but you cannot give me a single jurisdiction that is ahead of us on transport and storage.

Kevin Stewart: I can give you jurisdictions such as Germany, for example, where they are injecting hydrogen into the natural gas supply. There are many examples out there, minister, as I say, and I am sure that we could give you more.

You said in one of your answers that the UK imports 81 per cent of its jet fuel, which, as my colleague Gordon MacDonald says, does not seem to ensure energy security. There has been a lot of talk about sustainable aviation fuel. How quickly can the UK Government move forward on the regulatory regime for SAF? Are there opportunities for Grangemouth or elsewhere in the production of SAF, once we get those regulatory regimes right?

Graham Stuart: Thank you for that question, Mr Stewart. We want the UK to be a world leader in the development, production and use of sustainable aviation fuel. We are committed to driving demand by introducing a SAF mandate from 2025 that will require at least 10 per cent of jet fuel to come from sustainable sources from 2030. We have allocated more than £135 million to UK SAF production facilities so that we can kick-start the domestic industry. We have launched a UK clearing house to support the testing of those novel fuels, and we are working with industry investors to build long-term supply. In September, we committed to designing and implementing a revenue certainty mechanism, and

we will consult on the detail of that by 26 April this year.

We recognise that there are barriers to investment in UK SAF production, given that it is a first-of-kind technology. They include revenue certainty, feedstock availability, technology and construction. That is why we are providing grant funding to support technology and construction. As I say, in September, we committed to introducing a revenue certainty mechanism by 2026. We also included a provision in the Energy Act 2023, which received royal assent on 26 October, that required the Government to publish a consultation on the options for designing and implementing that revenue certainty scheme within six months of the act's receiving royal assent. We will publish that in April.

There are different ways to design and deliver such a scheme, and that will be the subject of the forthcoming consultation. The Government is committed to working with the industry on the design and development of the scheme and we will continue to look at any potential barriers to investment to ensure that we remain a very attractive place for SAF production.

The Convener: Thank you. Murdo Fraser, do you wish to ask a question?

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning, minister. Kevin Stewart just stole my question on sustainable aviation fuels, so I do not need to follow that up.

The Convener: Okay, thank you. That brings us to the end of the evidence session. Thank you, minister, for joining us this morning.

10:56

Meeting continued in private until 11:31.

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