



OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 24 November 2021

Session 6



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ECONOMY AND FAIR WORK COMMITTEE

12th Meeting 2021, Session 6

CONVENER

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

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Alexander Burnett (Aberdeenshire West) (Con)
*Maggie Chapman (North East Scotland) (Green)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Fiona Hyslop (Linlithgow) (SNP)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Colin Smyth (South Scotland) (Lab)
*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Richard Ballantyne (British Ports Association)
Professor Kiran Jude Fernandes (Durham University)
Bryan Hepburn (DFDS)
Maggie Simpson (Rail Freight Group)
Robert Windsor (British International Freight Association)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 24 November 2021

[The Convener opened the meeting at 09:31]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning and welcome to the 12th meeting in 2021 of the Economy and Fair Work Committee. Our first item of business is a decision on taking items 4 and 5 in private. Are members content to do that?

Members *indicated agreement.*

Scotland's Supply Chain

09:31

The Convener: Our main item of business is the third evidence session of our inquiry into Scotland's supply chain. The inquiry looks at the short and medium-term structural challenges that are facing Scotland's supply chain and how the challenges and shifts in supply chains are impacting on Scotland's economy. We want to consider how to build future resilience and whether there are opportunities to develop domestic supply chains. Our inquiry is structured around three themes: people, places and product. This session is our first on places; it will look at logistics.

I thank our witness panel for attending. I welcome Richard Ballantyne, chief executive, British Ports Association; Kiran Jude Fernandes, professor of operations management, Durham University business school; Bryan Hepburn, operations manager, DFDS Group; Maggie Simpson, director general, Rail Freight Group; and Robert Windsor, policy and compliance manager and executive director, British International Freight Association.

As we have five witnesses, I ask members and witnesses to keep questions and answers as concise as possible. Witnesses will be able to provide supplementary evidence after the meeting, so I ask them to focus in their answers on key points that are relevant to the committee. I also note that Ms Simpson will have to leave at 10.30, and we will allow time for that to happen.

I will ask the first question, which I will direct to Bryan Hepburn. I will be interested in Robert Windsor's views as well, so I will go to him first.

The committee understands the supply chain pressures that we are all facing through Covid, and the impact that Brexit has also had. There are well-known pressures, such as the shortage of heavy goods vehicle drivers and the changes to customs procedures, which have been challenging for businesses to introduce. In addition, at the moment, there are press reports about threats that France will introduce additional measures because of the dispute over fishing, and threats from fishermen that they will block the port of Calais. Those add to the existing pressures.

Mr Windsor, will you talk about the current situation that is being faced by British freight? What is your response to their concerns about the potential conflict that is ahead with France in particular?

Robert Windsor (British International Freight Association): Okay. Sorry, can you hear me?

The Convener: Yes, we can.

Robert Windsor: There is an alarming—*[Inaudible.]* First, can I talk about the situation outside Europe? The pressures that are facing the supply chain are of a global nature. In particular, there is an imbalance in demand and supply in the maritime sector. That is largely because of high levels of demand from America for product and restocking.

In the air freight environment, the problem was undoubtedly the shutting down of all passenger routes because of Covid, and the reimagining of mainly passenger aircraft by taking out the seats and using the aircraft as freighters. Such aircraft are not easy to use, because it is very labour intensive and—*[Inaudible.]*

BIFA's view on the situation with Europe has always been that what happened on 1 January this year was the easy bit because, up to a point, we were dealing with export procedures that could be easily applied from our knowledge of the rest of the world. We are dealing with new import procedures and new processes coming in, such as the goods vehicle movement service. It is a bit like a jigsaw at the moment. We have all the bits but no one is quite sure how they all fit together. I get a lot of questions from my members on that issue. We have got the exporter and freight forwarder in Europe, and the trucker, the import agent and the importer, and we are all trying to work out who does what, when and how, and how the data supply will work.

We are not a political organisation, but I would say that there is scope for improving what the UK Government has done. We are particularly concerned that, for instance, although GVMS is being used for transit, it has not had much of what I would call a live testing environment. The UK Government is now working towards that, though.

Regarding the vagaries of the fishing dispute, I am sorry, but I would rather not answer that, because it is outside my remit, and anything that I said would be pure speculation.

The Convener: You have helpfully set out the context of Covid and the pressures that that put on the sector, and you have talked about the changes to our customs relationship with Europe. On Scotland's supply chain issues, and supply delays, there are the shortages that we are seeing on shelves, and there is the pressure on businesses to receive components. Which of those two factors is the bigger problem, or is it a combination of both?

Robert Windsor: It would be dependent on the market and the origin of goods. If it is about goods coming from the far east, I would argue very much that it is the imbalance of demand and supply—*[Inaudible.]*—America and—*[Inaudible.]* I am

sorry—there is an echo. I do not quite know where that is coming from.

For trade with Europe, there are European Union exit-related issues, which are very demanding as far as I am concerned. Since 1992, it has basically been a transport operation between us and Europe. Now, it is a freight-forwarding logistics operation, which includes regulatory checks. It might be an odd thing to say, but the whole nature of the transaction has changed because of that.

The Convener: Thank you, Mr Windsor.

Bryan Hepburn, would you like to talk a bit about the pressures that your business has faced and what you think are the main issues that are creating a challenging environment for our supply chains? Also, can you comment on how we can resolve some of the pressures? What would ease the situation?

Bryan Hepburn (DFDS): Certainly. I am based up in Shetland, so we primarily export an awful lot of fish to the continent. I was going to mention the blockade of the Calais port. That will not really affect us too much—the fishermen can block the port all they want, as long as they leave the train alone, because that is the primary route of entry into Europe for everything. That is how we get in there—across to Boulogne mostly.

On the pressures that we have faced since Covid and Brexit, there is the well-known pressure of the HGV situation, but there is also the extra time that everything takes. Our goods, such as fish and mussels, are all perishable and lose their value every day that they are delayed getting to market. The market is primarily in mainland Europe and we struggle getting everything down there.

Now, we can just get across the border into Boulogne before the tachograph rules expire and we run out of time. We used to be able to go to Spain and the south of France, but now we struggle to get everything down there. The situation has had a knock-on effect for our exports, and we export an awful lot of stuff—each trailer of salmon is worth about £110,000 and we ship between 10 and 15 out of here every day.

As you say, the nature of our interaction with Europe has become more about freight forwarding and more regulatory. One of the pressures is that people were not prepared for it—they did not know and did not get ready. There is a great cloak of ignorance with many of the smaller customers. Many of the guys who used to pick things up in Europe have just stopped doing it. They have been able to make their money in the United Kingdom without having to go abroad, because of the driver shortage in Britain and, frankly, the

hassle of having to get across the border and back with goods.

We try to import things—I am trying to export quarry equipment to the Republic of Ireland and to import saws from Spain, for example—and many of the customers that we routinely work with do not know what is involved. They ask us to sort things out, to prepare commercial invoices for them and so on. They have to get their economic operators registration and identification—EORI—number, which many of them do not have, so they rely on freight forwarders. Everybody is trying to make a pound, so everything goes up in price—something that once cost £10 now has to cost £20 because everybody has their hand in the pot. Education could make the situation better, because everybody would then be able to do things better.

Everybody is also frightened of a massive tax bill hitting them. They ask questions—“When do I pay the VAT? Now or later? Do you pay it?”—which creates an unnecessary hassle and a near mystique around the situation.

Although the situation is an opportunity to make money, it comes at a great cost too. We have a lot of fish at a huge cold store in Larkhall. Because fish is a food product, we have to employ many vets and get many health certificates. We did not have that cost in 2020, but we have it now in 2021. That cost has to go somewhere. French and Spanish fishermen still fish in our waters, so we are at a competitive disadvantage with our fish. The situation is not equal, because they can go back to their port and land the fish there without any kind of tariff, whereas we have to face all that work.

The Convener: You mentioned importing. Is the bureaucracy, rather than the shortage of goods, creating the blockages around imports? It sounds as if you can source the goods that you are trying to source but the difficulty is that people find the new system challenging.

Bryan Hepburn: The actual getting of goods is not so much the problem and we have been able to resolve many of the operational logistics around shortages. We have become better at that work. The bureaucracy, and people not knowing what they are meant to do, is the problem, and the rules are changing again.

Michelle Thomson (Falkirk East) (SNP): Good morning. Before we get too deeply into the session, I want to ask Kiran Fernandes a couple of questions about his report, which follow from what we have already started to discuss around Brexit.

I thank you for your classifications of supply chains, which I found insightful and helpful. However, Brexit has affected each of those types of supply chain. Although I know that that is not the focus of your report, how did you manage to

remove its effects from your analysis altogether? That approach puzzled me, so can you help me understand how it came about?

Professor Kiran Jude Fernandes (Durham University): You are right. In the report, we tried to understand first the types of supply chain that we could identify as predominant in Scotland. The report considered data from a large number of predominantly small and medium-sized enterprises. We then tried to figure out whether that is how a typical supply chain works. For example, the efficient supply chain would be a characteristic type of supply chain for automated, high-volume manufacturing.

09:45

Then we started doing that analysis on a number of different risk profiles and asking whether they would be affected by a number of factors, one of which was whether a Brexit effect was taking place. If it was, what would the likely impact be? What alternative strategies is that particular part of the supply chain resilient to? Different types of supply chain are resilient to different types of external forces—some cope far better than others.

You heard about fishing earlier; in the case of fishing, the supply chain weights on uncertainty would be higher because of the perishable products that need to be shipped, whereas that type of uncertainty would be slightly lower in the case of an automotive supply chain because there are alternate mechanisms to get the particular product into the marketplace and it can be sourced from different locations.

We tried to weigh different components to arrive at a high-level score, which allowed us to look at different factors that we could change.

Michelle Thomson: I have another couple of questions, but you do not need to answer them now—I would prefer it if you emailed the responses to the committee so that we can understand the basis of your research.

You mention the case study analyses and the features and weightings involved. I did not quite understand how you arrived at the weightings and, in particular, it would be useful to understand the methodology. Also, you mentioned risk; in most academic literature, risk is defined as a combination of the probability of getting a bad outcome with an assessment of the value of the bad outcome, and they are then combined to get a utility score. In your report, you depart from that model, so I would like to understand your basis of risk, because that feeds back to your earlier comment about how you weighted the impact of Brexit on some of those supply chains.

The Convener: Thank you. Professor Fernandes, if you could email us with the responses to those questions, that would be helpful.

Professor Fernandes: Yes—thank you.

Gordon MacDonald (Edinburgh Pentlands) (SNP): My questions are addressed to Maggie Simpson, as they are predominantly about rail freight. We have talked about the international situation, but I am keen to understand the UK domestic situation in terms of opportunities for growing rail freight. Network Rail's industry growth plan from April 2019 to March 2024 aims to try to grow rail freight by 7.5 per cent by March 2024. One of the written submissions suggests that, if we accelerate the transfer of freight from road to rail, we could reduce loads from Scotland to England by 900 loads per day. Where are we on trying to grow rail freight in Scotland?

Maggie Simpson (Rail Freight Group): Thank you for the question; it is a pleasure to be here today.

The rail freight perspective differs from the comments that have been made so far because, as you say, we are looking at the domestic movement of goods to, from and within Scotland and all those axes are important.

Over the past two years, our members have worked hard to keep goods moving up into Scotland and across Scotland. That has included measures such as running longer trains, of up to half a mile long; putting on extra services; doing more at weekends and overnight, where the engineering access on the rail network allows that; and working with customers to get new trains up and running.

There have been a number of new services across the UK recently and I know that our members are working hard to put on extra services up and down the country, including on the Anglo-Scottish corridors.

We are working hard to get a modal shift and there has been a sea change in people's understanding and perception of the need to do more by rail freight—and, indeed, by water freight—for decarbonisation.

The growth target in the Network Rail document that you mentioned has been hugely important for our sector, not necessarily because I can tell you that we have hit 7.5 per cent or some other number—after all, the disruption that has been caused by Covid has affected us as it has everyone else—but because it has shifted people's mindsets and behaviours towards having a much more supportive framework for freight. I have to say that Network Rail in Scotland leads the pack in how it approaches rail freight, how it

considers it in its plans and how it promotes it. In fact, we have cited it as an example of best practice when talking to other regions south of the border.

As for what more we can do, we are doing a number of things in the sector, with new projects set to come on stream across Scotland over the next year. For example, there is the work at the Mossend terminal and the Highland Spring terminal, and more work on timber is planned. Something that we are conscious of in the medium term is the need for capacity on the key cross-border corridors—the west coast and east coast main lines—which are very congested. There is significant demand for more passenger trains on those routes, including, in the fullness of time, the high speed 2 trains, and the capacity of those axes will continue to be a concern in the medium term.

Gordon MacDonald: [Inaudible.]—environmental issue. What are the benefits of moving from road to rail with regard to achieving our climate change targets?

On HS2, which you mentioned, I read a report in the media that the freight industry was the big loser in the cancellation of the northern part of that project. Can you touch on that, too?

Maggie Simpson: Of course. With regard to environmental performance across the rail freight sector, we make on average a third of the carbon that is made by road freight; indeed, a statistic that gets quoted a lot is that rail produces 76 per cent fewer emissions. On the Anglo-Scottish corridor, where we run electric haulage, that percentage will be even higher—indeed, it is probably up to 90 per cent better than road freight. Even with diesel, we are making significant carbon savings compared with HGVs, which is something that the industry is very proud of and which is, in fact, bringing customers to us.

Of course, we are not complacent about this, and we are looking at measures to get that number even lower. The use of longer trains is a good example of that; every tonne of carbon is worth saving, and the smaller savings that we make on every single train all add up. We are working hard to reduce things even more.

As for the eastern leg of HS2, I have seen the press reports that you have mentioned. For us, the picture is complicated, and in truth we need to do some more analysis of the impact. Last week's announcement contained good and bad news for us. As these are English matters, I will not dwell on them, but the proposed upgrade of the trans-Pennine axis will be important for ports on the east and west coast of England and is good news for us. We need to do some more work to understand in more granular detail where HS2 trains will run in

the future on the existing network and what that will mean for the net amount of capacity available, because that is certainly a concern for us at the moment.

That said, the east coast main line is already heavily congested. There have been issues with the new timetable, and it is an axis on which we will want to grow freight in future. In that respect, there are concerns about what the impact will be.

Gordon MacDonald: I also want to ask about ferries and sea alternatives. Perhaps I can address the question first to Richard Ballantyne of the British Ports Association.

Because of congestion on the roads, increased fuel costs and, of course, the situation with HGV drivers, companies are looking at alternatives. One such alternative is rail. However, what are the possibilities with regard to introducing direct ferry routes from Scotland? In Ireland, according to the latest reported numbers, there has been a substantial 21 per cent reduction in container trade with the UK, while direct trade with the European Union has gone up by 36 per cent. Is there a possibility of reintroducing the Rosyth to Zeebrugge route, for instance, or of establishing the much talked about Norwegian connection, given the change in circumstances?

Richard Ballantyne (British Ports Association): Good morning. I thank the committee for the invitation to attend this morning's meeting.

I will give a bit of context that is relevant to the question. Like the rest of the UK, Scotland is reliant on EU traffic for imports of certain commodities, including food products. The UK also relies on deep-sea traffic from Asia for finished consumer products—furniture, toys, clothes and many other items. As Robert Windsor said earlier, the shortages and the pressures that we have seen across the sector vary depending on the nature of the trade and where goods are sourced from.

The haulier shortage is a pressing matter. It has not hit Scotland in exactly the same way as it has hit the rest of the UK. In England, the haulage community relied more on European labour, much of which relocated last year—partly due to Covid, and a lot to do with Brexit—to central and eastern Europe. In Scotland, there tends to be more domestic resource for haulage. However, it is all interlinked: when there are shortages in England, we see a bit of run on goods in Scotland. As I understand the situation, however, the haulier shortage has not hit Scotland in the same way. I am sure that the Road Haulage Association, which is vocal on such matters, will be able to provide the committee with extra advice.

Many goods come into the UK on the east or south coasts of England and from there are, predominantly, trucked up to Scotland—although, as Maggie Simpson explained, there are some valuable and useful rail links. It is also important to note that we still have good domestic shipping routes from south to north and north to south, depending on the commodities. They have tended to focus on heavier bulks—timber, aggregates and other big, heavy commodities—for which transport by coastal ship is more cost and fuel efficient. However, we are seeing growth in transport of containers on feeder vessels. As Gordon MacDonald rightly identified, there has also been growth in sea transport around the British Isles, not least from continental Europe to Ireland.

The closure of the ferry service from Rosyth to Zeebrugge six or seven years ago made a bit of a dent in the Scottish logistics industry's armour, which was a pity. However, markets dictate such things. I understand that there are continuing discussions about the potential return of a ferry service, but it all has to add up. My colleague from DFDS would be better suited than I am to talk about that—especially because DFDS was the carrier that ran the service. He will know about the commercial angles.

With a bit of electoral will and commercial interest, there could definitely be a role for Scottish ports in linking to continental Europe on a unitised front. However, at the moment, we are heavily dependent on England. There is lots of choice on the east coast—Teesside and the Tyne have unitised services—not to mention the southern ports and the Eurotunnel.

As we heard earlier, unfortunately, it is never very difficult to drive. Despite the increase in fuel costs, it is still quite cost effective to get goods from Scotland to the south coast of England and then across to Europe. For example, if fish are landed in the north-east, Shetland, the northern isles or the west coast, it is still very efficient to preserve value in that perishable commodity down to the south England ports and on to places such as Boulogne and other markets, including Zeebrugge and beyond. Therefore, it would take quite a dramatic change in operations and a major shift, but there are opportunities for modest changes.

10:00

Gordon MacDonald: Bryan, do you want to comment on that?

Bryan Hepburn: Thanks, Richard, for opening all that up. I understand this stuff quite well. DFDS has been considering things such as multimodal freight—where and how we can do that. We looked at rail links to the south of England—for

example, Mossend to Tilbury—but the speed of the service is a big barrier. We were quoted one and a half days to get the product from Mossend to Tilbury, which is three times as long as we need, so we cannot do that. We have to go by road; we are compelled to so, otherwise products lose at least half their value.

DFDS is also a ferry operator. We had the Rosyth to Zeebrugge link for a number of years, but it failed on numbers. It would be fantastic to have a link from Scotland to Europe, but at the moment we push a lot of stuff through Immingham, which has opened up a rail freight line—the Humber express line—between Immingham and Doncaster. We are looking at that. There is also a ferry route from Europe to the south of Ireland. As Gordon MacDonald said, freight from the continent has boomed there and has decreased from mainland UK.

It is a dearly held ambition to get a freight service between Scotland and mainland Europe. We also want to explore more multimodal means of transport with the rail network. That is basically what I was trying to say. That is all for me.

The Convener: I will allow Jamie Halcro Johnston a short supplementary question before I bring in Fiona Hyslop.

Jamie Halcro Johnston (Highlands and Islands) (Con): I might come back to Bryan Hepburn on the point that he made about road transport. I will go to Richard Ballantyne first on his point about transshipment. There has been talk for a number of years of a transshipment hub in Orkney and in other places across Scotland. Do you think that there is potential for more transshipment infrastructure in Scotland—for example, a transshipment hub that would give greater options for freight coming in and going out?

Richard Ballantyne: I am sure that you are familiar with the proposal in Orkney, which was heavily dependent on the opening of the northern sea route from Asia through the Arctic. It is a pity that that is now an option, because it is damning in relation to our global environmental performance, but if that route is opened, there will be commercial opportunities, particularly during the summer months.

Orkney does not have the necessary facilities now, but building a transshipment hub would predominantly require port and landside infrastructure around existing hubs, which I imagine would be easy to do quickly in Orkney. There would be a cost implication, of course; one of the big carriers, such as Maersk or Hapag-Lloyd AG, would probably want to come in and invest in terminal facilities.

I have to say that that could be done relatively quickly. Orkney Islands Council, which runs the port infrastructure there, has an exciting master plan. It has been good at sourcing capital for investment in its port infrastructure—more so than many other ports in the UK. However, the proposal is heavily dependent on markets and it focuses on that Asia-Europe traffic. It would not be sensible to send commodities coming from mainland Europe on that route.

The rest of Scotland has good container facilities in Grangemouth and Clydeport, for example. There is good capacity but—as ever—there is a market. Even the publicly owned ports in the UK are for the most part self-financing, with the exceptions of some passenger-ferry infrastructure in the Highlands and Western Isles. Ports are not typically subsidised by Government; they do things on their own and are strategically and financially independent, so they need a business case to justify such a large investment.

That said, the ports industry has always responded to opportunities—whether from freight or sectors such as offshore energy and, now, offshore renewables. What Jamie Halcro Johnston suggests is possible, but you should probably seek additional evidence from colleagues in Orkney on the viability and suitability of that move.

The Convener: Thank you. I call Fiona Hyslop, to be followed by Colin Smyth.

Fiona Hyslop (Linlithgow) (SNP): I want to discuss the financing of improvements in interconnectivity between different modes of transport in the supply chain. My first question, which is for Maggie Simpson, is this: what would be desirable in order to improve interconnectivity for freight between rail, air and ports? Are there opportunities to generate additional finance in the area, particularly with the drive towards net zero and given that private finance is looking for greener opportunities in supply chains and other areas? In short, what improvements would you like to be made, and how should they be funded?

Maggie Simpson: My answer to that is in two parts, the first of which relates to the country's core infrastructure—that is, the road links, rail links and so on that are owned and operated by the Scottish Government, and by the UK Government south of the border. There are opportunities for the private sector to be an investing partner with Network Rail, but that sort of thing has not happened yet. Of course, there are a number of policy and regulatory hurdles.

My members are looking mostly at the investments that they need to make to meet net zero or to increase capacity in the parts of the supply chain that they control—principally, the locomotives, rolling stock and terminals. There are

good examples of private sector investment in all those areas. Operators are ordering new locomotives at the moment, delivery of new wagons has continued all the way through the pandemic, new drivers are being trained and significant investment is being made in terminals, including at Mossend and the huge new expansion at Daventry in the Midlands, which dispatches more than a dozen trains a day up to Scotland. There is a huge new expansion including a big hub for Royal Mail, which ran its first—*[Inaudible.]*—parcel service as a trial yesterday. A good amount of private investment is going in.

What more do we need in that respect? Investors need certainty. As you will know, the UK Government has launched a big programme of rail reform; freight companies need to feel sure that they will get a return on their investment through continued use of the network.

I also highlight Government support for decarbonisation—in particular, for more electrification. Scotland is ahead of the rest of the UK with its rolling programme of rail electrification, but that needs to be rolled out to ensure that if we, as the private sector, invest in electric locomotives we will be able to use them on the network as widely as possible to get even greater carbon reduction.

Fiona Hyslop: Can Robert Windsor give us his perspective on use of finance to improve interconnectivity between rail, air and ports. What would you like to happen, what is viable and practical and who should pay for it?

Robert Windsor: That is not really my area of expertise—I deal with regulation such as customs law, and what is happening in the wider maritime environment. I actually do not know the answer to your question.

We see that happening, though. For example, when they are developed, the ports themselves have to pay for better rail links, upgrading of roads and so on. We are involved in the expansion of Heathrow down south; one of the things that we are investigating there is an improved rail link. Such things are always a problem, because you need to find the right path, decide who will pay for it and so on.

I am afraid that I cannot give you an answer, because the subject is not my area of expertise.

Fiona Hyslop: Saying that you do not know is sometimes a good thing—certainly in politics, as well as for witnesses. I recognise that you are the policy and compliance manager.

I read the British Ports Association report with interest. It makes the case for transport infrastructure and indicates that a fixed link

between Northern Ireland and Great Britain would be a

“redundant and irresponsible use of public money”,

and that ports would be able to use that money more effectively. The report quotes possible costs of between £20 billion and £40 billion for the link.

What progress have you made in trying to obtain that level of funding from the UK Government, if it is no longer going to pursue the Northern Ireland fixed link? Where would you like to see investment? If that funding is not available, where will investment come from? Is it possible to consider green finance, particularly if the north-west passage, for example, opened up and was limited to hydrogen or green fuels? Is that kind of thinking within your parameters?

I am very interested in how you want to spend the £40 billion that is no longer available for a fixed link.

Richard Ballantyne: Thank you for that. I am pleased that the report has landed well. It is a bit of a sensitive area; there are political connotations to linking Great Britain and Northern Ireland. The idea has been around for a long time. Parties in Northern Ireland have often even included in their manifestos proposals for feasibility studies about such infrastructure.

However, in our view, there are sufficient sea links to Northern Ireland, so funding a fixed link would be a bit of a waste. We would like funding to be allocated to local authorities and national Governments to invest in the road and rail infrastructure that connects the ports.

The ports are self-financing in relation to their own infrastructure. There are occasional exceptions, it has to be said, but for the most part, they are doing that themselves. However, they rely on the Government to provide suitable high-class transport infrastructure for hinterland links. Scotland and the UK have a pretty good network of motorways and trunk roads, notwithstanding the frustrations that we all experience at peak times, with congestion and so on. However, we do not necessarily have efficient and streamlined last-mile connection to strategic rail hubs, freight tunnels and, of course, sea ports.

Our suggestion is not quite as glamorous as allocating £20 billion to £40 billion to one big project. However, if that money were to be shared around the economy—in our regions and our coastal communities in particular—you would see real benefits and we would drive up efficiencies at ports. We would make them more competitive and attractive for investment from international sources, whether for offshore renewables or freight developments.

Local authority budgets have been squeezed in the past 11 years or so by the Government, for well-articulated reasons. The consequence is that local authority road spending across the UK has fallen behind that of a lot of our competitors. If we compare where we are with the major economies in Europe such as France and Germany, we spend far less per head of population on road infrastructure. I do not have the figures, but I think that that is also the case for rail—in particular, rail freight.

That is our suggestion on public infrastructure.

Fiona Hyslop: We have Maggie Simpson only until half past 10. I will bring her back in to comment on the point about the last mile and rail connectivity to the ports, as well as on the point about rail hubs, in particular Mossend. What do you think should be the next developments and what needs to be done to address Richard Ballantyne's point?

Maggie Simpson: Across the whole UK, having the right rail links into ports is crucial. Most of the major or large ports have rail links, which is good, and there has been a lot of investment in infrastructure, including at Grangemouth.

10:15

We need to make sure that the network has the capacity to provide extra trains. That is also true for trains to and from Scotland over the border. Investment in the rail network is sometimes required to provide extra capacity. For example—I apologise for using an example that is a long way from home—the Felixstowe branch line has had investment to allow up to 10 extra trains a day to come from that port, and those trains will operate across the UK, including potentially to Scotland, Manchester, Leeds and so on. In relation to supply chains, investment needs to be made where bottlenecks exist so that can benefits can be generated on a wide scale.

We are also working hard with Network Rail to make sure that it invests to make our trains more efficient for more customers, which can be about small things such as allowing longer trains to run—*[Inaudible.]*—be more efficient on the network. One small example of investment is the £8 million investment that has just been made to double track the Liverpool branch line, so huge amounts of money are not always required to unlock those links.

As I said earlier, we are nervous about the capacity of cross-border networks. There are also parts of the Scottish network, particularly heading up towards Aberdeen and Inverness, where capacity is increasingly restricted. Some work has been done there, but more is needed to make sure that we can be as efficient as possible on those

axes. Electrification of those main arteries can help, because—*[Inaudible.]*

The Convener: There seems to be a problem with Maggie Simpson's connection. Are other witnesses still available? No.

We will suspend for a couple of minutes so that we can resolve the technical issue.

10:17

Meeting suspended.

10:32

On resuming—

The Convener: I thank the witnesses for bearing with us. The whole Parliament experienced a sudden internet outage—sorry, I mean outage, which is an outrage. No, it is not an outage—we understand that the broadcasting office has worked hard to resolve the issue and we are pleased to welcome the witnesses back.

Maggie Simpson has had to leave the meeting, as she notified. Colin Smyth has questions for the remaining witnesses.

Colin Smyth (South Scotland) (Lab): I will follow up the points that Fiona Hyslop made.

The vast majority of freight is transported by road, and that is likely to continue. In the example that we have just been talking about—the transportation of goods from Scotland to Northern Ireland—there are no rail links at all from Cairnryan ferry port and none from the south to Stranraer, which is the nearest town. There is only a winding track from Glasgow.

The idea of a fixed link between Scotland and Northern Ireland has rightly been buried in Beaufort's dyke in the Irish Sea. The reality is that no one ever complains about the ferries to Northern Ireland; the problem is the condition of the roads to get to the ferry ports in the first place—the A75 and the A77.

My first question is to Richard Ballantyne. When it comes to the transportation of goods from Scotland to Ireland, how reasonable is the option of rail freight? Do we just need to be realistic and accept that, without improvements to the A75 and the A77, a key Scottish ferry port will continue to lose business to Heysham, Fleetwood, Liverpool and Holyhead when it comes to transporting goods to Ireland?

Richard Ballantyne: That is an excellent question and well articulated. Certain freight operators and the port authorities in that part of Scotland might have a view, but I do not think that rail freight is a particularly viable option there, not least because there is an absence of rail freight

operations in Northern Ireland, so goods are traditionally transported on lorries.

There might be slight mode shift on driver-accompanied versus unaccompanied freight, which is where the trailers are dropped or driven by the same driver. There are one or two options on that but, for the most part, you are absolutely right. The A75 and the A77 are two critical routes for Scotland and, indeed, northern England.

Sir Peter Hendy's review of connectivity around the union almost stimulated the debate about a fixed link. In our evidence to that inquiry, we suggested that, even with a fixed link, there would still have to be investment of not huge but substantial sums in both the roads that we have identified, as well as others. Why spend all that money on a fixed link if you still have the existing hinterland connections?

Colin Smyth: I think that the figure that you used in your evidence to the review was that it would be £1 billion for the roads. I would take that any day for improvements in the south-west.

I will move on to another issue that is still relevant to trade between Scotland and Northern Ireland, particularly as the gateway to the Republic of Ireland, but that also has implications for trade with the rest of the EU. It is about possible customs changes from 1 January 2022. Some of the plans have been postponed until possibly the middle of next year, but others will go ahead. How significant will the impact of those changes be and how ready is Scotland to manage them? Do the witnesses have any comments on the unique challenges that we have regarding trade between Scotland and Northern Ireland?

I put the question to Robert Windsor first, as the British International Freight Association has published material on the customs changes that will take place in January 2022.

Robert Windsor: The customs changes that are happening on 1 January are significant. In effect, the UK is reimposing full customs controls on all goods that come from the European Union into the UK. I am dealing here with the UK as a whole; I do not want to separate Scotland out in this matter, because it is a mainland issue.

The GVMS system will be imposed for the road freight environment in particular. A full customs declaration will be needed. There will also be a need for greater compliance with rules of origin, which have been largely overlooked. The delayed declaration system will disappear and will be replaced with a proper EIDR—entry in the declarant's records—system. There will also be a requirement for sanitary and phytosanitary goods, which are foodstuffs and products of animal origin, to have an IPAFFS—import of products, animals, food and feed system—declaration. That is

basically a pre-notification of the goods coming into the UK before they are shipped. It is quite a lot of bureaucracy to go through. As I said, my view and that of the association is that those changes will have a more significant impact on the UK as a whole than what happened on 1 January this year.

I have to be honest that the Northern Ireland situation is extremely complex. Problems have already been caused. Import agents should not use the CHIEF—customs handling of import and export freight—system, which is tied to the Northern Ireland protocol and applies to imports into Northern Ireland. It has been replaced with the customs declaration service, which is a much more difficult system. Just to give an idea of the situation, a full CHIEF entry is about 55 data fields, but we are moving to 88 fields on a CDS entry, so a lot more data is required.

On the issue of trade between Scotland and Northern Ireland, the problem is actually the increased disruption that stems from the imposition of the customs declaration service at the moment. I am afraid that it is a technical and complex subject—I have been involved in this area for 45 years and even I cannot get my head round it sometimes. As I said, we have a lot of bits of the jigsaw puzzle—for example, we know what GVMS is, and there are trader schemes that people can voluntarily sign up to in order to see how the system works. We have seen GVMS working with transit, where it has automated certain functions. However, until it involves the vast bulk of roll-on, roll-off freight moving between the EU and the UK mainland, we will not know what the situation is.

We have to emphasise that GVMS is really only for road freight, whether it is accompanied or unaccompanied, and I would venture to say that it will predominantly impact the south coast ports. Ro-ro freight from Scotland to Northern Ireland is already using things such as GVMS, and there are now customs declarations going into Northern Ireland. So, I venture to say that, for you, the impact on 1 January will be less than it will be elsewhere.

Colin Smyth: That is interesting. I put the same question to Bryan Hepburn of DFDS. Robert Windsor has just said that he has been working in this business for 45 years and even so he cannot get his head round some of the challenges. In your experience, are businesses such as yours ready for the possible changes that will come in on 1 January?

Bryan Hepburn: We view the whole thing with an expression of dismay. That is our view of the changes. We are getting as ready as we can. In some ways, the ending of the postponing of declarations will be helpful for some items of general freight. We hope that it will not lead to

bottlenecks at various ports. Previously, bottlenecks have been created at ports because of paperwork not matching. Sometimes, the paperwork is good enough to get goods out of the EU but not good enough to get them into the UK. In that case, the goods end up just lying at the port. That happened to me this week when I was importing some boats from Holland.

We are trying to get as ready as we can, but the issue is more about getting our customers ready. We need to spread the load, so we are going through a process of education with everyone who we work with.

You have heard that we will not be affected by the situation at the south coast ports, but we will be affected, because our exports—primarily fish—go through those ports. Obviously, there is no direct link between Scotland and Europe, so we have to go through England. That is how we ship all our fish, from all the Scottish sea farms and big salmon producers. Everything comes out of Larkhall and either goes as air freight out of Heathrow or goes across the channel.

We need to be ready to ensure that we do not incur any further delays on that route. We are actively preparing ourselves. We hope that we will be ready, and we hope that it will be easy enough.

Colin Smyth: Northern Ireland is a domestic market but, for obvious reasons, there are problems there. Have you experienced problems when it comes to exporting domestic products from Scotland to Northern Ireland?

Bryan Hepburn: Definitely. It is maybe worse than exporting to the continent. It is strange, because actual barriers seem to be unevenly applied in reality. For example, importing directly into Holland or Ireland is harder than importing directly into France. It should not be—it should be the same—but there seem to be difficulties. I could send you some proper examples later on, if you like.

Trying to get something into Ireland—either the Republic of Ireland or Northern Ireland, via Cairnryan—is bad. It has just been grim. Frankly, it is not the best.

Colin Smyth: I put the same question to Kiran Fernandes. I appreciate that your research was focused on the impact of Covid—

The Convener: Unfortunately, Professor Fernandes has had to briefly leave the meeting. I hope that he will be able to return.

I understand that Richard Ballantyne wants to come in on this point, so I invite him to do so.

10:45

Richard Ballantyne: I want to follow on from the suggestions and comments that Bryan Hepburn and Robert Windsor made. It is an interesting case. We have enforced many controls at European borders, of course. Robert is right about bureaucratic changes. I will not repeat what he has said, but I will talk about the physical nature of some of the changes that will be phased in next year.

In basic terms, notwithstanding what Bryan said about many Scottish exports going through English ports and, in reverse, the fact that the commodities that are consumed in Scotland will have come through somewhere else in the UK, such as an English or Welsh port, many of the unutilised activities in Scotland are focused on containers. As we heard, we do not have any roll-on, roll-off links, so the major challenges of the facilitation of border checks are perhaps not as dramatic at Scottish ports as they might be at some of the ro-ro ports in England, which have been much publicised for holding up trucks for minutes, or even hours, to unpack and inspect goods.

That said, Scottish ports still have to comply with new control regimes, and many are building or preparing infrastructure to facilitate those checks, which could be relatively light touch, with environmental or port health officers inspecting products such as timber that are coming in. All that work comes at a cost and is an extra activity that we have not had to deal with. It requires resources not only from the port operator but quite often from local authorities, with regard to environmental officers. Of course, there are also costs for the traders. It is essential to ensure that Scottish trade remains viable.

One positive for Scotland is that it is an export-led economy, unlike the rest of the UK, which is heavily balanced towards imports. In Scotland, we export commodities such as whisky and fish. Bryan Hepburn mentioned that aquaculture products have been and possibly still are the number 1 UK export by value, and a big bulk of that is Scottish fish and seafood products. We export much more than we import. We have already had the changes come in this year and, notwithstanding the challenges that Bryan articulated, we do not expect a traumatic move in that area.

To give a final anecdote, I concede Bryan's point about the frustrations with getting goods over to Ireland. Different regimes are in place now, even on the island of Ireland. Although it is a domestic route, Northern Ireland is of course applying de facto customs rules. However, the enforcement of those rules is done slightly differently from what happens in the Republic of

Ireland. The traffic between Great Britain and the island of Ireland has moved up and haemorrhaged towards northern England and Scottish routes—from the west coast of England and places such as Cairnryan and Loch Ryan into Belfast and Larne—whereas the services from Wales to the Republic of Ireland have seen a decline in activity. Ironically, we have seen a slight increase in activity on the GB-Northern Ireland routes, and some of the Scottish ports have done rather well out of that.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I am trying to get my head round the issue of bottlenecks, which we hear about a lot. I can understand that some have arisen from the Brexit shambles, but I am told that containers being in the wrong place as a result of Covid, or people restocking—perhaps overstocking, because the just-in-time concept is a bit wobbly at the moment so people take extra goods to cope with it—cause other bottlenecks.

How many bottlenecks will resolve themselves when containers are in the right place and stocks are full again? There must be a point at which that situation will ease in certain aspects, although perhaps not in others. I am trying to understand where that easing might come from. Can Richard Ballantyne come in on that?

Richard Ballantyne: That has been a big focus across the freight industry, as you no doubt will have seen in the past 18 months or so, particularly with a few peaks. As we mentioned, the issue is very much a global challenge. It is worth briefly going back for a bit of a history lesson to remind ourselves that we rely on a lot of goods that are manufactured in Asia, where they are produced in a cheaper and more cost-effective way and shipped to big hubs in Europe and North America.

The Chinese economy locked down first, which affected production and China's exports to Europe. We were then short on various goods coming in, because we were not locked down, and there was a bit of a jostle and an increase in demand. Then, of course, the UK and Scottish Governments closed down our economies and imposed a lockdown, which affected demand for non-essential goods and services.

During that time, the Chinese economy opened up and a glut of shipping containers came into the UK, which was not needed, and there were runs on storage supply spaces and shortages of space at ports for getting containers through. That started the problem. We then had issues emptying the containers that came in and getting them shipped back to source in Asia, where they would be repacked. That was particularly a problem in continental Europe and North America. We suffered a bit but not as much those other big markets.

Gradually, we continued to unlock ourselves, so to speak, which created even more demand. We are all aware of the demand for consumer products from Amazon and other delivery services for garden furniture and so on. There were big backlogs and other challenges getting a lot of the finished products and commodities from places such as Asia, and then they were in storage. That has been an on-going challenge and has been coupled with operational challenges at one or two of the big container terminals in Europe, including the port of Felixstowe.

Those challenges, alongside things such as haulier shortages and one or two other pressures, have balled up or combined to create a perfect storm that has hit our sector in a tough way. The forecasts are now that, for another year at least, the congestion and issues could stabilise or could dramatically increase at short notice. Recently, the Suez canal blockage exacerbated the problem. It is a sensitive market that will take time to settle.

My final point is a positive one for Scotland in a way. When there are blockages and other issues at big ports in England such as Felixstowe, the market always looks for alternative routes, and other ports are available. Big lines such as Maersk and others rerouted to different ports and fed traffic across to smaller container facilities on the east coast of England and to Grangemouth. We have a resilient freight system that can keep the country supplied, even while causing a few minor delays.

Colin Beattie: I turn to Professor Fernandes. Did you hear my original question? Is he there?

The Convener: Yes, he is back.

Professor Fernandes: It certainly is a fact—*[Inaudible.]*

Colin Beattie: Did you hear my initial question?

Professor Fernandes: No, I did not.

Colin Beattie: We hear a lot about bottlenecks. Some of those are caused by Brexit, but others, we are told, are due to Covid and people restocking. Containers are in the wrong place and ships are in the wrong place and so on. When you think about it, it is logical that some of those bottlenecks must resolve themselves when places are fully stocked and the containers are back into their correct cycle of being exported and so on. How long do you think that will take? Which specific elements of the bottlenecks would you say are going to resolve themselves?

Professor Fernandes: That is a good question. First, it is important to understand that supply chains are not linear or static. In fact, they evolve quite rapidly and in unusual ways. One of the issues that are important with regard to bottlenecks is that, unfortunately, a lot of modelling

that is done assumes that there is a linear or fixed supply chain in which, in a traditional way, A goes to B, and B goes to either C or D. However, in our study, we tried to understand in detail what a supply chain actually looks like and what its features are. One of the main features of a supply chain is that it is a network that evolves constantly. That makes two things challenging. First, it is difficult to predict the actors that are involved; and, secondly, it is hard to see what the outcomes of those networks are. As you have rightly stated, one of the outcomes is bottlenecks.

What can we do to understand the issue better? First, we need to understand how supply chains work, the type of networks that they are and how they connect to one another. I raise that point specifically because networks behave differently in different regions. They have different connectivity to regional policies and to various knowledge transfer centres, and the way in which citizens behave in different regions varies, too. A number of things have to be taken into account.

As you say, the most obvious example of a bottleneck that perhaps everyone has heard of was the one that involved citizens trying to buy flour—there was a similar situation with toilet rolls. If you look at the facts, you can see that only 4 per cent of the flour that is made is sold through shops and supermarkets. The rest of it goes directly from the flour mills to bakeries, restaurants and so on, and they had no problems getting it. So what was the problem in that particular supply chain? The bottleneck started in the intermediary innovation hubs or packaging companies that take the flour, put it in different packages, add something to it and so on. The bottleneck was not the result of less flour being produced or there being an issue with delivery; it was purely down to the fact that the innovation hubs were unable to cope with the external demand.

I would argue that, to understand a bottleneck issue, you must understand four aspects: policy making, knowledge transfer, business and society in general. There are a number of policy-making levers that need to be brought into play. One of those almost goes against the report that I have written, because I have to say that we—I include myself in this—have taken a simplistic view of how supply chains work. Our entire study has been based on a simplistic understanding of supply chains in Scotland, as we have looked at the standard industry classification as a proxy when we try to understand what happens. That is perhaps the fundamental flaw in any supply chain.

We have modelled a number of supply chains and, when you start digging into them, you can see that you need to understand them from a business model perspective. You need to understand how that particular unit adds value to a

particular region, rather than looking at it and saying that it has a particular SIC code, so we will treat it in a certain way.

I think that the policy levers are crucial here, and a piece of policy-making work needs to be done to recognise the importance of the supply chain, how it behaves and how policy at a regional level can pull the appropriate levers for not just established but new business clusters and ensure that the supply chain is resilient.

11:00

I am giving a slightly long-winded answer to your question on whether things will work themselves out, but in my view that might not happen, because supply chains are not linear. It is not just items that flow back and forth but ideas, innovation, knowledge and information. What if there is a blockage in any of those things? I am not necessarily talking about companies here; any of us can go online and order something at 12 o'clock and have it delivered to our houses by 4 o'clock the very same day. The thing goes from one point to another not just because it is being physically transported there but because knowledge and information are flowing into it as fast as the delivery that is taking place.

What has been missed in the conversation—not in this discussion with the committee but in general—is the importance of the supply chain. What I argue in my work and in my report is that the chain is the essential artery in an economy, and it has a place in any serious conversation, including the on-going debates on how Covid should be managed. The advisory groups in each of the nations have no supply chain experts; they are entirely made up of epidemiologists and biology experts, but the fact is that you also have to look at the connections with the supply chain.

I do not know whether I am answering your exact question, but what I am trying to get at is that a supply chain is far more complex than some simple linear endpoint-to-endpoint mechanism in which you can optimise particular elements of a bottleneck. You could do so, and it would be an easier solution, but it will not solve the problem.

Colin Beattie: You have certainly given me a different perspective on the issue. I wonder whether Robert Windsor has a view on the question.

Robert Windsor: [*Inaudible.*]—find it fascinating—[*Inaudible.*]—perhaps the most fascinating. In order to understand this, you have to go back almost to 2008, for the very simple reason that the financial crash at that time completely disrupted the market. My personal view is that it has never quite recovered from that. We have had a period of market consolidation, with

shipping lines merging and alliances being formed, and that has led to an increase in brittle supply chains. There is a lack of flexibility; although capacity is carefully managed, there is a finite amount of it in the market, and what has happened in the past two years has stretched it.

The other problem is that, as Professor Fernandes has alluded to, there are multiple parties in the supply chain, all of whom have slightly different needs. For instance, the shipping lines are now building these ultra-large container vessels of up to 24,000 TEU—20-foot equivalent units—but that does not quite jell with how the port operators function, because the port infrastructure has to be developed to deal with them. It also creates a huge problem for freight forwarders, the transport operators and even Her Majesty's Revenue and Customs, because, when one of these vessels comes into port, you get a tremendous peak of activity. Instead of three or four 7,000 to 8,000 TEU vessels, you get one ultra-large vessel, which in effect creates its own bottleneck. We have seen real issues with that sort of problematic situation.

When will the problem be solved? Every industry expert whom I have read seems to think that it will take 18 to 30 months. Demand will come out of the system slightly. The shipping lines are ordering large amounts of new vessels and they should start feeding into the market from about quarter 4 of next year.

Hopefully, we will all soon see a diminution of the impact of EU exit. You must remember that some forwarders are looking all the time at Brexit, some of us are looking at the maritime situation and some of us are looking both ways. It is difficult to compromise.

I will give you an idea of the situation. On 17 October, more than 600 vessels of all types, not just container vessels, were looking for their berths. Of those, 100-plus were off California and about 40 were off Europe, of which only seven were waiting off the UK. More than 300 were somewhere in Asia—predominantly China, Singapore and Hong Kong. That is sucking capacity out of the market. It is reckoned that possibly 12 per cent of the market is waiting around doing nothing, so you can imagine that that is a problem.

We have a long-term strategic problem in the United Kingdom: we are increasingly becoming an import destination and have fewer and fewer exports for shipping lines to load back on to their vessels. In effect, we are becoming a dead end. Now there is an imbalance. Instead of shipping lines being able to reload some of the containers with export freight, less and less of that is going out. That creates a problem and I know that shipping lines are concerned about it. If you look

at photographs of the Felixstowe area at the moment, you will see vast amounts of old airfields full of empty containers waiting for their vessels to take them away. There is no simple solution. The problem will eventually work itself out, but it will take a while.

The Convener: I am afraid that we will have to make some progress. I understand that it has been a disjointed morning, but I ask for the final questions and answers to be succinct. That would be helpful.

Alexander Burnett (Aberdeenshire West) (Con): I have two questions that I hope will be quick. I will ask them together.

The first is for Richard Ballantyne. How can free ports improve the resilience of Scotland's supply infrastructure? Does Mr Ballantyne have any views on how many there should be and where they should be located for Scotland's maximum benefit?

My second question is for Professor Fernandes. His submission is interesting and I concur with everything that it says. It talks about how the supply chains are evolving and unusual but, without being cheeky, I would say that it just suggests that more research is needed, which might sound like—[*Inaudible*]. This is a relatively short committee inquiry to make suggestions to the Scottish Parliament and Government. Is Professor Fernandes able to suggest any solutions and specific policies for the immediate benefit of the supply chain?

Richard Ballantyne: The sector is particularly interested in free ports. The advent of the free ports policy has broadly been welcomed as a useful tool and concept. It represents more than the traditional free port, which was about easing customs and tariff regimes. The UK Government's model, of which we have eight locations, spans into enterprise stimulus, planning rules and employment taxes as well as the customs functions and easements.

The free ports proposal is not a direct solution for a lot of the new bureaucratic controls that, as Robert Windsor well articulated, are coming in as a result of the UK's departure from the single market and customs union, although some assistance will be provided if needed for certain operations. It is more an economic development strategy.

It is a way of making a business-friendly regulatory environment to attract inward investors, developers, manufacturers and so on to come into the UK and Scotland, locate their activities close to a port and possibly take advantage of transhipment opportunities, fast-track planning rules and other taxation incentives such as lower business rates and national insurance

contributions for certain staff. Packaging all that up together makes a good and attractive offer.

We have eight free ports in England, so we were somewhat underwhelmed with the aspiration that there should be only eight. We did not agree with the need to cap the number of ports. That, it has to be said, is the same supposition in Scotland. The Scottish ports group, which we run and which includes all the main Scottish port operators and many others, has around 30 cargo gateways. Some of those are quite modest, but you could probably make the case for many of those locations to be free ports.

The suggestion that one or two free ports may stem from the UK Government's free ports policy is somewhat underwhelming. We need to be careful of picking winners in a sector that has traditionally been market led and made its own decisions based on competition. Government intervention is now coming in via capping the number of free ports, so we are pushing for a more inclusive policy.

Some of the Scottish Government's equivalent green ports policy is similar, although there is now a bit of divergence, but we are not sure whether it will go ahead in parallel and in partnership with the UK policy or whether they will be separate mechanisms, as has been mooted recently. We want those proposals to be aligned in consistency and inclusivity. Free ports are an exciting concept, but I am not sure that they would ease supply chain issues directly—they certainly would not do so immediately anyway.

Alexander Burnett: Professor Fernandes, do you have any short-term policy suggestions that could be implemented while we wait for more research?

Professor Fernandes: You will be delighted to know that I am not asking for more research to be done. However, what is needed in the short term is a willingness, particularly from policy makers, to consider the idea from a different framework. What I mean by that is that you—perhaps more than me—will have seen loads of reports from predominantly economic perspectives. Such a report would probably give you a cluster of companies and say that a particular sector is doing better than other sectors and so on. That is predominantly driven by the old way of looking at standard industrial classification. That has a purpose if you want to know how taxation is working and so on, but if we are serious about trying to understand how to develop an ecosystem in Scotland, for example, that supports a particular type of industry or perhaps attracts new types of industry that are complementary to existing industries, we need to look at the business models that can and cannot operate in that system.

To give you an example, in relation to the SIC world, you would assume that the 2,000-odd pharmaceutical manufacturing companies that operate in the UK, including some very well-known ones in Scotland, would all be under one or two standard industrial classification codes. Perhaps somebody would download a lot of data, send it to you and say, "This is a policy that could work," based on that data. However, if you look at those 2,000-odd companies, something in the order of 25 to 30 SIC codes would be needed to capture that data set.

We then need to ask how we can build supply chains to support those sectors, from both a policy and a business perspective. In the pharma and drug manufacturing sector, there is a past example that I will not name, but it is in the news all the time and it happens to be in Livingston; that business model is called a commercial strategic alliance. That involves financial outsourcing, joint marketing and selling, the whole ability of the two partners to produce, technology sharing and so on. Those would be the characteristics of that type of business model that would manifest itself in Livingston, for example.

11:15

A business model that is very close to that type of drug manufacturing would be something like personalised stratified medicine or strategic alliance, going on to venture capital-funded companies, in-house researching, entrepreneurs, spin-out, primary care pharmaceutical or companies that are in the business of purely buying and selling intellectual property acquisition—or biosimilar manufacturing. Those are all manifestations of different business models in what is called SIC code drug manufacturing.

We need to consider that level of conversation and then ask the question from a policy and business perspective: if we want to support in-house researching, for instance, at one of the value addition drug manufacturing hubs in Scotland, what do we need? We know what we need. If you want an in-house researching cluster of companies that is genuinely world class, you need to support those companies on how the intellectual property can be protected. You need those companies to have an ability to outsource the manufacturing, because they are not manufacturing companies. You need to make sure of that, and you need to ensure that there is business-to-business connectivity that links into the key factors of royalties and patents. You need many such things—and that is where the policy levers come into play. What I am trying to say here is that the policy levers for different types of business hubs or business model hubs are different. What is needed is for policy makers to

say, “Thanks for the SIC data. How else can we look at the same sectors? How can we then come up with intervention and support policies?”

I would strongly argue that those would look very different from a generic idea of wanting to have game manufacturing or game development in the Dundee region, for instance. About 22 different business models exist for game development. I do not need to tell you how successful the entire area of gamification is—and it continues to grow. You cannot have one universal policy that supports that, however. We need to stop looking at SIC codes, slightly. They have a purpose, but we have been reliant on them for too long. As a researcher, I have been, too, because it is easy—the data is already there. All we need to do is download the data and put it into a simple business informatic graph, and we can make some general assumptions.

My response on the question whether we need more research is no, but we do need a different way of looking at it. Enough models have been developed that you could use, without having to redo the whole thing all over again.

Maggie Chapman (North East Scotland) (Green): Hello to the panel. Thank you for putting up with the glitches that we have had this morning.

I wish to explore how ready we are and what we need to do to meet our ambitious net zero targets and other climate change ambitions. In particular, I am interested in how we take advantage of the innovations and new technologies that we will have to adopt, as we change what we do and how we function economically and socially.

We heard from Maggie Simpson about some of the infrastructure requirements in rail. There has also been discussion of the modal shifts that are possible. Regarding infrastructure or other elements of development, investment and change, what do we need—or what do you need—to ensure that we can take advantage of the innovations and new technologies that we will have to rely on in the future?

I ask Bryan Hepburn to respond first.

Bryan Hepburn: I am based up in Shetland. At the moment, without trying to sound too weird about the situation, we stand at the point of a generational shift on fuels. We are actively engaged in trying to work with hydrogen, with the ORION—opportunity for renewable integration with offshore networks—project up at Sullom Voe. Repurposing that terminal from oil and gas can also provide a route to market, we hope, for hydrogen. That is the best bet at the moment for some kind of ammonia solution that can help to decarbonise shipping.

A huge construction boom is in progress, as a wind farm is being built, and we are doing a lot of experimental work with tidal energy. A transmission link is being built between Shetland and Caithness—landing at Noss Head, I believe—that will allow us to export energy, which is crucial. There is talk of laying a cable out to Norway, so that we can be one big thrumming grid.

We will, we hope, have a glut of cheap renewable energy that will allow us to decarbonise local transport in Shetland. That might involve electric vehicles. We are making moves with Volvo, at the moment. DFDS has just placed an order for 100 articulated lorry units—I think that that is the biggest order yet—that are purely electric. We are also looking to get smaller vehicles—18-tonners and 7.5-tonners—of the kind that do collections and deliveries from the central hub in a hub-and-spokes model. We are looking to do that in the immediate future in 2023 and 2024.

We have been hit with supply chain issues, in that many such things are just not available yet—production cannot keep up with demand. It will probably be the end of next year before we see some of the trucks in operation.

A lot of the produce is, as I mentioned earlier, temperature controlled, so we have temperature-controlled refrigerated—reefer—trailers. We are looking at reefer containers that we can use for multimodal logistics, to take advantage of rail freight and shipping. Instead of putting those things on trucks and trunking them for 700 miles, we might be able to ship them. The difficulty, as I have mentioned, is that the infrastructure is not yet ready when it comes to things such as rail. For example, getting from Glasgow down to Tilbury takes a day and a half. It cannot be as long as that—that will just not work, economically.

Also relevant are the handling facilities. We have reefer trailers. We do not have lots of skeleton trailers and reefers. Those can be accessed more on the continent. We are looking to invest in Sunswap trailers that use solar power instead of diesel.

Through those means, we are looking to get that activity done and spread it around. It is about how we can do that and take advantage of the wider framework that we are living in—what we are going to do with renewable energy, how we can support it and what the barriers are. That is the environmental thing.

Without monopolising the time much more, I will also say that, in Shetland, we are ruled by the ferry, which takes everything to and from the islands. That is the case in all the northern isles and it is a bottleneck for the supply chains in both Orkney and Shetland.

Maggie Chapman: Thanks very much, Bryan. I ask the same question of Richard Ballantyne.

Richard Ballantyne: Obviously, that topic is very important, and I am glad that you have raised it, because we have some asks that you might not expect.

In essence, it is important to factor in the fact that freight is quite a sensitive and long-term industry. It is self-financing, as I said earlier. Unlike other forms of transport, such as public passenger transport, rail and some areas of aviation, we do not get support from Government; we have to do things by ourselves. When, for example, there are good aspirations from Governments to reach net zero by 2045 or even sooner, the industry, which is built on a long-term commercial structure, has to adjust.

In my case, I am talking about ports acquiring things such as cranes, plant, machinery and warehouses. Typically, those are built with a longer-term life than you might expect elsewhere. They are usually bought on finance, and they have to pay back the investment. When you have cranes that are traditionally powered by diesel, phasing and moving those over to an electric source can be quite costly, although it is happening.

We are doing our best but there might be a case for some transitional public support. That is the case particularly for approaches such as shore power. You are probably familiar with that, but it is the concept whereby vessels come into a port and, instead of continuing to run their generators and engines, they plug into a local domestic electric energy source at the port. That means that the vessels do not pump out fumes while in the ports, which are sometimes in suburban areas.

The challenge is not only in the cost of that infrastructure, although we think that there is a case for some kind of public support for that across the board. The big challenge is in providing the electricity. In places such as the northern isles, particularly the Orkneys, there is an abundance of renewable energy but, elsewhere, we do not have that grid capacity.

There is a lot to be done for the maritime community and sector before we can reach a lot of the targets. There is a lot to be done by other players and parties, which is a bit of a challenge and could be quite costly. We need to understand that.

This is a bit of a jokey example but, a few years ago, one of the Norwegian ports was testing its shore power supplies and plugged a relatively modestly sized vessel into its electricity supply. It drew all the electricity and there was a power outage in a small town in western Norway. That is a good example of how much energy we need to

produce. That electricity will need to be generated cleanly itself. It is no good generating electricity elsewhere and moving the issue downstream to a port, in our case.

It is challenging and a lot is going on. We talked about modal shift. There are opportunities to get more goods away from roads and even off rail and on to coastal ships, but that is quite a niche specialist sector.

There are modal and revenue support grants from the Scottish Government and the UK Government that can help to facilitate that. They are not always taken up. Perhaps we need to consider how to make those grant regimes a bit more generous and broader and how they can have a longer life in the maritime sector. Typically, they can be allocated only on a three-year basis to stimulate a new activity, unlike in the rail sector, where they are much more open ended. Equally, we have other commercial operations that already function fine without any Government support. We need to preserve that market. It is sensitive.

There is definitely a case for a freight review to consider how we move towards net zero.

Maggie Chapman: I ask Robert Windsor the same question.

Robert Windsor: Our members are waking up to the issue, to be honest, but you must remember that most of my members are sub-20-employee companies and that a variety of factors are at play. The first to which I draw the committee's attention is simply the point that there are factors outside the UK that influence what happens. Shippers often determine the routing of cargo and whether it is on air, sea or road. That has an influence.

Most of the bigger members work on a pan-European basis and they have definitely woken up to the issue. However, they tend to take their lead from their European headquarters. They have large departments. Organisations such as DHL, DHA and Schenker employ specialists in the area but that resource is not available to the smaller members.

The question that smaller members keep asking me is: what are we trying to change? There is a feeling that policy makers have not made it clear. There is also a view that we are all obsessed with carbon but perhaps there are other problems as well. Smaller companies are considering that, but there is a big concern that the technology does not exist. Vans of up to 3.5 tonnes can probably run on batteries or whatever fairly easily, but that is not so possible for a 40-foot articulated lorry.

11:30

People are starting to look at the issue and they are beginning to wake up to the questions.

However, making that change is very complex, to be honest. It is probably the most complex area that I have come across in my career. It has to happen, but it is going to be bumpy and messy, I fear.

There is certainly a big problem with infrastructure, particularly with charging. We hear about that all the time. Historically, our sector is an industry with very low profit margins. Net profit might be 2 or 3 per cent, for a lot of companies—there is not a lot of fat left over to risk money on infrastructure or equipment that might not be the kind that we end up going for.

To be honest, we keep on hearing about changes in policy, as I regard it—first, we are to have a prohibition on diesel cars on such-and-such date, then that changes, and we have the same for lorries. The arguments in the International Maritime Organization are extremely complex and very contradictory. We just do not know what is happening.

Maggie Chapman: Thank you. I will leave it there.

The Convener: Thank you, Ms Chapman.

We are extremely pushed for time. I will allow a brief question each from Jamie Halcro Johnston and Michelle Thomson. If the question could be directed to one panellist, that would be helpful.

Jamie Halcro Johnston: My question is to Bryan Hepburn. I have visited Shetland Transport and have seen some of the great work that is being done there. To an extent, I am aware of some of the issues.

You touched on some of the issues around ferries. We have talked about ferries to the continent and about rail infrastructure. However, for some of your producers, even getting to your depot can require one or two internal ferries in Shetland. You then need reliability in, and capacity on, the ferries down to Aberdeen. I know that Serco and others have done a lot of work with organisations such as yours to make sure of that.

Will you expand, as I think that you were looking to do, on some of those issues of infrastructure in the islands, and on what needs to be done better in order to improve the reliability of ferries, roads and the like?

Bryan Hepburn: Thanks very much for the opportunity to bring that up. Up here in Shetland and Orkney, we are buoyant economies. We are archipelagos.

For example, we produce a lot of salmon and ship it out. It is produced in the northern isles and is a great source of employment. It is a good sustainable food that has a high value and is well sought after. One of our problems is that we have

to catch an interisland ferry down to the main island of Shetland and then another—the NorthLink Serco ferry, which ultimately is Government operated—down to Aberdeen. That is a bottleneck that we suffer. It is a real constraint, especially during the livestock season and so on.

A couple of things would improve the situation. The first would be fixed links to some of the smaller islands—for example, a tunnel to the island of Yell. That would start to make it a more attractive place to live and would stave off the threat of depopulation of those remote islands.

The second would be bigger or more reliable freight vessels. We are experiencing a construction boom in Shetland and there is going to be a decommissioning boom. It is great to be so busy, but that comes at a cost. We cannot get the stuff here. There is a cost in missed opportunity, which also relates to offshore developments and wind. We need to physically get the equipment here and to improve on that aspect.

If we could ask for anything—not that I am here to do so—it would be additional tonnage to address current shortfalls, and to see what we could do to hustle up replacement ferry services. We struggle. We could be busier and the situation is hindering us in Orkney and Shetland. We could do something about that, right now, in the short term.

I hope that that answers the question.

Jamie Halcro Johnston: It does, and I may follow that up further with you, as well.

Michelle Thomson: I will be very brief. We have had a very interesting session, in which we have covered dynamism in supply chains and have explored a lot of nearside issues. My simple question is to Richard Ballantyne, and other contributors may want to follow up. Have we covered, and gained a good understanding of, the structural issues and what we need to do to get resilience? You could answer that by saying yes or no. If the answer is no, please follow up with some other information. I am aware of the time.

Richard Ballantyne: In short, yes, we have a good understanding of resilience issues. What has to be factored in is the fact that the freight, shipping and ports markets are independent of Government, so policy makers do not have the element of control that they might have in other sectors. We could discuss that issue in quite a lot of detail but, in the interests of time, I will cut off.

The Convener: Thank you very much for that response.

As I said earlier, if witnesses have additional evidence that they would like to present to us, I would be happy to receive it in writing. I thank all the panellists very much for their time this

morning, their patience with our technical issues, their contributions and their expertise.

Subordinate Legislation

Public Procurement (Agreement on Government Procurement) (Thresholds etc) (Amendment) (Scotland) Regulations 2021 (SSI 2021/378)

11:36

The Convener: Agenda item 3 is consideration of a Scottish statutory instrument. The committee is invited to note the Public Procurement (Agreement on Government Procurement) (Thresholds etc) (Amendment) (Scotland) Regulations 2021. In its report, the Delegated Powers and Law Reform Committee drew the instrument to the attention of the Parliament because two errors were identified. The Scottish Government has acknowledged those errors and has laid an amending instrument. At this point, we are asked simply to note the instrument. Are members content to do so?

Members *indicated agreement.*

The Convener: Thank you. We move into private session.

11:36

Meeting continued in private until 12:19.

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