

Sam Anson
Scottish Government Economic Policy Unit
Victoria Quay
Edinburgh
EH6 6QQ

20 December 2017

Dear Sam

Response to the Scottish National Investment Bank consultation

Scottish Renewables is the representative body for the renewable energy industry in Scotland, working to deliver secure supplies of low-carbon, clean energy for heat, power and transport at the lowest possible cost. We represent around 270 organisations ranging from large suppliers, operators and manufacturers to small developers, installers, consultants and community groups, including companies right across the supply chain.

Thank you for the opportunity to offer our view outwith the consultation process. I hope that you will find the enclosed response summarising our views helpful as you continue deliberations around the role of a Scottish National Investment Bank (SNIB).

Our key point focuses on utilising the SNIB to lower the costs of capital to newer and more innovative industries by reducing risk; the renewables industry being an example of an industry where this would make a significant difference. I would be very happy to discuss further with you any of the points raised in this response in more detail should that be of interest.

Yours sincerely

Claire Mack
Chief Executive

6th Floor, Tara House, 46 Bath Street,
Glasgow, G2 1HG
☎ 0141 353 4980 📧 @ScotRenew
www.scottishrenewables.com

Scottish Renewables Forum Limited.
A company limited by guarantee in Scotland No.200074
Registered office: c/o Harper Macleod,
The Ca'd'oro, 45 Gordon Street, Glasgow G1 3PE

Response to the Scottish National Investment Bank consultation

As discussed in the consultation document, it is generally accepted that within the Scottish economy there are long standing issues with lower productivity at a Scottish and UK level, lower levels of funding of research and development and investment which are clear priorities for Government.

We find ourselves in an investment intensive industry which has been severely impacted by wider macroeconomic pressures and where relatively low levels of competitiveness and capacity at a UK and Scottish level have, in the past, created challenges for Scotland and Scottish businesses to draw the most value at all points in the industrial pipeline. Changes to policy have also created an uncertain operating environment for the renewables industry as future revenue streams have been impacted by decisions on the Renewables Obligation and Feed in Tariff which has in turn impacted industry development at a Scottish level.

The renewables sector, in our opinion, provides a helpful case study to consider in the context of the creation of a new institution to support and develop sustainable economic growth. Decisions on energy policy remain a reserved matter and the renewables industry has faced an incredibly difficult financial environment as a result of UK Government decision making in recent years which has significantly impacted the ability for the industry to access finance.

The energy sector is heavily regulated with the market having been subject to numerous interventions over a long period of time. This has led to all forms of energy generation receiving some form of support or subsidy. Financing in the renewables industry is largely predicated and secured on future revenue streams and the current lack of a viable route to market for many renewable technologies has led to a visible and serious contraction of activity in Scotland despite there being a strong political and public drive and demand for renewable energy here. Crucially, the UK Government's Contracts for Difference (CfD), Feed-in tariff and Renewable Heat Incentive mechanisms still have fundamental roles to play, offering a low-risk route to market. While it might not be within the gift of a SNIB to deliver an ongoing support mechanism such as the CfD framework, it may be for the Scottish Government to consider and the key issue for our members as providers of energy is the need to drive cost reductions in order to compete successfully in the market. These will come from cost reductions within the supply chain but also the bulk will come through

reductions in the costs of capital (driven up largely as a result of the costs of risk). It is here where the SNIB could seek to intervene, alongside industry measures, to reduce the perception of risk and to enable the initial stage of financing. Clearly this principle would not be confined to the renewables industry and would be relevant to other earlier stage, sectors and technologies considered to be financially risky to the traditional market but where there is a clear economic opportunity domestically and internationally for them.

It is widely understood that Scotland and the UK missed a significant opportunity with regard to the supply chain and its associated value in onshore wind technology. The bulk of the design and manufacture centres of expertise has for some years been focused within Western Europe. There is a second chance with the development of offshore wind and marine technologies to build supply chain capacity and exportable knowledge off the back of smaller and larger scale projects in Scotland.

SNIB should have a broader strategic role supporting investment in areas where there are clear existing policies, frameworks or objectives for an industry. We have seen success this year in securing an opportunity for remote island wind projects in Scotland potentially offering benefits up to £725M for these fragile, rural economies.

There are long established policy objectives in Scotland supporting the low-carbon economy. The renewables industry could very credibly demonstrate its value within areas that traditional industries may not find as competitive in terms of location because of the abundance of the primary natural resources in our more rural areas. 25% of Europe's entire wind resource is in Scotland, with much of that concentrated in the north and west of Scotland. As well as this, in order to make the most of these resources the opportunity to serve the nearest communities through district level networks will require investment in infrastructure that is beyond the commercial market because it will not take social, environmental or microeconomic benefits into account in any financial evaluation.

Renewables is a relatively new industry and focused on developing innovation across all areas of delivery. The European Investment Bank (EIB) has been instrumental in providing financial support to the industry (as it has many others) and we know that this route is already no longer available as a result of the decision to leave the EU.

To offer some notion of the scale of investment 23% of the European Fund for Strategic Investments approved by the European Investment Bank (EIB), are in the energy sector. Almost half of the projects in this sector are related to renewable energy investments. The scale of these investments cannot be matched by the SNIB however there are a number of technologies, projects and companies in Scotland who have received EIB funding which are on the cusp of commercial viability where the SNIB could support them over that final hurdle.

All of the examples we offer here relate to the renewables industry but reflect wider issues within industry as a whole where we believe the SNIB could and should make a difference to Scotland's competitiveness and future prosperity. In our view the SNIB should focus on reducing the cost of risk for projects and technologies that can demonstrate viable future markets therefore seeking to support projects, companies and technologies to overcome the issues experienced on the route from innovative technology to commercialisation.

We note that the consultation looked at patient capital which also has a significant role to play in industrial development particularly where there is an innovation to commercialisation journey involved. A key founding principle of the SNIB would be additionality and it would be our hope that projects and programmes which were supported would offer knowledge transfer to others embarking on a similar process.

In summary, we welcome the progress being made to establish the SNIB, as a modern industrial sector, renewables can achieve wider strategic outcomes with targeted support from an institution like the SNIB. Cost reduction remains our critical task for commercial stage technologies. At the innovation stage the role of the EIB has been transformational for the renewables industry and we would urge the Scottish Government to fully consider the power and value that its leadership and investment support has created and seek to utilise the SNIB to fulfil this role in the future.