

**The Scottish Executive's Response to the Environment and Rural Development  
Committee's 4th Report, 2006: Inquiry into developments in the biomass  
industry**

## INTRODUCTION

This paper sets out the Scottish Ministers' formal response to the Environment and Rural Development Committee's report on its inquiry into developments in the biomass industry, which was published on 29<sup>th</sup> March 2006.

The Executive is grateful to the Committee for its valuable contribution to developing the biomass industry in Scotland. The Executive welcomes the positive thrust of the report and is in broad agreement on many of the issues raised by the Committee. The Committee's report has identified many of the key weaknesses which are inherent in a new and rapidly developing sector and we are committed to helping the sector through a balanced package of support for both the supply and demand sides. The sectoral issues raised by the Committee are discussed as well as responses to some of the specific questions raised.

The Scottish Executive published *Changing our Ways: Scotland's Climate Change Programme* (SCCP) in March 2006, setting the framework for the Executive's climate change response. The Programme has strengthened the Executive's strategic response to climate change and commits to an ambitious and robust Scottish Target for savings in greenhouse gas emissions. SCCP sets new actions and future directions across the main sectors, including agriculture and forestry.

A number of the Committee's recommendations have already been addressed in SCCP. In line with the Committee's recommendations on urgent priorities (strategic direction, policy co-ordination and revised support mechanisms) we have committed to produce a Biomass Action Plan by the end of 2006, to ensure that Scotland's biomass resource is properly supported and exploited. We have also committed to produce a Renewable Heat Strategy for Scotland by the end of 2007 and, if appropriate, establish a target reflecting Scotland's unique potential and circumstances. The Executive is also continuing to participate fully in the UK Energy Review to ensure that the Scottish perspective is taken on board.

The Executive has also responded to the Committee's previous recommendations on the role of forestry in addressing climate change through the review of the Scottish Forestry Strategy. Climate change is a key theme in the revised draft Scottish Forestry Strategy, published in March 2006. We agree that Scotland's forests have an important role to play in mitigating climate change through carbon sequestration, sustainable construction and renewable energy. The draft Strategy sets a target for woodland expansion of 9,000 – 10,000 hectares each year and the preparation of a Climate Change Action Plan for forestry. The draft Strategy recognises that a thriving woodfuel industry is important for the forestry sector as it will help contribute to the Executive's climate change objectives and can "connect" people to their local woodlands and reduce timber haulage. Consultation on the draft Scottish Forestry Strategy closes on 29<sup>th</sup> May and we expect to publish the final version in September 2006.

The Committee highlighted three urgent priorities: strategic direction, policy co-ordination and revised support mechanisms, which will largely be addressed by the measures outlined above. Specific issues raised by the Committee are dealt with

below, including the issue of support mechanisms for biomass, for which a number of initiatives are in the process of implementation at a Scottish and UK level.

## **RESPONSES TO SPECIFIC RECOMMENDATIONS**

The recommendation numbers refer to the paragraph in the Committee's report in which the recommendation was made.

### *Strategic Direction*

*Paragraph 69. A strategy should address the range of issues identified by the Committee. It must specify the desired mix between large-scale electricity generation and smaller-scale heat, and between energy crops and wood fuel. The strategy should ensure that the whole development is sustainable and delivers the multiple benefits of security of supply, emissions reduction, fuel affordability and economic opportunities. It should also link these to the wider public benefits to be gained from actively-managed woodlands. The strategy should also address the synergies between biomass and other renewable energy technologies (such as biofuel production) in a co-ordinated way. Above all, it must focus on the development of appropriate local scale clusters of activity. The opportunity to identify appropriate regional or local options and approaches can be maximised if the strategy is approached co-operatively with local enterprise companies and local authorities.*

**The Biomass Action Plan will consider the range of issues identified by the Committee. The Plan will be developed by ETLTD and Forestry Commission Scotland, working with other Executive departments and key stakeholders to ensure policy is effectively co-ordinated to maximise the benefits from Scotland's biomass resource.**

**The Executive acknowledges the Committee's emphasis on local scale clusters of activity. The Highlands & Islands Woodfuel Development Programme, administered by Forestry Commission Scotland and supported by HIE and ERDF funding, is already supporting seven local supply chains. The expansion of local supply companies strengthens the market for businesses which have received funding for woodfuel heating systems from the programme and also for community projects funded by the Scottish Community and Householders Renewables Initiative. Further supply chain development is being stimulated by the DEFRA Bio-energy Infrastructure Scheme and the SFGS Developing Farm Woodland Energy pilot scheme. Through these schemes Forestry Commission Scotland has worked closely with Highlands & Islands Enterprise, Scottish Enterprise and local enterprise companies to help local businesses benefit from a developing biomass industry. This approach will continue to identify local priorities across Scotland.**

**The Executive will consider local cluster activity in the context of a rapidly evolving sector with proposed developments at a range of scales. The E-ON plant, at Lockerbie, is now under construction and will generate 44 MW electricity. A number of other schemes for power generation and combined heat and power (CHP) are at various stages of development and planning. We will**

**look at all aspects of the biomass sector to develop a strong strategic direction for the biomass industry in Scotland.**

### *Policy co-ordination*

#### *Regulation*

*Paragraph 71. The Committee has considered the issue of waste regulation in a number of contexts and sought information on how the waste management licensing regime can operate in a way which does not discourage the positive recycling or other use of products which might sometimes be regarded as waste. The Committee recommends that the Executive must continue to press for this to be simplified at all levels of operation.*

**SEPA has now issued clear guidance entitled “Is it waste? – Understanding the definition of waste” ([www.sepa.org.uk](http://www.sepa.org.uk)). The guidance advises that biofuel from timber and other crops is not waste, nor are forestry residues or material produced by the timber processing industry from virgin timber likely to be considered waste. The document provides clear guidance on a range of biomass sources and the key message is that the concept of waste is not to be interpreted restrictively, but ensuring that the environment and human health are safeguarded.**

*Paragraph 72. The Committee urges the Executive to explore the potential of biomass heating in urban areas, and not to confine its expectations to rural areas.*

**The Executive recognises that most of the development in the biomass industry has been in rural areas largely due to the availability of the resource and lack of traditional energy supply infrastructure. The Biomass Action Plan will consider the potential for urban areas to benefit from biomass, and take into account the opportunities and partnerships that have been identified through the business development programmes being implemented by Forestry Commission Scotland woodfuel information officers in urban locations in the East and West of Scotland Objective 2 areas. The Executive also recognises that there a number of initiatives in urban areas from which useful information can be collated to inform the development of the Plan.**

#### *Paragraphs 73-77: Public procurement*

**The Committee identified a number of issues on public procurement, to promote emissions savings across the public sector. The Committee also requested that the structure and funding of PPP contracts should allow for the consideration of renewable energy. As outlined in SCCP, we will take forward measures to encourage the uptake of onsite renewables and energy efficiency measures in public sector infrastructure investments. We will also develop a Scottish Procurement Action Plan by the end of 2006. The draft Scottish Forestry Strategy also recognises that there are opportunities for forestry to promote sustainable construction through affordable housing initiatives, government procurement guidelines and the planning system.**

**As an integral part of the Executive's Energy Efficiency Strategy we propose to take forward an initiative which will seek to ensure that these important energy issues are factored into future public sector capital investments. This initiative will:**

- provide training on incorporating energy efficiency and renewable energy into contracts – for both public sector managers and suppliers;**
- develop contractual guidance and improved output specifications incorporating energy efficiency and renewable energy;**
- develop guidance for suppliers on incorporating energy efficiency and renewable energy into public sector contracts;**
- provide design advice for public sector capital investments; and,**
- provide in-depth advice and support to a number of pathfinder projects to act as demonstrators for the public sector as a whole.**

**The Executive recognises that renewable energy, including biomass is one of a range of measures which can reduce the carbon footprint of PPP projects. Relevant departments in the Executive are working with local authorities to produce bespoke information and case studies (outlining whole life cost and risk reduction benefits of choosing wood fuel heating) for institutional investors to enable PPP contractors and investors to consider the use of biomass systems.**

**Local authorities have access to the Central Energy Efficiency Fund (CEEF), a revolving loan fund started in June 2004 to promote improved energy efficiency throughout the public sector by providing interest free loans to fund the installation of energy saving measures. Administered by the Energy Policy Branch of the Executive the fund is targeted at increasing the energy-efficiency of local authority buildings and so is not currently aimed at renewable energy. The Executive will consider renewable energy projects under the CEEF where similar payback periods to energy efficiency can be achieved.**

**The Executive is currently reviewing its national planning policies for renewable energy. The review will consider how local authorities should use the development plan process to support the continuing growth of all renewable technologies in a way that delivers renewable energy targets whilst taking account of important environmental interests. Public consultation on revised policies will take place in Summer 2006. Revised draft guidance will certainly consider what more the planning system can do to promote biomass developments. In addition, we have recognised the increasing interest in microrenewable technologies such as biomass heating systems. "Planning for Microrenewables" was published as an Annex to Pan 45 Renewable Energy Technologies in May to increase awareness in these technologies and provide advice to developers, planners and communities on the various technologies available.**

**The Scottish Building Standards Agency is currently consulting on proposals for implementing Articles 7, 8 and 9 of the EU Directive (2002/91/EC) on the energy performance of buildings, and on proposals for amending regulations under the Building (Scotland) Regulations 2004 Section 6: Energy and Section 3: Environment which includes guidance on the storage of woody biomass.**

*Paragraph 81. The Committee recommends that now is the time for significant support for biomass to be an urgent priority. This need not be a huge cost if it is designed well to seed the market at the right point. Most witnesses agreed with the Sustainable Development Commission Scotland's view that it is a question of investing over a five-year period to kick start the industry and get it over a hump of investment that is required.*

*Paragraph 83. Rather than focus on the detailed criteria of the various individual schemes currently available, the Committee believes that the current situation demands a new comprehensive and flexible approach. A simplified capital grant scheme that is well-structured and resourced and is widely available must be developed urgently. It must focus on heat rather than electricity and should support the development of local supply chains. It must be flexible enough to encompass domestic, commercial and public sectors, including the issues raised by public procurement and retro-fit of biomass to public buildings.*

### **Capital Grants**

The Executive is developing a biomass capital grant scheme to support a wide range of biomass projects. We have already announced on 16<sup>th</sup> May that the Scottish Community & Householders Renewable Initiative will receive a further £3 million to help support small-scale renewable energy projects, increasing the annual SCHRI funding for the next two years by 60%. To date, SCHRI has provided capital support totalling over £600,000 to nearly 20 biomass projects.

We have worked closely with the DTI on their proposed Microgeneration Strategy, which was published in March 2006 and the Low Carbon Building Programme (LCBP) ([www.est.org.uk/housingbuildings/funding/lowcarbonbuildings](http://www.est.org.uk/housingbuildings/funding/lowcarbonbuildings)) launched in April, to ensure that Scotland's interests are addressed properly. The LCBP is a UK wide programme, administered by the Energy Savings Trust and BRE, which has a budget of £80 million over the next 3 years to provide grants for microgeneration technologies for householders, community organisations, schools, the public sector and businesses.

The Executive's *Going for Green Growth: a green jobs strategy for Scotland (2005)* is already supporting development of biomass through the work of the FREDS group and support for two of the three woodfuel information officers working in Scotland. A capital grant scheme is in development for boiler installation and supply chain development. We aim to have this in place by the end of 2006. The Executive is working to ensure that this will address the key barriers to developing a vibrant biomass industry in Scotland and complement developments at a UK level such as funding from the Big Lottery Fund and the DTI Low Carbon Buildings Programme, available through the Energy Saving Trust.

### **Supply Chain**

The Executive recognises the importance of robust supply chains to the development of the biomass industry in Scotland. The New Land Management

**Contracts (LMCs), which will supersede the current Scottish Forestry Grant Scheme, will support land-based sector involvement in both biomass production and use. LMCs will also include measures which contribute to climate change adaptation and mitigation. The detail of the measures and the delivery mechanisms is currently subject to public consultation and approval by the European Commission before their full introduction in 2007. A pilot scheme, Developing Farm Woodland Energy, is being implemented under the current SFGS to provide funding for the development of new local supply chains. Support for the supply chain will also be available from the Carbon Trust who are implementing a Biomass Heat Acceleration Project (BHAP) which aims to identify and overcome barriers in the supply chain. The Executive will work with the Carbon Trust to ensure that BHAP will benefit the Scottish biomass sector.**

**Lack of confidence in the supply chain has been highlighted by the Committee as a major hurdle for the biomass industry and we are working hard to address this at a number of levels. The development of support mechanisms is an important component to building confidence and mitigating risk. However, we also consider that training and awareness throughout the design, planning and construction process is crucial to ensure that biomass projects are not affected by knowledge gaps between supply and demand. As highlighted by the Committee, these can create false expectations on issues such as pricing which will have a negative impact on market development.**

**The Executive has been working in a number of ways to help support the developing industry. We are supporting training initiatives such as the IGNITE programme which will be running a series of training modules for woodfuel suppliers throughout Scotland in 2006. Relevant agencies are exploring the opportunities for training targeted at installers to strengthen the skills base for biomass projects. Forestry Commission Scotland's woodfuel information officers have taken part in and developed a number of events with other agencies to target information at key stakeholders including a Continuous Professional Development (CPD) event for architects. The Woodenergy website ([www.usewoodfuel.co.uk](http://www.usewoodfuel.co.uk)), to be launched in the near future, will also provide an essential introduction and reference for potential users and suppliers of woodfuel.**

**The Executive is also responding to demands from project developers for security of supply. Forest Enterprise Scotland is currently tendering volumes of standing timber and small roundwood which are of particular interest to biomass developers. The tendering process will provide long-term contracts for the successful bidders to give them a secure basis for supply. This will help to underpin the further development of the market for woody biomass from Scotland's forests.**

**Scottish Executive  
May 2006**