EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

AGENDA

8th Meeting, 2013 (Session 4)

Thursday 2 May 2013

The Committee will meet at 9.00 am in Committee Room 6.

1. **Decision on taking business in private**: The Committee will decide whether to take item 7 in private and to take consideration of evidence heard at future meetings and consideration of a draft report on its inquiry in private.

2. **Scottish Government's Country Plan for China and International Framework**: The Committee will take evidence from—
   
   Ed Payne, Head of Strategy, and Julian Taylor, Executive Director, Strategy and Economics for Scottish Enterprise, Scottish Development International;

   and then from—

   Denis Taylor, Hidden Office Ltd;

   Owen Kelly, Chief Executive, Scottish Financial Enterprise;

   James Brodie, Manager and China Business Adviser Scotland, and Giles Blackburne, Director, China Britain Business Council;

   Angus Tulloch, Joint Managing Partner of the Asia Pacific and Global Emerging Markets Equity Team, First State Investments (UK);

   James Anderson, Partner and Head of Global Equities, Baillie Gifford.

3. **Budget Strategy Phase**: The Committee will consider its response to the Finance Committee on the Budget Strategy Phase.

4. **European Chairs - UK meeting**: The Committee Convener will report on a recent meeting of the European Chairs - UK (EC-UK).
4. **European Chairs - UK meeting:** The Committee Convener will report on a recent meeting of the European Chairs - UK (EC-UK).

5. **Brussels Bulletin:** The Committee will consider the latest issue of the Brussels Bulletin.

6. **Economic Ideas Forum 2013:** The Committee will consider the invitation to the Convener to attend the Economic Ideas Forum 2013 on behalf of the Committee.

7. **Scottish Government's Country Plan for China and International Framework:** The Committee will discuss the evidence heard on its inquiry at this meeting.

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Clerk to the European and External Relations Committee  
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Edinburgh  
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The papers for this meeting are as follows—

**Agenda item 2**

PRIVATE PAPER EU/S4/13/8/1 (P)

SPICe briefing EU/S4/13/8/2

Written evidence from Scottish Development International EU/S4/13/8/3

[Link to written evidence to this inquiry](#)

**Agenda item 3**

Paper from the Clerk EU/S4/13/8/4

**Agenda item 5**

Brussels Bulletin EU/S4/13/8/5

**Agenda item 6**

Paper from the Clerk EU/S4/13/8/6
SCOTTISH GOVERNMENT’S PREVIOUS CHINA PLAN

The Scottish Government’s previous China Plan was published in 2008. The overriding aim of the plan was to “focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth”\(^1\).

The Plan provided a decision making framework for the Scottish Government and its agencies to support the development of China-related activity and associated allocation of resource. The China Plan explained to Scotland's public and private sector what the Scottish Government's priorities were in relation to China.

The Plan set out how the Scottish Government and its agencies would focus engagement with China to support achievement of the Government’s strategic objectives by contributing to the Government strategic targets at the time which are detailed in the box below alongside three international strategic objectives.

Objectives and Targets

Annex 1 of the Plan outlined the Scottish Government’s objectives and targets for its engagement with China. This included an indication of how often the specific targets would be measured. The Plan had 7 objectives and a total of 12 targets beneath them.

The key economic objectives were:

Objective 5: Encourage greater internationalisation of Scottish companies in China

Objective 6: Expand connections between businesses in Scotland and China

Evaluation of the Targets

The Scottish Government has not published an evaluation of the Plan or the targets within it. In the following section I have tried to provide some evaluation of the economic targets.

\(^1\) [http://www.scotland.gov.uk/Publications/2008/05/07115514/1](http://www.scotland.gov.uk/Publications/2008/05/07115514/1)
Raise the share of Scotland’s exports to China by 2011 in relation to the European OECD average

<table>
<thead>
<tr>
<th>Year</th>
<th>European average share of exports to China %⁵</th>
<th>Scotland’s share of exports to China %³</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>7.5</td>
<td>2.1</td>
</tr>
<tr>
<td>2010</td>
<td>8.5</td>
<td>2.0</td>
</tr>
<tr>
<td>2011</td>
<td>8.9</td>
<td>1.3</td>
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</table>

The Scottish Global Connections Survey for 2011 gives details of Scotland’s top 20 markets for international exports. Since 2004 China has appeared in the top 20 in each year. Details of the value of exports to China along with the ranking in terms of its position in the top 20 are provided in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of Exports (£million)</th>
<th>Position in the top 20</th>
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</thead>
<tbody>
<tr>
<td>2004</td>
<td>255</td>
<td>15</td>
</tr>
<tr>
<td>2005</td>
<td>310</td>
<td>12</td>
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<tr>
<td>2006</td>
<td>365</td>
<td>11</td>
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<tr>
<td>2007</td>
<td>345</td>
<td>13</td>
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<td>2008</td>
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<tr>
<td>2009</td>
<td>410</td>
<td>12</td>
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<tr>
<td>2010</td>
<td>295</td>
<td>19</td>
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<tr>
<td>2011</td>
<td>400</td>
<td>14</td>
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</tbody>
</table>

The figures in the Global Connections Survey show that between 2004 and 2011, the value of Scottish exports to China has grown. A sharp decline in 2010 was largely reversed in the following year⁴. The next Scottish Global Connections Survey for 2012 is expected to be published in January 2014.

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WORKING WITH CHINA – A FIVE YEAR STRATEGY FOR ENGAGEMENT BETWEEN SCOTLAND AND THE PEOPLE’S REPUBLIC OF CHINA

The Scottish Government’s China Plan (published in December 2012) sits beneath the International Framework and is intended to provide a framework for any organisation that wishes to work with China. The Plan is designed to guide engagement for the next five years.

The Government’s strategy has four guiding principles that will underpin all of Scotland’s dealings with China and against which success will be measured. They are:

- Securing Sustainable Economic Growth
- Respect for Human Rights and the Rule of Law
- Understanding of Culture
- Increasing Scotland’s Influence

Beneath the guiding principles Working with China lists 4 key priority areas on which the Government’s activities and resources will be focussed on to deliver its China strategy. These are:

- to increase trade opportunities for Scottish business in China and encourage more Chinese investment in Scottish industry and infrastructure
- to expand and deepen Scotland’s education links with China
- to increase collaboration in research and development between China and Scotland
- to promote an innovative and creative Scotland through deeper cultural exchanges and sporting links with China and Hong Kong Special Administrative Region; and promoting Scotland as a destination of choice for Chinese tourists

Specific Targets

Under each of the priority areas there are specific targets against which the Government’s work in this area will be measured. The targets are listed below:

To increase trade opportunities for Scottish business in China and encourage more Chinese investment in Scottish industry and infrastructure.

Target 1.1: Double the number of Scottish companies (based on 2010 levels) supported to access Chinese markets by 2017.

Target 1.2: Increase direct exports to China above the Scottish Government’s export target of 50% by 2017 and to exceed this for China based on 2010 export levels.

Target 1.3: Double the number of major Chinese investors with a presence in Scotland by 2017 based on 2012 levels.

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5 [http://www.scotland.gov.uk/Publications/2012/12/7734/0](http://www.scotland.gov.uk/Publications/2012/12/7734/0)
In this area, Scotland’s focus will be on a specific set of export sectors. These are food and drink; energy; financial services; creative industries and life sciences.

**To expand and deepen Scotland's education links with China.**

Target 2.1: Increase the number of Chinese and Hong Kong Special Administrative Region students studying in Scotland from the current 8.5% share (2010/11) to a 10% share of the total UK Chinese and Hong Kong Special Administrative Region student population.

Target 2.2: Double the number of teachers of Mandarin working in local authority schools in Scotland, based on 2011/12 levels.

Target 2.3: Double the number of school students attaining recognised qualifications in Chinese language, based on 2011/12 levels.

In this area, the aims of the strategy are to increase collaboration between Scotland’s Higher Education Institutions and China’s universities and encouraging more Chinese students to come and study in Scotland.

In addition, the Government hopes that the learning of Mandarin will become a key option for pupils under the new 1+2 model of language learning it is introducing.

**To increase collaboration in research and development between China and Scotland.**

Target 3.1: Increase the percentage of internationally co-authored papers between Scottish and Chinese researchers from the 4.75% baseline of 2008.

In line with the previous priority, the increased collaboration in the area of research and development will require academic institutions in Scotland and China to work together. The Scottish Government has highlighted Scottish expertise in the areas of healthcare, life sciences and renewables and suggested Scotland and China can share information in these specific fields.

**To promote an innovative and creative Scotland through deeper cultural exchanges and sporting links with China and Hong Kong Special Administrative Region; and promoting Scotland as a destination of choice for Chinese tourists.**

Target 4.1: Increase Scotland's share of the value of Chinese visitors to Scotland, as a proportion of the UK spend to 6% (increased from 3.5% on Scotland's share of Chinese spend between 2009 and 2011).

Target 4.2: Monitor progress of the objectives within the Cultural Memorandum of Understanding (MoU) with China and ensure that all 4 key elements within the MoU are actively delivered.
The Scottish Government has highlighted the opportunity that Chinese tourism presents for Scotland in terms of boosting economic growth. Key to this will be the development of direct air links and accessing niche markets such as golf tourism.

In the area of culture, the Scottish Government proposes to build on the Cultural Memorandum of Understanding between the two countries which was signed in December 2011.

Closer links have already been forged resulting the arrival of the pandas at Edinburgh Zoo and the digital recording of the Eastern Qing Tombs as part of the Scottish 10 project, using 3D scanning technologies. The resulting records of the World Heritage Site will be presented to the Chinese people in 2013.

Further cultural links are suggested such as links to the Edinburgh Festivals and links between Scotland and the Hong Kong Special Administrative Region based on a shared interest in rugby.

**Implementation and Delivery**

According to Working with China “the delivery of the priority areas and their associated targets is not just the responsibility of the Scottish Government. It will be for stakeholders across Scotland to work in partnership to achieve these objectives and drive forward our engagement. The Scottish Government’s role is to support this engagement where it can and encourage greater cooperation between stakeholders“.

The Government will provide support by encouraging greater collaboration between organisations in Scotland; utilising all the resources available to Scotland in the form of the UK Government’s infrastructure; help to raise awareness of Scotland in China and by ensuring its own work is focussed on a specific set of priorities and targets.
COMPARISON OF THE TWO STRATEGIES

Overview

The Scottish Government’s original China Plan and Working with China focus on the same broad objectives of increasing trade between Scotland and China; developing educational links and greater understanding of mandarin; increased collaboration between academic institutions; increased tourism and closer cultural ties.

Whilst the original plan had 7 objectives and a total of 12 targets beneath them, the new plan has 4 priority areas and 9 targets beneath them.

The Session 3 European and External Relations Committee’s China Plan inquiry

During Session 3, the European and External Relations Committee undertook an inquiry into the Scottish Government’s China Plan\(^6\). Their report was published in October 2009. A full list of the Committee’s recommendations is attached as an Annex.

A key recommendation of the Committee was:

“The China Plan needs some specific and ambitious targets. Too many of the existing targets seek only to ‘increase’ activity. The Committee believes that there should be targets for business and academic collaboration and for attracting Chinese students to Scotland”

The revised targets in Working with China largely meet this recommendation with specific targets and the business and academic sectors included along with a target to increase the number of Chinese students coming to Scotland.

The Committee also expressed concern that the previous China Plan lacked baseline figures for a number of the objectives. The targets in Working in China include a baseline figure from which progress can be measured.

The Committee suggested that the China Plan needed to “connect with the wider UK strategy for engagement with China”. The implementation and delivery section of Working with China sets out that the Scottish Government will be

“Working with FCO, UKTI, British Embassy and British Council in China and other UK institutions/organisations based in China in order to help develop our own Scottish connections in China”.

Amongst a series of recommendations made by the Committee in terms of the implementation of the China Plan was:

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\(^6\) [http://www.scottish.parliament.uk/parliamentarybusiness/PreviousCommittees/18304.aspx](http://www.scottish.parliament.uk/parliamentarybusiness/PreviousCommittees/18304.aspx)
“criticisms have been made of the ability of business support agencies, particularly Scottish Development International to support Scottish businesses in China.”

Under priority 1 in Working with China the Government commits to “Increase Scottish Development International’s trade support expertise, staff and geographic footprint in China”. This commitment may have been made in part as a result of the Committee’s recommendation.

The Session 3 Committee also recommended that direct flights between Scotland and China should be set up. The Working with China plan states:

“Securing a direct air route from China to Scotland will also increase the attractiveness of Scotland for not only tourism but will lead to greater trade and investment to (and from) China”.

International Trade and Investment Strategy

The Scottish Government’s International Trade and Investment Strategy identifies China as a fast growing market which Scotland should engage with.

In addition, it lists a number of globally competitive sectors and businesses which it says Scotland excels in. These are energy; life sciences, creative industries, financial and business services and food and drink. Working with China specifies that Scotland will focus on all these sectors in developing its relationship with China.

The aims of Working with China are consistent with the goals set out in the International Trade and Investment Strategy.

Conclusion

The Scottish Government’s Working with China strategy adopts the same broad objectives as its previous China Plan. However, the new strategy has fewer more specific targets and takes on board a number of the recommendation made by the European and External Relations Committee inquiry report which was published in 2009.

Iain McIver
SPICe Research

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SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Coverage of the China Plan

The Committee believes that it is difficult to underestimate the importance of China as either an economic or political force in the future. It therefore welcomes the Scottish Government's refreshed China Plan and the commitment of successive Scottish Governments to engage more with China.

The Committee agrees that Scotland needs a China Plan and welcomes the China Plan's focus on particular sectors and areas of expertise where Scotland has a true competitive edge in the global market. However, the Committee finds that the China Plan is lacking in some specific targets and falls short in some aspects of implementation.

The Committee believes that the China Plan needs to connect with the wider UK strategy for engagement with China. There is no evidence that this has been achieved.

The Committee welcomes the Scottish Government's commitment to build on the links established by the previous Scottish administration in Shandong Province, but is unclear as to what tangible progress has been made in this respect.

Objectives and targets of the China Plan

The China Plan needs some specific and ambitious targets. Too many of the existing targets seek only to "increase" activity. The Committee believes that there should be targets for business and academic collaboration and for attracting Chinese students to Scotland.

The Committee is also concerned about the lack of financial information included in the China Plan and the lack of baseline figures for a number of objectives. The Committee recommends that the China Plan is revised to take account of these points, which will enable the delivery of the Plan to be properly measured and assessed in future.

Implementation of the China Plan

The Committee has received significant evidence that the strategy outlined in the China Plan is not being delivered in a number of aspects—

- Scotland has not yet established 'visibility' in China;
- criticisms have been made of the ability of business support agencies, particularly Scottish Development International, to support Scottish businesses in China;
there appears to be an appetite amongst larger Scottish businesses to mentor smaller ones on trading with China, but this has not been exploited to date;

Scottish colleges are not on the list of recognised education providers, which disadvantages them in the Chinese market;

more support requires to be given to Scottish tourism businesses to give them the capacity to handle Chinese tourists, for example, the creation and distribution of ‘China-ready’ kits and accreditation with the China National Tourism Administration;

there are no direct flights between Scotland and China and, although the opportunity currently exists to develop them, this has not yet been taken up by the Scottish Government;

there is an opportunity for more sharing of experience of working with China, particularly amongst local authorities and through cross-sector working groups; and

there is scope to involve stakeholders more in the development of the Plan, particularly the ethnic Chinese business community in Scotland and Scottish SMEs.

Other issues

The Committee recognises the particular situation in China where carrying out business requires political support and underpinning. The Committee considers, therefore, that there is a significant role for politicians in supporting the links which businesses, universities, colleges, local authorities and others are seeking to make with China.

The Committee supports the work that Ministers from both the UK and Scottish Governments have undertaken in supporting trade missions to China and sees a continued need for such support if Scotland’s profile is to be raised.

The Committee firmly believes that there is an obligation on politicians and indeed all those who do business with China to continue to raise the issue of the Chinese Government’s record on human rights. The Committee welcomes the Scottish Government’s commitment set out in the China Plan to continue to raise concerns about human rights issues in China and urges the Government to continue to promote such issues at every available opportunity.
European and External Relations Committee

8th Meeting, 2013 (Session 4), Thursday 2 May 2013

Inquiry into the Scottish Government’s Country Plan for China and International Framework

WRITTEN EVIDENCE FROM SCOTTISH DEVELOPMENT INTERNATIONAL (ON BEHALF OF JOINT VENTURE PARTNERS; SCOTTISH GOVERNMENT, SCOTTISH ENTERPRISE AND HIGHLANDS AND ISLANDS ENTERPRISE)

INTRODUCTION

Scottish Development International (SDI) is pleased to submit this paper to the European and External Relations (EER) Committee as a combined submission on behalf of its joint venture partners: Scottish Government (SG), Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE).

The submission gives a brief outline of:
- The strategic context in which SDI deliver in China;
- the current economic environment, and in particular the economic growth in emergent markets;
- the priorities being pursued by SDI in China as an integral part of the China Plan; and
- delivery to date in pursuit of the priorities.

This submission focuses in particular on increasing international trade and investment with China, and how this is supported by SDI.

STRATEGIC CONTEXT

In developing SDI’s approach to increasing trade and investment it is important that this is pursued in a way which:

- fully reflects the Government’s Economic Strategy, i.e. exporting is not an end in itself it is a means to achieve sustainable economic growth, and
- delivers in a way that reflects the wider ambitions of Scotland articulated in the International Framework.

To ensure a further level of detail in the approach, these overarching areas are further refined through:

- Scotland’s Trade and Investment Strategy which sets out trade and investment priorities for Scotland.
- Country plans which set out the detailed priorities across the themes in the International Framework and how they relate to a particular country.

Government Economic Strategy
The Government Economic strategy has set an ambitious target to increase the value of international exports by 50% by 2017. The strategy recognises the
enormous opportunity for Scotland of emergent markets “Improving our access to these emergent growth markets will open up Scottish exports to new consumers - 2.5 billion in India and China alone”\(^8\).

**International Framework**
The International Framework is clear over both the importance of increased trade from Scotland and increased investment into Scotland and the role of SDI in working with partners to support these. It further provides the framework to ensure this activity is aligned with broader activity and gives a clear focus for international engagement in a rapidly changing world.

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\(^8\) Page 41, Scottish Government Economic Strategy, September 2011.
Scotland’s Trade and Investment Strategy 2011-15
The Government launched Scotland’s Trade and Investment Strategy in March 2011. This sets out the Government’s key objectives and priorities to increase Scotland’s international trade and investment performance as detailed below:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Priorities</th>
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</table>
| Increasing International Trade | • More Scottish businesses trading internationally  
• Greater support for Growth businesses  
• International exploitation of Scotland’s education sector |
| Attracting inward investment | • Greater focus on strategic inward investment  
• Embedding companies, encouraging expansion and developing supplier links  
• Low carbon opportunities |
| Promoting Scotland         | • Focus on growth opportunities in sectors  
• Ensuring a global footprint focused on opportunity  
• Emerging markets |
| ‘Team Scotland’ delivery    | • Customer focused delivery  
• Aligning the work of the public and private sector  
• Wider promotion of Scotland  
• Influencing and providing business intelligence  
• Harnessing the potential of international networks  
• Integrated business planning |

This sets the overall priorities for SDI to deliver against in partnership with the public and private sector.

Working with China – a Five Year Strategy for Engagement between Scotland and the People’s Republic of China

This high level strategy sets out the Scottish Government’s ambitions in developing Scotland’s relationship with China over the next five years. Since 2006 when Scotland’s first China Plan was published, Sino-Scottish relationships have gone from strength and strength, and the flows of trade and investment have fully contributed to this relationship.

One of the guiding principles in the China Plan is

‘Securing Sustainable Economic Growth- building Scotland’s prosperity by strengthening links with China, through increase trade and investment, and more developed links to education, research, culture and sport’

Trade and Investment has an important role to play in developing common interest between Scotland and China. It also has a role in supporting the other three guiding principles of ‘Respect for Human Rights and the Rule of Law’, ‘Understanding of culture’ and ‘Increasing Scotland’s Influence’. 
SDI’s contribution will mainly be in supporting Priority Area 1 of the strategy, namely: ‘to increase trade opportunities for Scottish businesses in China and encourage more Chinese investment in Scottish industry and infrastructure’. However SDI also has an important role to play, with partners, in contributing to the other priorities in the Plan, namely: Priority Area 2 (education links); Priority Area 3 (increase collaboration in research and development) and Priority Area 4 (deeper cultural exchange including promoting Scotland's Creative Industries sector).

ECONOMIC CONTEXT

Overall

Scotland’s export performance is dependent on a relatively small number of firms, in few sectors, exporting to economies which recently have experienced slow growth. Currently, only a small number of these firms export to the fast growing, emergent economies.

As the world economic map evolves, Scotland needs to take advantage of the shift in international economic activity towards these fast growing markets. In particular markets like China.

The diagram below shows the scale of current exports compared to the relative economic growth forecast in 2014. Exports to the Euro area and USA will continue to be significant. However, there is a need to diversify the export base to fast growing markets like China.
Recent Export performance to China
The latest Global Connections survey for 2011 estimates that Scottish exports to China are now £400m, an increase of 35% from 2010. However as the value is relatively small the estimates do fluctuate year to year. Over the least 5 years the value of exports has grown by 10%. China is ranked 14th overall in terms of exports from Scotland.

The HMRC regional statistics for 2012 (does not cover the export of services) shows overall export growth in Scotland as 0.1%. Although flat, it was the best performance of any part of the UK. However the geographic differences are fairly marked. There was a decline in EU exports by 6.7%, offset by an increase in exports to other markets. Notably the largest ‘value’ increase in exports was to China, with growth of 21% (+£89m). This ranks China as 8th export market (up from 11th in 2011).
Future demand
The latest Global Connections survey (2011 exports but survey carried out in 2012) also asked companies to assess future export markets.

China is ranked first as a future market (20% of respondents) this is similar to the year before where it overtook the US which has traditionally been the top future market.

Work with Industry Leadership Groups in 2012 also saw China identified as a priority across a range of growth sectors.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Aerospace, Def, Marine</th>
<th>Chemical Sciences</th>
<th>Construction / Forest Tech</th>
<th>Creative Industries</th>
<th>Financial &amp; Bus Services</th>
<th>Food &amp; Drink</th>
<th>Life Sciences</th>
<th>Oil &amp; Gas</th>
<th>Sustainable Tourism</th>
<th>Technologies</th>
<th>Textiles</th>
<th>Thermal Generation / CCS</th>
<th>Universities and colleges</th>
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<tbody>
<tr>
<td>China</td>
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</table>

Top future export markets

1. China
2. USA
3. Brazil
4. India
5. Russia

Countries (alphabetical)
- Australia
- Belgium
- Brazil
- China
- France
- Germany
- Italy
- India
- Ireland
- Japan
- Malaysia
- Nigeria
- Nordics
- North Africa
- Russia (and FSU)
- Singapore
- UAE (and Middle East)
- USA/Canada
- West Africa
TRADE AND INVESTMENT PRIORITIES IN CHINA

Increasing international trade

Working with China – Priority Area 1 (extract)*

There are already a considerable number of Scottish companies doing business in China with significant opportunities for more Scottish companies to grow their presence in a range of growth sectors where we have world class products and services and where there is known demand in China. Recent Scottish success stories in the export market include securing Geographical Indication of Origin status for Scotch whisky and an export health certificate allowing direct exports of Salmon to China, which has seen a significant rise in exports to China of both these quality Scottish products.

Scottish companies currently export to China through a variety of channels including the use of partners, agents and distributors and over 50 Scottish businesses currently have a physical presence in China in the form of representative offices, wholly owned subsidiaries or joint ventures.

Companies in Scotland with the products, services and desire to compete in China can be separated into two groups:

- Those companies that can provide technology, products and services to the China’s burgeoning oil and gas, renewable energy, life sciences, ICT, advanced engineering and financial services
- Those companies that can satisfy increasing consumer demand from an ever growing group of middle class consumers in China. These will be in the education, food and drink, textiles, financial services and tourism areas.

SDI and its partners will work with new market entrants as well as with more experienced exporters to ensure they understand all aspects of the Chinese opportunity and possess the best market access strategies. We will continue to build business networks and relationships in China to enable Scottish companies to quickly find partners and distribution channels for their products and services while also promoting Scotland’s overall reputation for invention, innovation and high quality products and services.

In increasing international trade to China, SDI will, in particular, focus on:

Food & Drink: The rise in the Chinese middle class has led to more demand for premium quality products and China will be the world’s largest importer of food by 2017. SDI will work with companies and industry partners in Scotland to help raise awareness of export opportunities in China and help Scottish businesses to build market access strategies. Building awareness of the provenance of Scottish Food &

* http://www.scotland.gov.uk/Publications/2012/12/7734
Drink in China will also be key component of increasing trade as will building an extensive network of premium importers and distributors in China.

**Energy:** It is estimated that by 2025 China will consume 25% of the world’s energy per annum. SDI will continue to position Scotland as Europe’s leading centre for energy related knowledge, innovation, R&D, especially in offshore wind, marine energy and Oil & Gas. Oil and Gas represents the largest trade opportunity in areas such as drilling, production and process management, subsea exploration, training and 3rd market co-development.

**Financial Services:** China’s growing wealth is being invested in assets and those assets need to be managed. Scotland has a world renowned expertise in asset management and SDI will continue to assist Scottish asset management companies to build their reputation and contacts with China’s largest financial institutions.

**ICT and Creative Industries:** These are pillar industries in the 12th Five-Year Plan in China. The Telecommunication industry offers great opportunities for related overseas suppliers and 4G is an emerging opportunity especially for R&D partnership. Other opportunities from China’s emerging industries include new display technology, next generation internet, smart grid, mobile intelligent information terminal, wireless communication, cloud computing, sensor technology, software development for gaming and animation, digital content, green/low carbon technologies.

**Life Sciences:** one of seven China’s national core industries and expected to become the third largest medical devices market in the world. Opportunities for Scotland are strong in medical devices and drug discovery. SDI will continue to promote Scotland as a world leading R&D centre and the most practical and efficient R&D collaboration partner in Europe. We focus on companies with the global development ambition and strong R&D investment and focus on regions/ cities that have developed strong links with Scotland (e.g. Beijing, Shandong, Shenzhen), build relationship with the provincial governments and explore further collaboration opportunities.

SDI will also work to support companies in other sectors including; Education, Textiles and Tourism.

Mechanism’s to support and encourage more Scottish companies to actively seek business with China will cover the whole of the export journey from raising awareness, preparing an export strategy, to market entry and expansion. It will also include collective public-private sector initiatives to boost trade and investment, for example the Asia Food and Drink strategy which was launched in December 2011 in China. Key partners in this important activity will include UKTI, China-Britain Business Council, SCDI, Globalscots and local chambers of commerce in Chinese cities.

Scottish Government and SDI will continue to work with partners (e.g. the Scotch Whisky Association, DEFRA) on influencing wider trade policy and removing market access issues to support Scottish exports, recent successes include:

- Award of health certificate for Scottish Salmon, and
Geographical indicator status for whisky has seen exports of these products to China grown significantly.

**Attracting Strategic Inward Investment**

*Working with China – Priority Area 1 (extract)*

China’s Foreign Direct Investment has increased dramatically in recent years and has mainly involved the acquisition of mineral resources and energy. Whilst this mergers and acquisitions trend will continue, we expect more Chinese companies to become Global companies either through acquisition or by themselves through natural expansion.

To facilitate inward investment from such companies, we will position Scotland as the ideal European base for Chinese companies with a focus on our pro-innovation business environment.

Building close, early stage relationships with those Chinese companies who are most likely to globalise over the next 5 years will be a key element of our inward investment programme. We will use bespoke research together with our Asia provincial city outreach programmes to begin the process of identifying these potential inward investors and building relationships.

Particular strengths SDI’s will promote include:

- **Low Carbon**: Scotland is leading the way in low carbon offering and SDI is building relationships with leading Chinese companies working in the solar, wind and marine industries to encourage investment in Scotland’s low carbon infrastructure;

- **Innovation**: Scotland has some of the best research universities in the world and some of the world’s most innovative businesses. Innovation is a key theme in the 12th FYP and we will promote Scotland as a place where Chinese companies can find partners, to our mutual benefit.

- **Air routes**: the attraction of a direct route from China to Scotland will increase the attractiveness of Scotland for greater trade and investment to (and from) China. Team Scotland will work with Chinese airlines to build the commercial case for this.

- **Investment finance**: Scotland has, and will continue to have, a range of high quality investment opportunities suitable for funding from China. These vary from the low carbon sector to 5-star tourism destination developments. SDI will build relationships with Chinese investment companies and entrepreneurs to fully promote these and help create further investment opportunities in Scotland.

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10 [http://www.scotland.gov.uk/Publications/2012/12/7734](http://www.scotland.gov.uk/Publications/2012/12/7734)
SDI DELIVERY – INCREASING TRADE TO CHINA

Overall approach
SDI is committed to supporting and working with any Scottish business that wants to trade internationally. In doing so it provides a range of products and services that can be accessed by businesses at all stages of growth, development and international ambition.

Growth companies are account managed by SE and HIE because of their potential to achieve growth and deliver economic impact. Account management starts with the preparation of a growth plan which sets out the milestones and objectives on the path to achieving growth. The support for companies is then tailored to the needs of the business in relation to this plan and in many cases includes expert international support through SDI.

SDI, along with partners, offers a range of services from awareness & ambition to market entry & expansion. This is delivered by SDI in conjunction with partners. The support available and how it integrates with wider business development support is shown below:

If market awareness and research identifies China as a market of interest to a company then work is conducted to prepare the company and subsequently support it in market. To support this SDI has three overseas offices in mainland China namely: Beijing, Shanghai, and Shenzhen as well as offices in Hong Kong and Taiwan.
Rationale for Overseas Presence

The key economic development rationale for the overseas presence is to address information asymmetries, establishing & maintaining networks and addressing institutional failures. In markets with significant cultural differences, like China, these barriers can be greater and therefore the need for public intervention is stronger.

To address these requires a sophisticated approach which combines in depth geographic and sectoral knowledge. The development of networks and relationships is a long term process involving significant technical and cultural competencies combined with high degrees of trust – SDI has invested significantly in developing these relationships and underpinning competencies. A key role for SDI is using its reputation, in particular for impartiality and trust, in developing these relationships and accessing senior private and public sector decision makers.

Activities undertaken

SDI’s overseas trade and investment staff in China perform a wide range of work for businesses and for the wider promotion of Scotland, including:

- Specific work for individual trade and investment customers, ranging from market research to reaching senior decision-makers.
- Networking, contact-building and door-opening for business – up to and including the highest levels of business and key government contacts
- Building links to Scotland’s science and education base.
- Providing a platform for Scottish excellence and enhancing Scotland’s reputation across the board through events and marketing activity

SDI works with partners such as China British Business Council (CBBC) and UK Trade & Investment and seeks the support of GlobalScot members to assist Scottish companies and promote Scotland’s business interests in China. The pipeline of companies from Scotland showing an interest in the Chinese market is extremely healthy and there are many examples of Scottish companies doing business directly in China through partnerships, joint ventures and wholly owned foreign enterprises.

There are a considerable number of Scottish companies doing business in China. They cover a range of sectors (e.g. energy, financial services, ICT, food and drink and education). Many are conducting business from Scotland directly or via their appointed partners such as agents and distributors. While others own operations set up in China in the form of representative offices, wholly owned subsidiaries or joint ventures.

Around 50 Scottish companies have such a physical presence in China including: Aggreko, Clyde Blowers, Howden, SgurrEnergy, Weir Group, Standard Life, the Royal Bank of Scotland, Martin Currie, Aberdeen Asset Management, The Edrington Group, William Grant & Sons, Fresh Catch, Scottish Salmon Company, Kinloch Anderson, JD Wilkie, Edinburgh University, Glasgow University, Heriot Watt University, Dundee University, Napier University, Elmwood College, SQA.

There is clear evidence that our support helps to open doors and accelerates export success in harder to reach emerging markets like China. In 2011/12 we supported 169 Scottish companies export to China which represents a 69% increase on the previous year and we are on track to help a greater number of companies this year.
Recent Trade Visits, Missions and Exhibitions (two way), 2012

Detailed below are a selection of visits and missions to China in the last year alongside visits to Scotland from China.

- Nov 2012  Crawford Gillies, Scottish Enterprise Chairman (visit to Beijing)
- Nov 2012  Cabinet Secretary for Rural Affairs and the Environment visited Shanghai with the food and drink mission (14 – 17 Nov)
- Oct 2012  CITIC Group mission to Scotland
- Sep 2012  Scottish Oil & Gas mission to Dongying and Beijing
- Aug 2012  Scottish Oil & Gas mission to Dongying and Beijing
- June 2012  Food & Drink promotion event in Shanghai
- June 2012  Huawei IP delegation visit to Scotland
- May 2012  Scottish Oil & Gas mission to China
- May 2012  Scottish Life Science Mission to ChinaBio partnering forum
- Mar 2012  Scottish Oil & Gas mission to Beijing
- Dec 2011  First Minister’s visit to China (Beijing, Shandong, Shenzhen and Hong Kong)
SDI DELIVERY – ATTRACTING INWARD INVESTMENT FROM CHINA

SDI’s Approach in China
While the majority of immediate opportunities, and therefore focus, is on the provision of support to Scottish companies, there are undoubtedly opportunities to attract Chinese knowledge and investment into Scotland. With the majority of Chinese companies focused on internal markets or international M&A strategies, this is seen as a long term agenda. SDI has established relationships with a large number of internationally aspiring companies and through this has developed a pipeline of investment opportunities with Chinese companies in priority sectors.

SDI also focuses on developing two way business between Chinese and Scottish companies in these priority sectors by proactively developing relationships with Chinese companies and facilitating collaborative opportunities that support the internationalisation plans of both parties. A number of high profile companies such as Huawei and Asiapharm have developed strong partnerships with Scottish companies and universities.

China’s investment profile
- China’s GDP continues to grow rapidly, current GDP growth is 8% slightly down from an average GDP growth of 10% for over a decade, it is still an emerging country in terms of its overseas direct investment (ODI).
- China has been the largest recipient of foreign direct investment (FDI) year on year for the last decade. Almost 60% of this is in manufacturing.
- The Chinese government has been actively encouraging its companies to go global and most recently to invest in R&D. However, it is widely recognised that Chinese companies are comparatively weak in these areas.
- China is now the holder of the largest stock of foreign currency. This provides a rich resource to support Chinese companies and key industries.

Main investment models from China
- **Mergers and Acquisitions (M&As):** this approach is often focused on acquiring natural resources and to a lesser extent brands and technology, like Lenovo’s acquisition of IBM. Scotland has previously been identified as a strategic ‘Worldsourcing’ location which is a significant step in demonstrating Scotland’s role in Lenovo’s expanding European presence – this recognises the local expertise and leadership of the Scottish operation, offering potential scope for expansion. Lenovo is seen as one of the few successful M&As from China.
- **Direct investment:** mainly in manufacturing. The set up of these are in developing and emerging countries.
- **Sales offices:** form a large number of inward investment projects from China and are seen as an ‘early’ investment.
- **Strategic alliances:** large Chinese companies in the financial services sector are acquiring a certain percentage of equities from overseas companies as a strategic partner e.g. China Development Bank’s share of 3% in Barclays.
- **R&D centres:** gradually a number of the bigger Chinese technology related companies are recognising the importance of overseas R&D facilities with countries chosen to try and take advantage of indigenous strengths and capabilities.
Current Chinese Investors in Scotland
At present Scotland has four major Chinese inward investors: Lenovo; Ningxia Zhongyin Cashmere Company (owners of Todd & Duncan); Cochran International Holdings Ltd (owner of Cochran Ltd) and the Bank of China.

There are also two joint ventures: Petrochina has entered Scotland through the setup of a joint venture with INEOS investing US$1.01 billion for a 50% of shares of INEOS’ European Refinery Business which includes the Grangemouth refinery, whilst Sinopec is acquiring a 49% share of Talisman’s UK North Sea business at a cost of US$ 1.5 billion.

CASE STUDIES

Asia Food and Drink Plan\textsuperscript{11}
Senior delegations such as SE chairman’s visit in late November and the recent ministerial trade mission led by Richard Lochhead also in November. Seventeen companies and five trade bodies supported to accelerate export growth in China. Companies attended Food and Hotel China which gave them access to over 30,000 buyers and we helped facilitate over 50 influential one to one meetings for the companies. There are a significant number of following up on enquiries and a live shellfish exporter has confirmed that opportunities identified from the one to one meetings.

Food and Drink promotion\textsuperscript{12}
Macallan and Johnnie Walker whisky, salmon from the Scottish Salmon Company, shortbread from Walkers Shortbread, Campbells Shortbread and Reids of Caithness; plus a variety of produce from Baxters, Mackays and Mrs Bridges heavily promoted in 30 large Chinese supermarkets in a deal brokered by SDI

Exploiting opportunity to quality dairy produce in China\textsuperscript{13}
Graham’s Dairies Managing Director Robert Graham said: “The demand in China for value-added milk products is simply enormous and the company we met today is very keen for Scottish producers to enter the market. Graham's are a family business and we have a reputation in the home market for producing high quality dairy goods, but until now we have never entered the export market. The meeting in China today was very positive and we are keen to explore the opportunities further.”

Salmon – supported deal with the World Association of Chefs for Scottish Salmon producers to give Scottish produce global exposure across its 10 million members\textsuperscript{14}

\textsuperscript{12} http://www.scottish-enterprise.presscentre.com/Press-releases/Supermarket-sweep-for-Scottish-food-drink-590.aspx
\textsuperscript{13} http://www.scottish-enterprise.presscentre.com/Press-releases/Optimism-over-future-China-dairy-deal-594.aspx
\textsuperscript{14} http://www.scottish-enterprise.presscentre.com/Press-releases/Unprecedented-global-exposure-for-Scottish-seafood-58f.aspx
In January 2011, the Scottish and Chinese governments reached an agreement to allow salmon exports directly from Scotland to China which prompted a dramatic increase in Scottish salmon exports to China.

The value of Scottish Salmon exports to China in 2011 were up 103% year on year and by the end of July 2012, 86% of last year’s total tonnage had already been exported. We anticipate that total sales to these target markets will greatly exceed the 2011 total (Source: Scottish Salmon Producers Organisation)

China is now the 4th largest market for exports of Scottish salmon in the world (after USA, France and Poland)

**Bakery**

40 jobs have been secured at Stag Bakeries based in Stornoway after securing a lucrative order from China. The company plans to expand its workforce by 25% after clinching the deal to export the Far East. Pallets of Hebridean shortbread and water biscuits are being shipped out to Shanghai and regular orders are being placed.

**Whisky**

Exploiting opportunities to further boost export for whisky in China as a result of the rising population of middle class seeking luxury products like whisky – reception at Johnnie Walker House in Shanghai and new Johnnie Walker house in Beijing

**Energy**

we are working with Scottish Energy companies Scottish and Southern, Scottish Power, Sgurr Energy to help them do business with companies in Asia and introduced the European Marine Energy Centre to China’s Ocean University to support collaboration on a wave energy test centre in Shandong.

Over the next 10 years, over £40bn in investment opportunities exist within the Scottish low carbon sector and we are heavily promoting these opportunities to Chinese organisations to support investment and encourage greater Sino-Scot ventures for example Clyde Blowers subsidiary David Brown Gear Systems which has set up a JV with Jiangsu Shinri to manufacture systems for wind turbines and railways.

We are also seeing Chinese Investment into Scotland, including

- Sinopec which invested US$1.5b to acquire 49% of Talisman (UK) Ltd. Talisman operates in North Sea and out of Aberdeen.

- CNOOC completed its acquisition of Canada head-officed Nexen at US$15.1bn in Feb 2013. “Nexen is the second largest oil producer in the UK North Sea, thanks to the resource-rich Buzzard facility, which in 2012 generated about 160,300 barrels of oil equivalent per day (boe/d) (about 69,000 boe/d net to Nexen). We’ve more than doubled our proved reserves in the North Sea since 2004 and continue to actively explore in the region.” (from Nexen website)

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Textiles
SDI has organized the biggest ever Scotland textile delegation to China which consists of 16 companies. A Scottish manufacturer has secured a major new contract with a leading Chinese clothing firm in March 2013. The deal, which is worth £375k, will see Langham based Reid and Taylor supply 15,000 square metres of some of its highest quality fabric to Yeliya, based in Shandong Province, China.

The Carloway Mill on the Isle of Lewis has announced that after several months of discussion, a joint venture agreement has been concluded with one of the world’s largest, most innovative and progressive textile companies; the Shandong Ruyi Technological Group Ltd, whose HQ is in Jining in China. The joint venture will result in Shandong Ruyi becoming a shareholder in The Carloway Mill.
R&D / Education
University of Strathclyde (UoS) partnered with China Aerospace Science & Technology (CASC) through it’s China Academy of Launch Vehicle Technology (CALT) to create the new MSeSTech lab, located at UoS. With £1.5million worth of funding coming from China for the next five years.

The University of Dundee and spin-out company STAR-Dundee Ltd signed an agreement with the China Aerospace Science and Technology Corporation – Software Test & Evaluation Center on Tuesday February 8th. The agreement between the Dundee institutions and the CASC Software Test & Evaluation Center will establish links in software and system testing, training and research-related development activities in SpaceWire Technology.

SUMMARY

China is now the second largest economy in the world with a forecast annual growth rate of over 8%. China’s economy is gradually becoming more open and dynamic and Scotland’s ability to take advantage of this will be critical in developing Scotland’s long term sustainable economic growth.

China will continue to be one of the main sources for global growth and therefore it is vital that Scotland continues its efforts to increase trade and investment with China. Scottish businesses will continue to be provided with a full range of SDI export services such as China market research, strategic market entry planning, in-market consultation, introductions to Chinese business networks and missions and learning journeys to China.
Response to the Finance Committee on the Budget Strategy Phase

Background

1. The Convener of the Finance Committee has written to the European and External Relations Committee as well as a number of other subject and mandatory committees in relation to the Budget Strategy Phase (BSP), inviting them to identify any specific areas on which they would welcome an update from the Scottish Government on its progress in delivering its priorities as set out in the 2011 Spending review. A copy of this letter is attached at Annexe A.

2. The BSP takes place at least once during a parliamentary term. The purpose of the BSP is to allow the Parliament to scrutinise the progress that the Scottish Government has made in delivering its own targets through its spending priorities, and to take a strategic overview of the public finances.

3. Once it has the responses from committees, the Finance Committee will write to the Scottish Government in May 2013 requesting an evaluation of performance in the specific areas identified by the committees with the aim of producing a more focused process.

4. The Scottish Government will then publish a performance evaluation document alongside the Spending Review in September. Individual committees will scrutinise the relevant parts of this document alongside the Spending Review 2013.

Committee consideration

5. The European and External Relations Committee has considered the following areas in relation to the budget—

   - Major Events and theme years budgets (development of Scotland’s event industry with Visit Scotland and contribution to Year of Natural Scotland and Year of Homecoming


Committee decision

6. In order to respond to the Finance Committee, the Committee is invited to consider and agree which of the areas listed above it would welcome an update on from the Scottish Government regarding the latter’s progress in delivering its priorities as set out in the 2011 Spending Review. These will then be communicated to the Finance Committee.

Katy Orr
Clerk to the Committee
Dear Convener,

Following a review of the budget process (Finance Committee, 5th Report, 2009, Report on the Review of the Budget Process) in Session 3 the previous Finance Committee agreed to introduce a strategic phase to the process which replaces the previous Stage 1 which had not been carried out since 2004. The aim of the Budget Strategy Phase (BSP) is to allow the Parliament to scrutinise the progress which the Scottish Government (SG) is making in delivering its own targets through its spending priorities and to take a strategic overview of the public finances around the mid-point of the current Parliament.

At its meeting on 16 January the Committee considered its approach to the BSP and agreed in the first instance to write to each of the subject committees, the Welfare Reform Committee, the Equal Opportunities Committee and the European and External Relations Committee inviting them to identify any specific areas on which they would welcome an update from the SG regarding its progress in delivering its priorities as set out in the 2011 Spending Review.

The Committee would then consider the responses before writing to the SG requesting an evaluation of performance in specific areas with the aim of producing a more focused process. The SG would publish a performance evaluation document alongside Spending Review 2013 and the committees would then have the opportunity to scrutinise this document as part of the budget process in the Autumn. This suggested approach was of course, dependent on the agreement of the SG.
I wrote to the Cabinet Secretary for Finance, Employment and Sustainable Growth on 17 January setting out the Committee’s suggested approach to the BSP. He responded on 28 January confirming that he was content with our proposals. Both letters are attached overleaf for information.

I would therefore be grateful if you would provide me with details of the specific areas on which you would welcome an update from the SG regarding its progress in delivering its priorities as set out in the 2011 Spending Review. Each portfolio chapter within the Spending Review document sets out the SG’s priorities in that area.

As detailed above, the Finance Committee will then consider responses before requesting an evaluation of performance in these specific areas. The Committee has also already stated in its report on the Draft Budget 2013-14 that the SG needs to provide some linkage between spending and outcomes when evaluating its performance. The SG will then be invited to publish a performance evaluation document alongside Spending Review 2013.

The proposed timetable is as follows:

**Jan-April:** Committee consults with subject committees on performance information;

**May:** Committee writes to SG requesting specific performance information;

**September:** SG publishes performance evaluation document alongside Spending Review 2013.

**Sep-Nov** Committees scrutinise performance as part of budget process.

The Committee would welcome a response by **Friday 26 April 2013**.

Yours sincerely

Kenneth Gibson MSP
Convener
Introduction


Purpose of the Brussels Bulletin

2. This Brussels Bulletin has been provided by Scotland Europa on behalf of the Scottish Parliament and is based on the European and External Relations Committee’s work programme and the key EU priorities of the committees of the Parliament, as envisaged by the Scottish Parliament’s EU Strategy (based upon each committee’s assessment of the annual European Commission’s Work Programme as it affects their area of competence).

3. This Bulletin is circulated to relevant parliamentary committees and is published on the Parliament’s website.

Recommendation

4. The Committee is invited to consider the latest issue of the Brussels Bulletin and to agree to forward it to relevant committees for their consideration.

Clerk to the Committee
May 2013
NEWS IN BRIEF

Common Agricultural Policy
The European Commission is confident that ongoing negotiations between the Parliament and Council regarding the European Union’s common agricultural policy (CAP) reform package will lead to resolution by the end of June. Meetings between the two institutions began on 11 April, and on 22 April an informal Council in Luxembourg broadly welcomed transitional measures for Direct Payments into the 2014 claim year.

Emissions Trading System
A European Parliament plenary vote has seen MEPs reject the European Commission’s November 2012 ‘backloading’ proposal to temporarily remove a number of allowances from the EU Emissions Trading Scheme (ETS) as a short term measure to address consistently low emission prices. The proposal would allow the Commission to withhold 900 million allowances from auction between 2013 and 2015 before returning them to the system in 2019 and 2020.

Common Fisheries Policy
The Council held an informal meeting in Luxembourg on 22 April to consider progress on the first round of negotiations between the Parliament and Council on the reform of the CFP. Negotiations are ongoing and obstacles to progression include Maximum Sustainable Yield (MSY) levels, regionalisation, Common Market Organisation (CMO), the discard ban and fleet capacities.

Banking Sector Reform
The European Parliament has approved new rules on bank capital requirements, following triilogue negotiations with the European Commission and the Irish Presidency of the Council of the EU. The new legislation will implement the global Basel III agreement into EU law and comprises of a regulation introducing the first single set of prudential rules for banks across the EU, and a directive governing access to deposit-taking activities.
COMMON AGRICULTURAL POLICY
Current Status
The European Commission is confident that current, ongoing negotiations between the Parliament and Council regarding the European Union’s common agricultural policy (CAP) reform package will lead to resolution by the end of June. The first of approximately thirty proposed meetings between representatives from the two institutions began on 11 April 2013 with the main issues of discussion being direct payments; rural development; market organisation; and financing-horizontal regulations.

What is happening?
On 18 April 2013 the European Commission published proposals to provide transitional arrangements in 2014 for certain CAP rules, in particular the system of Direct Payments. This proposal would see the existing rules of the Single Area Payment Scheme (SAPS) system and payments targeted under Article 68 (Health Check Review) continue in the 2014 claim year, therefore pushing new rules – like those related to greening, for example - back to the start of 2015, allowing authorities more time to prepare for these changes. Ministers agreed to broadly accept the introduction of the transitional arrangements at their informal Council meeting on 22 April in Luxembourg.

Bringing in such rules to bridge a gap between two multi-annual programming periods is standard practice for Rural Development. However, more specific transitional arrangements will be required to deal with the impact of the delay on the new direct payment regime.

The Commission proposals also look to incorporate the financial impact of the European Council conclusions of 8 February, meaning the process of moving towards a fairer distribution of funds for direct payments among Member States will already apply in the 2014 claim year.

Member states are split in opinion in these negotiations with countries such as France and Poland keen to maintain farm subsidies, whilst others, such as the UK, want to reduce the amount of money reserved for the agriculture sector. “Significant details need to be worked out”, said EU Agriculture Commissioner Dacian Cioloș, referring in part to the rebalancing of direct payments within Member States, one of the most divisive issues in the debate.

Greening
Commissioner Cioloș also stated that efficient, mandatory greening instruments are vital, but “without ‘greenwashing’, and the same level of accountability throughout Europe.” With reference to these instruments, questions have been raised concerning the validity of the reform package which was proposed by the Commission in October 2011 with the aim of greening European agricultural policy. A recent study, carried out by the Institute for European Environmental Policy (IEEP), suggests that the proposed measures will be costly and complex whilst providing little environmental benefit. It concludes that failure would be inevitable as the measures allow for farmers to secure European funding but do not take into account protection of the environment.

Clarification
In response to the ongoing CAP discussions, which are raising many questions across the union, the Commission has published a Q&A document which explains the terminology being used; who each institution is being represented by in discussions; and which
topics will be addressed in the coming weeks. As stated in the published document, the general themes of the reform proposals are widely supported by the Council and the European Parliament. However, negotiation is required to decide on the finer details of issues.

EMISSIONS TRADING SYSTEM (ETS)
Current Status
A European Parliament plenary vote has seen MEPs reject the European Commission’s November 2012 ‘backloading’ proposal to temporarily remove a number of allowances from the EU Emissions Trading Scheme (ETS) as a short term measure to address consistently low emission prices. The proposal would allow the Commission to withhold 900 million allowances from auction between 2013 and 2015 before returning them to the system in 2019 and 2020.

What is happening?
The plenary rejection followed conflicting positions at Committee-stage examination of the proposal, with the Environment Committee endorsing backloading, whereas this was opposed in the Energy Committee. The plenary vote saw 334 Members reject the proposal against 315 in favour. Main arguments against the move included fears a precedent would be set allowing the Commission to intervene more frequently in the market mechanism; negative impacts on competitiveness for EU business; and higher prices for consumers.

The rejection came in spite of a joint letter signed by six EU Governments – the UK, Germany, France, Italy, Sweden and Denmark – supporting the backloading proposal. Following the vote, the proposal will now be further examined and amended at Committee level by a working group of MEPs before further voting takes place.

The amendment of the auction volumes was intended to be followed with a longer-term, structural reform of the ETS. The Commission has also tabled proposals for this, which include as options a stricter EU carbon emissions target; permanent removal of a number of allowances; increasing the level of the annual progressively stricter emissions cap; extending the ETS to new sectors; and introducing a minimum carbon floor price. These proposals will be examined by Parliament and Council in coming months, separate to the backloading measure.

OTHER NEWS
Common Fisheries Policy. The Council held an informal meeting in Luxembourg on 22 April 2013 which discussed progress on the first round of trialogue negotiations regarding the reform of the CFP in the context of the Multi-Annual Financial Framework (MAFF). These negotiations follow on from the general approach to the CFP reform agreed to in February by Fisheries Ministers.

The Irish Presidency is committed to reaching agreement on the CFP reform before the end of May, although there are still some issues which need to be overcome in coming negotiations. These include:

- Reaching agreement on Maximum Sustainable Yield (MSY) levels
- Agreement on regionalisation – as many Member States do not wish the proposed reforms to include a renationalisation of CFP
- The ban on discards
• Reaching agreement on fleet capacities – as some Member States are concerned that taking into account too many parameters for the definition of the ‘capacity fleet’ could limit the efficiency, control and effectiveness of measures.

As part of their discussions in Luxembourg Ministers also discussed the need for further negotiation on the proposed regulation for Common Organisation of the Markets (CMO) in fishery and aquaculture products, with the major issues within that being the achievement of agreement on market regulation relating to the provision of consumer information.

The Commission also briefed Ministers on its 20 November 2012 Communication on an action plan for reducing incidental catches of seabirds in fishing gears, currently in its preparatory phase in the European Parliament.

Banking Sector reform. The European Parliament has approved new rules on bank capital requirements, following triad dialogue negotiations with the European Commission and the Irish Presidency of the Council of the EU.

The new legislation will implement the global Basel III agreement into EU law and comprises a regulation (to be directly transposed into EU law) introducing the first single set of prudential rules for banks across the EU, and a directive governing access to deposit taking activities. EU banks will be required to set aside eight per cent of low risk, reasonably liquid capital. Furthermore, they will have to hold a “capital conservation buffer” to absorb losses and protect their capital, and a “countercyclical capital buffer.”

The rules require banks to disclose profits, taxes, subsidies, turnover and number of employees to the Commission. The new rules will also reduce the nominal risk that banks must assign to loans to small and medium sized enterprises, which will in turn reduce the amount of capital to be held to cover loans.

MEPs endorsed restricting bankers’ bonuses at a level equivalent to their fixed salary, with the option to raise the bonus to double fixed salary if approved by two thirds of the institution’s shareholders. A minimum of 25 per cent of any bonus exceeding 100 per cent of fixed salary must be deferred for at least five years. National competent authorities will supervise banks, in collaboration with the European Banking Authority, whose powers will be expanded to ensure compliance with the new legislation. The rules will enter into force on 1 January 2014, following formal adoption by the Council.

Green Products. On 9 April 2013 the European Commission published its “Green Single Market” package, consisting of a Communication on “Building the Single Market for Green Products” and a Recommendation on methods to measure the environmental footprint of products and organisations. The proposal includes:

• Two methods of measuring environmental performance – the Product Environmental Footprint (PEF) and the Organisational Environmental Footprint (OEF). The use of these methods would be voluntary for Member States, companies, private organisation and the financial community.
• A three-year testing period to develop product- and sector-specific rules through a multi-stakeholder process, including provision for organisations
with other methods to have them assessed as well.

- Basic principles for communicating environmental performance, such as reliability, comparability and clarity.
- Measures on international efforts towards more coordination in methodological development and data availability.

A three-year testing period for Member States, companies and organisations to trial these methods is due to be launched after the adoption of the Communication. An open call for volunteers will be published by the Commission on the OEF/PEF web portals.

Based on these contributions and results which emerge from the three-year testing period, the Commission will decide on further policy applications of the PEF and OEF methods. France has previously carried out a similar exercise, with positive results, and is now rolling out the initiative across a range of products.

The origin of this proposal is the EU's Resource Efficiency Roadmap, which outlined plans for the establishment of a common, life-cycle assessment based methodological approach to assess, display and benchmark the environmental performance of products, services and companies.

There had been discussions on whether these methodologies should become binding, but it is believed that the Commission has opted for the voluntary route in anticipation that binding rules would not be acceptable to Member States.

**Structural Funds.** An overview of how EU Structural Funds are working in Member States has been published by the European Commission. The report is based on available information taken from Member States, regarding the implementation of the 2007-2013 Regional Policy programmes, funded by the European Regional Development Fund (ERDF), the Cohesion Fund and the European Social Fund (ESF). It outlines the progress of each country on meeting EU objectives, in line with the targets of the Europe 2020 Strategy.

As a result of the Cohesion programmes:

- 1.9 million more people now have broadband access;
- 2.6 million more people are served by water supply, 5.7 million more by waste water projects;
- There are 460 km of TEN-T (Trans-European Transport Network) roads and 334 km of TEN-T rail;
- 2.4 million people have been assisted by the ESF in their search for work.

The report makes specific reference to the EU's reaction to the crisis in 2008 - 11% of total funds were reallocated to address urgent needs, and measures were introduced to combat the crisis, such as improved cash flows to managing authorities so projects could be started more quickly, and reduced national co-financing for countries with great budget shortages.

The report highlights the importance of current Regional Policy negotiations for the 2014-2020 period. Regional Policy Commissioner Johannes Hahn commented that there were lessons to be learned: “Results are sometimes patchy and Member States need to speed up their efforts to use the EU resources. As we look ahead to the new programming period, we expect Member States and regions to focus the policy even more on results and priorities that will have the greatest impact.”
Education targets. Figures released in April by Eurostat show that eight EU countries - Denmark, Cyprus, Latvia, Lithuania, Luxembourg, the Netherlands, Finland and Sweden – have already met or exceeded their national targets under the Europe 2020 strategy for boosting university education. The EU’s overall target is for 40% of 30-34 year old EU citizens to have received a college or university degree by 2020. However, some believe this overall target is too low as, as a number of Member States have already exceeded it.

The statistics also show that 12 EU Member States have made progress in reducing the rate of early school leaving to below 10%. The share of young people leaving school early now stands at 12.8% on average in the EU, down from 13.5% in 2011. Early school leaving in the UK has decreased by at least one percentage point, according to the figures.

The figures show that the early school leaving rate in the UK as a whole was 13.5% (a drop of 1.5% since 2010), whereas the percentage of tertiary education attainment or equivalent among those aged 30-34 in the UK in 2012 was 47.1% (an increase of 1.3% since 2010). The UK has however not set a Europe 2020 education target with the Commission.

According to current proposals, IEE becomes absorbed under the wider Horizon 2020 programme for research and innovation, bringing fears it will lose importance and diminish the focus of this funding on soft, market opening measures. The EUFORES (which is composed of industry representatives, energy agencies and NGOs in addition to MEPs) highlights the success of the IEE programme to date and the importance of it in the context of the EU’s mid- and long-term economic visions for growth and jobs. The letter urges the European institutions to reinstate IEE as a stand-alone programme in the next EU budget.

Secure, clean and efficient energy is one of the ‘societal challenges’ prioritised under Horizon 2020.

Climate Change. The European Commission’s Directorate-General for Climate Action has tabled its latest proposals for an EU strategy on adaptation to climate change. This follows a White Paper on the issue which was brought forward in 2009, in response to which the EU institutions agreed a need for further knowledge and data collection to allow any concrete policy follow up. The Commission is now pursuing this with a tabled package of proposals.

- A Communication setting out a common framework for EU action on climate resilience, which proposes a common approach to national adaptation strategies to be adopted by all EU countries; financial support through the EU LIFE programme; EU action to address knowledge and data gaps; and mainstreaming climate resilience in all other policy areas and funding programmes. In particular, initial focus is placed on
agriculture policy; infrastructure; and insurance and financial products.

- Guidelines on developing adaptation strategies; on integrating adaptation into rural development and Cohesion programmes; and on climate resilience of vulnerable investments.
- Working documents focusing on the priorities of marine and coastal areas; human, animal and plant health; adapting infrastructure; environmental degradation and migration.
- A Green Paper and stakeholder consultation on the insurance of natural and man-made disasters, which focuses on the adequacy of the insurance sector in the face of more extreme climate conditions. This asks views on the need for EU action to support innovative new mechanisms or set EU-wide standards.

A stakeholder conference on the proposed adaptation strategy will take place in Brussels on 29 April. The consultation on disaster insurance is open until 30 June. EU Governments and the European Parliament will each examine the draft strategy in the coming months.

Environmental legislation. The European Parliament has adopted a resolution on “Improving the delivery of benefits of EU environment measures”, which comes in response to the Commission’s Communication of March 2012 on implementation of EU environmental legislation.

The Resolution recalls the high level of non-implementation of EU environmental law, the consequential high costs (estimated at €50 billion per year) and the negative impacts these have on investments and growth, so the Parliament presents various recommendations to the Commission and Member States to encourage more efficient implementation, including:

- Enhancing cooperation at all levels
- Establishing online tools and resources to increase ease of access to information and data
- Involving citizens in the implementation process

The Parliament requests the Commission, specifically, to:

- Explore the possibility of setting up partnership implementation agreements
- Investigate whether greater participation by local authorities throughout the process of defining environmental policy would be beneficial
- Re-consider demands for a best-practice database
- Create a complaint unit where citizens can raise concerns related to implementation
- Set up an Environmental Law Inspection Unit

The Parliament calls upon Member States to press forward with their strategies in the framework of the 7th Environment Action Programme and ensure their full implementation. The European Environment Agency (EEA) is also called upon to play its part.

Chemicals: water. The Council and the European Parliament have reached an informal agreement on the extended list of priority substances to be regulated under the EU Water Framework Directive. (Formal adoption is foreseen by July 2013.) 12 substances will be added to the current list of 33: six pesticides, three biocides, perfluorooctane sulphonates (PFOS), flame
retardant HBCDD, dioxins and PCBs. New environmental quality standards (EQSs) will be established for these substances in order to reflect the latest scientific and technical knowledge on risks to or via the aquatic environment.

These standards will apply from 2018, at which point Member States will be required to have initial plans in place to limit discharges. The deadline for achieving ‘good ecological status’ has been set to 2027 – six years later than the Commission originally proposed. EU water industry body Eureau regretted this delay in tackling chemicals “known to be hazardous”.

**Chemicals: pesticides.** EU Environment Commissioner Janez Potočnik has called on pesticide manufacturers to invest in alternatives to pesticides and produce products which pose fewer risks to humans and the environment. During a conference focusing on the industry’s contribution to ‘productive’ agriculture, and Potočnik acknowledged industry’s progress in terms of agricultural productivity, but stressed the adverse effects these developments are having on the environment. In particular, Potočnik called for the adoption of the proposed EU Soil Framework Directive, and on Member States to improve implementation of EU water legislation. There is also a need for better cooperation between farmers and environmentalists, as well as recognition of farmers’ contributing to conservation, he added.

Industry representatives attending the conference pointed to the need for better communication to consumers on the benefits of pesticides and other modern techniques in food production, in order to build up the trust of consumers and “close the gap between perception and reality”.

The conference followed the Commission’s recent proposal to ban the use of certain types of pesticides believed to have caused the deaths of many bees. The proposal has been blocked by Member States.

**Air Quality.** The Commission’s DG Environment is considering including shipping emissions under the National Emission Ceilings (NEC) Directive, as reports show the sector is producing high proportions (up to 80%) of NOx and SO2 emissions in certain areas. The Directive currently places restrictions on land-based sources of emissions only, but these recent figures have turned the Commission’s attention to sea-based pollutants. The DG has not outlined this option in any great detail at this stage, but did suggest that:

- The Directive could cover international ships sailing up to 200 nautical miles from Europe’s coastal areas
- Member States may be given the option whether to focus on shipping or land-based sources to meet their emissions ceilings
- There would be support of some kind of support made available to Member States to achieve their targets

The Directive is currently being re-assessed as part of the Commission’s review on EU air policy. A presentation of its proposals on the review is due in September/October of this year.

**Financial Transaction Tax.** The European Parliament’s Economic and Monetary Affairs Committee has held a first consideration of Anni Podimata’s (Greek, Socialists) draft report on the European Commission’s proposal for ‘enhanced cooperation’ in the area of the financial transaction tax (FTT).

Podimata stated that the issuance principle – under which transactions of instruments
issued in the enhanced cooperation zone would be taxed even if neither buyer nor seller was based in the zone – creates a strong disincentive for relocation.

Linking the payment of the FTT to the transfer of legal title would facilitate collection of the tax, rather than creating an administrative burden. The exemption of OTC derivatives would open a loophole, creating an incentive to remove trading from transparent markets. The Commission should enter into negotiations on collection with third countries, and update its action plan against tax fraud and tax evasion. She also advocated Delegated Acts on reporting and accounting requirements. Several MEPs said that the revenue from the levy should increase the EU budget. In the interests of avoiding market distortions, several MEPs advocated a standard, rather than a minimum tax rate. European Commission Director for Indirect Taxation and Tax Administration, Manfred Bergmann, stressed the need to strike a good balance between strengthening anti-avoidance and adhering to international taxation law. Introducing more exemptions would render cost effective collection more difficult, he added. The deadline for amendments in 23 April. The Committee is scheduled to vote on the report on 28 May, followed by a plenary vote on 2 July. The Parliament only has consultative powers in this dossier.

**Corporate Social Responsibility.** The European Commission has proposed an amendment to existing accounting legislation which would require companies to disclose relevant non-financial, environmental and social information in their annual reports. This would include information on policies, risks and results as regards environmental matters, social and employee-related aspects, respect for human rights, and anti-corruption and bribery issues.

If approved, the new rules would apply only to companies with more than 500 employees “as the costs for requiring SMEs to apply the new rules could outweigh the benefits”, Internal Market and Services Commissioner Michel Barnier said. The Commission says it would cost companies under €6,000 a year to comply.

According to the Commission, the proposal is non-prescriptive and leaves flexibility for companies to disclose relevant information in the most useful way. Companies may use appropriate international or national guidelines (for instance the UN Global Compact or ISO 26000).

The proposed amendments would update the 4th and 7th Accounting Directives and will now be considered and adopted by the Parliament and Council before they can become law. Currently only about 2,500 of Europe’s 42,000 big firms publish CSR reports.

Both CSR campaign groups and industry lobby at EU level criticised the proposal. The former said it lacks teeth due to the lack of guidance or sanctions, while the latter said it would demotivate companies that have already started genuine CSR reporting.

**Enlargement.** The European Parliament has discussed and voted on the final monitoring report for Croatia – which will join the EU on 1 July 2013 – and on progress reports for Turkey, Montenegro, Serbia and Kosovo. MEPs stressed that EU accession talks with Serbia should start before June 2013, subject to the maintenance of the reform course set by the government in the area of the judiciary, combating corruption,
ensuring media freedom and protecting all minorities is maintained.

Kosovo needs to make rapid reforms to enforce the rule of law, fight corruption and organised crime and protect minorities, promote administrative capacities and boost trade so as to allow the launch of the EU-Kosovo Stabilisation and Association Agreement, which defines rights and obligations pending EU membership, MEPs said.

The rapporteur, Libor Rouček (S&D, Czech Republic), also called on Spain, Greece, Romania, Slovakia and Cyprus to recognise Kosovo's independence. Whilst recognising the solid progress of Montenegro towards membership, MEPs noted that the country needs to do more to combat organised crime and corruption at high level and protect media freedom, women's rights and gender equality. EU Enlargement Commissioner Štefan Füle said he was confident of being able to re-open accession negotiations with Turkey in 2013.

**EU-Japan Trade.** The first week-long round of negotiations for a free trade agreement (FTA) between the EU and Japan were a success, the European Commission has stated. The negotiations aim to secure a comprehensive agreement in goods, services and investment eliminating tariffs, non-tariff barriers and covering other trade-related issues, such as public procurement, regulatory issues, competition, and sustainable development. It is estimated that such an agreement would boost the EU economy by 0.6 to 0.8% of its GDP and create 400,000 jobs. The next round of talks will take place in Tokyo on 24-28 June, with a further round envisaged for later in the year.
### UPCOMING EVENTS & MEETINGS

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CONTACT DETAILS

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European and External Relations Committee

8th Meeting, 2013 (Session 4), Thursday 2 May 2013

Economic Ideas Forum

Background

1. The European and External Relations Committee has the main responsibility for scrutinising and monitoring the various financial strategies and policies of the European Union. In recent years this has led the Committee to undertake inquiries into the financial ‘crisis’ in the Eurozone, EU structural funds and funding programmes such as Horizon 2020, and the overall budget of the European Parliament. These are areas in which the Committee continues to have an interest and will reflect upon at relevant points during the course of its work programme.

Upcoming conference

2. The Convener of the EER Committee has been invited by the Centre for European Studies to attend its conference entitled the ‘4th Annual Economic Ideas Forum’. The conference is being held on 6 and 7 June 2013 in Säätytalo, Helsinki, Finland.

3. The Economic Ideas Forum is an annual conference that brings together global economic experts, EU heads of state and government, European Commissioners, ministers, business leaders and other stakeholders. The aim of the Forum is to provide an opportunity for delegates to consider and discuss innovative ideas and propose solutions to the economic challenges facing the EU economy.

4. Given the Committee’s remit and its recent work on various economic issues of the EU, this conference would provide the Convener with the opportunity to hear a first-hand update on the economic situation in Europe, and discuss the salient issue with the high-level attendees and speakers, who include the Taoiseach of Ireland, the Prime Minister of Latvia, the Vice-President of the European Commission and the European Commissioner for Internal Market and Services. The Convener would then be able to report back to the Committee, on her experience at the event, and her subsequent knowledge would be of use to the Committee’s upcoming work programme.

Decision

5. The Committee is invited to:
   - agree to the Convener’s attendance at the event; and
   - agree to seek the necessary approvals and funding from the Conveners Group and the Parliamentary Bureau.

Committee Clerk
May 2013