



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Thursday 31 October 2013

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

17th Meeting 2013, Session 4

CONVENER

*Christina McKelvie (Hamilton, Larkhall and Stonehouse) (SNP)

DEPUTY CONVENER

*Hanzala Malik (Glasgow) (Lab)

COMMITTEE MEMBERS

*Clare Adamson (Central Scotland) (SNP)

*Roderick Campbell (North East Fife) (SNP)

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

Helen Eadie (Cowdenbeath) (Lab)

*Jamie McGrigor (Highlands and Islands) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Dr Ivan Grdešić (Ambassador of the Republic of Croatia to the United Kingdom)

Fiona Hyslop (Cabinet Secretary for Culture and External Affairs)

CLERK TO THE COMMITTEE

Katy Orr

LOCATION

Committee Room 3

Scottish Parliament

European and External Relations Committee

Thursday 31 October 2013

[The Convener *opened the meeting at 09:02*]

Draft Budget Scrutiny 2014-15

The Convener (Christina McKelvie): Good morning and welcome to the 17th meeting in 2013 of the European and External Relations Committee. I make the usual request that mobile phones are switched off, because they interfere with broadcasting.

I tender apologies from Helen Eadie, who is unable to make today's meeting. We send our best wishes to her.

The first item on the agenda is draft budget scrutiny. We will be taking evidence from the Cabinet Secretary for Culture and External Affairs. I welcome the cabinet secretary, and the head of international strategy and reputation at the Scottish Government, Craig Egner. I believe that you have an opening statement, cabinet secretary.

The Cabinet Secretary for Culture and External Affairs (Fiona Hyslop): Thank you, convener.

The committee will be aware that the budget conditions remain very challenging. In real terms, the Scottish Government's overall budget will be cut by more than £300 million in the next financial year, which is a cut of 1.3 per cent. Since 2010-11, the Scottish Government settlement has fallen by more than 9 per cent in real terms.

In 2014-15, the European and external affairs budget is expected to spend £15.5 million, which is 1.3 per cent down on 2013-14 levels. Despite the cuts being imposed on us, we remain committed to securing economic recovery and sustainable economic growth in Scotland, in line with the Government's economic strategy.

In a globalised and interconnected world, it is not only desirable but imperative to deliver those goals for Scotland through diplomatic cultural engagement and a comprehensive strategy for the promotion of trade and investment.

The external affairs budget plays a key role in delivering that engagement, but it does not reflect the totality of the Government's financial commitment to international work. We have a number of publicly funded agencies active internationally, including Scottish Development International with a budget of £26.2 million in

2013-14, and VisitScotland, which includes EventScotland, with a budget of £50 million in 2013-14. Of course, those budgets form part of the finance and sustainable growth portfolio.

Other parts of the Scottish Government contribute significant sums to international work, too. We witnessed the First Minister's doubling of the climate justice fund earlier this month, with £6 million being committed to help the world's poorest countries adapt to the impact of climate change. That of course is funded from the rural affairs and environment portfolio.

The lion's share of the external affairs budget of £9 million will continue to be directed at helping the world's poorest countries in 2014-15. Our international development fund provides support to Scotland-based organisations on the ground in a total of seven countries around the world. The relationship with Malawi remains central to our policy and it receives the largest amount of the funding through the international development fund. I have written to the committee to provide further detail on how development spend in 2014-15 will be allocated and on what our development policy is delivering now around the world.

I have reallocated funding in the external affairs budget to ensure an alignment between expenditure and operational need. That includes a 48 per cent increase in funding to the major events line. The increase is accounted for by the shift of policy responsibility for Scottish winter festivals and our diaspora work from our international strategy unit to our major events team. A further £100,000 top-up has been found to facilitate 2014 work around the homecoming.

The international strategy line, which funds international marketing and communications, along with engagement strategies with countries including India, Pakistan and the Gulf states, has been reduced by just under 50 per cent. That includes a transfer of around £700,000 to major events and a further £380,000 transfer to European strategy. The money has been found by making efficiencies, particularly around international marketing and communications work.

The increase in the financial commitment to European strategy reflects my commitment to increasing the Scottish Government's European Union engagement, particularly with the Nordic and Baltic countries. Increased funding from this line will also help us to continue our work around ensuring that we maximise our return from key European competitor funds, increasing our involvement in the European year of culture and increasing the number of people whom we second to EU institutions and presidencies. I realise that this work needs to be wrapped up now and I am making resources available in the current financial

year to facilitate that. My letter to committee members contains more detail on that.

The committee will note that spend on China and the US will remain at their current levels in 2014-15. That reflects the importance that the Government attaches to engagement with both countries. In addition to programme spend, the lines also fund the costs of our offices and staff in-country. The justification for our presence in both countries is seen in the statistics. The US remains by a long chalk the top destination for Scottish exports—£3.5 million in 2011—and our number 1 inward investor; and exports to China increased by almost 90 per cent between 2007 and 2012.

I hope that this short statement has helped set the scene for the evidence session, and I look forward to answering questions from members.

The Convener: Thank you very much, cabinet secretary. I appreciate that very detailed analysis of the budget. If you do not mind, I will kick off with a couple of questions about China, and then we will go round committee members, who all have different areas that they want to focus on.

I believe that the First Minister is going out to China at some point this week. When we had our inquiry a few months back on country plans, we focused on China because we had the two refreshes and the third strategy. That gave us an idea of how we build that relationship. We looked at many organisations and businesses that were doing work in China and those from China that were doing work in Scotland. Is the level 4 heading that has been inserted in the budget lines a direct result of the committee's recommendation that the Scottish Government should have a bit more focus on the work that it does in China and specify the work that it is doing?

Fiona Hyslop: Over this Government's term in office we have enhanced our relationships with China. The First Minister's visit next week is another example of our commitment. There is something about regular engagement, because it is important to build relationships over time. You cannot establish relationships with one visit; you have to build them up.

The committee's report was very helpful to us. It is important to try to improve the transparency of what we do. We have specifically drawn out the China funding in level 4 figures because we thought that that would be helpful for future accountability and reporting to Parliament.

The Convener: The funding allocated under that heading is £400,000. We heard during our inquiry that continual relationship building is extremely important; in fact, it is probably more important in the China market than in other areas of the world in which we are working. It is a matter of status as well. One of the points that came

across very clearly was that the Chinese like having someone of the status of the First Minister and other Scottish ministers coming to visit. Do you think that £400,000 is enough to realise our ambition? Will it be built on every year?

Fiona Hyslop: If that is an invitation to ask for more money from Mr Swinney, with the committee's support, I can tell you that more money would be very welcome. However, the external affairs portfolio budget is like a hub and spoke. We provide a lot of the core funding for staff for ministerial visits and so on, but we can also mobilise resources and funding from the other organisations that I spoke about.

For example, when the First Minister is in China, he is leading international trade delegations, which the funding from SDI supports. VisitScotland would fund activity around tourism. That funding does not come from my budget—we mobilise funding from others. We have been reasonably successful at that co-ordination. I hope that there will soon be an announcement by National Museums Scotland, which is part of my culture portfolio and which is not funded from the external affairs portfolio budget.

Can we do what we want to do? Yes we can. Are we happy with the results and the impact? Yes we are. Is there capacity to do more? Yes there is, but that would involve more visits and more spend. Probably the best way to describe the budget is to say that it is more about the administration of the ministerial direct visits and our operation and support for staff in Beijing itself, but it also helps us co-ordinate and maximise other budgets.

The Convener: A couple of members want to ask supplementary questions, but I first want to ask a brief final question.

One thing that was made clear in our inquiry is the benefit of any work that is done in any country. One of the key elements is how we monitor and build on the work that we are doing across the Parliament and the Government. Obviously, transparency in the budget is very welcome. Does the Government have any more plans for monitoring the situation in the countries that we work in—but particularly in China, given the opportunities that exist there—so that we can see whether real progress is being made?

Fiona Hyslop: I quoted the 90 per cent increase in exports, which is really important. There is a recognition that businesses themselves and leadership from SDI are really important, but in operating in China it is important for status reasons that there are minister-to-minister visits. I have been twice and I was struck by the difference in the level of engagement and the impetus between the two visits. I am pleased that all that is developing well.

Can we tell more of a story around that? As we progress, I think we will. I know that you are talking about China, but I will give an example from my recent visit to India. I was there last year and one of the companies that I spoke to was Kyndal. We discussed investment opportunities in its line of work in distilling, particularly in Fife. I was delighted that, a year later, Humza Yousaf was able to go on a visit and make an announcement about the investment by the company.

Some of this is about preparation, some of it is about encouragement, and some of it is about making the initial links and identifying opportunities. The investment and the jobs come later. It does not all happen simultaneously. Part of the work involves telling the story to see the links.

We have smashed through our food and drink exports targets—we have already surpassed our 2016 targets. I was part of the delegation to China when the First Minister spoke to the responsible minister on issues around indication of origin status for whisky and salmon. We are now seeing the consequences of that work, but the relationship building, the visits and so on prepared the way for that to happen.

There cannot necessarily be an immediate cause and effect link—that builds up over time. Indeed, good, effective business relationships are based on the trust that we can build over time. Our engagement with China is doing well, despite it being a relatively new endeavour compared with our engagement with other countries.

09:15

The Convener: Jamie McGrigor has the first supplementary question.

Jamie McGrigor (Highlands and Islands) (Con): I think that the minister has probably clarified the issue that I was going to ask about. Is it correct that the costs of ministerial visits, such as the First Minister's visit, do not come out of the £400,000 budget?

Fiona Hyslop: It will. Spend on ministerial visits comes out of our external affairs budget.

Jamie McGrigor: I am sorry if I have this wrong, but our briefing says that £400,000 is allocated for the China strategy. You have talked about using other funds to pay for ministerial visits.

Fiona Hyslop: No. The core cost of Scottish Government spend, whether that is for officials located in Beijing or for ministerial visits, such as Humza Yousaf's visit to China, will come out of that budget. The issue is how we also mobilise funding from elsewhere. An example of that is the support for the trade visit that is taking place. In that case, the trade activity will come from SDI.

Jamie McGrigor: SDI—whose spend is on top of the £400,000. That is what I was trying to clarify.

Fiona Hyslop: Yes.

Roderick Campbell (North East Fife) (SNP): Good morning, cabinet secretary. I do not know how much of the £400,000 budget is devoted to promoting food and drink in China, which is obviously an important sector, but bearing in mind the comments by Owen Paterson, the Secretary of State for Environment, Food and Rural Affairs in the United Kingdom Government, that the UK Government is best able to promote trade in Scottish whisky in China, will the minister comment on that general issue?

Fiona Hyslop: I am being diplomatic when I say that I do not think that that was an appropriate comment. We and SDI do a fantastic job, which can be seen in the results of the food and drink promotions. We all know the story about the fact that we have to pay for our whisky receptions in British embassies. That makes a nonsense of the political claims that are made.

Most important is to focus on the jobs and the economic growth, and that is what we do. For example, I was in Berlin promoting Scottish red meat with Quality Meat Scotland and others. I think that was the first time in recent history that an event had been hosted in the British embassy in Berlin. Obviously, all embassies must serve all parts of Government in the UK, which also means serving the Scottish and Welsh Governments and the Northern Ireland Executive. The event was a success, but it would not have happened had we not made the effort to be there. I was delighted that the colleagues present from across UK institutions said that we must do more to support Scotland and the opportunities relating to, in particular, red meat in Germany. The event was led by the Scottish Government, which wanted to ensure that more could be done in that market.

The Government's economic strategy has seven key sectors, one of which is food and drink. SDI therefore carries out a lot of activity on providing support for promoting Scottish food and drink in China. For example, Richard Lochhead has been to China to promote, in particular, fish. On who is best placed to help promote Scotland, the Scottish agencies are able, capable and very effective. Are we supported by UK Trade & Investment and others? Yes. We are entitled to that support, and a bit less than 10 per cent of UKTI's activity pro rata should be concentrated on our efforts. Do we get 10 per cent worth of value? Probably not is my reading of the situation. It is therefore more appropriate that we have control over those resources, so that we are able to promote our interests more directly ourselves.

Hanzala Malik (Glasgow) (Lab): Good morning and welcome to the committee, cabinet secretary. You mentioned a 90 per cent increase in trade between 2007 and 2012, which is a marvellous figure. What is the figure for last year? What percentage increase did we have?

Fiona Hyslop: We have the increase over the piece, but I do not have that particular figure. We can provide it later.

Hanzala Malik: Okay. Thank you.

The Convener: We move on to our second area of focus, for which we go back to Hanzala Malik.

Hanzala Malik: Cabinet secretary, we have an underspend of around £1 million. Will you explain how we got that? Was it a deliberate move to claw back £1 million or have we mismanaged the spending?

Fiona Hyslop: We have certainly not mismanaged the spending. We have to operate with a tight budget that has not been increasing. We should also remember that £9 million of the £15.5 million budget that we have is spent on international development, and I have worked hard to protect that despite pressures from elsewhere. That also means that other parts of my portfolio, including the culture aspect, have to take the strain to protect those parts of the budget.

It is also a reactive budget. In other portfolios, and indeed the culture area of my portfolio, there is capital spend on staffing, which can easily be planned. For example, we fund the national companies and the national collections. However, a lot of what we do in the area that we are discussing is in response to need and to projects that are put forward, so we always have to have some flexibility. In 2011-12, for example, there were fewer ministerial visits for the practical reason that it was election year and there was less time. For example, we were in purdah during Scotland week, so we did not send people to that. I was delighted that former First Minister, Henry McLeish, at our request, acted as an ambassador for Scotland in that regard in that year.

We provide flexibility, but it is not the case that the money will not be used. It will be used, and by and large we try to make sure that it is used in areas that reflect the external affairs portfolio. You might remember that previous Administrations reported underspends of £300 million to £400 million every year. The Scottish Government's general underspend is 0.64 per cent of the entire budget. John Swinney and other colleagues work hard—and we work collectively—in this area, and you will see some transfers between budgets to maximise spend.

This year, in the areas that are more likely to have an underspend, I have made reductions and put the funding into the European budget, which I explained in my opening statement, to help with the secondments and engagement. That meets the recommendations and views that have come forward from the committee. However, with tight and small budgets, and with certain areas being fixed, such as the IDF, we end up having to be more responsive in other areas.

Also, transfers take place between different budget lines. When we are working on international marketing and communications, for example, we commission the work and it is our funding because it is international work, but it is not spent by my portfolio. Operationally, the staff and spending on international marketing and communications come from the cities portfolio. That explains some of the transfers. I am keen that every penny that we can spend is spent.

International disasters happen and there is an expectation that we will respond, so we also keep some flexibility in case such occasions arise. We saw that this year with the initial £100,000 for the Syrian crisis and another £100,000 more recently. One reason why we have managed to protect front-line services and still have the international development funding is that, as a Government, we have had to respond to the need to be smart about how we use funding and resources.

Hanzala Malik: Despite the fact that we have underspent by around £1 million, you have announced a 15 per cent cut in activities in India and Pakistan. Given the large and diverse communities in Scotland, are we missing out on an opportunity? Does the 15 per cent cut mean that our interest is diminishing there?

Fiona Hyslop: No. If anything, our interest and our activities are increasing. I visited India last year, and Humza Yousaf visited India and Pakistan just last week. It is just that we are spending the money more on direct interventions with ministerial visits and promotions as opposed to work through the international marketing budget, as happened previously.

I would rather have more delivery of activity on the ground, including more liaison and co-ordination with SDI, which I did on my visit last year. The reduction in the budget is more about marketing, communication and advertising and the sort of activity that takes place in country. Does that diminish our service? We think that we can have as much effect by being more effective in what we are doing.

Hanzala Malik: To return to the budget and your 15 per cent cut for south Asia, why was there a need to cut in the first instance anyway? What made you feel that a cut was needed?

Fiona Hyslop: It was not that it was needed, but I cannot manage a 1.3 per cent reduction in my budget without actually looking for something somewhere. Your first question was about underspend and the situation of not spending the budget because we do not need to spend it. Events will happen. If something is happening in India, will the Scottish Government help to advertise or promote it and so on? That means responding to requests in year. More than other budgets, my budget often has to respond to in-year requests, and we have to have resources available for that. If we are not spending as much of it as we need to, there are two consequences. First, there might be an underspend, in which case there will be criticism, but that should lead to there not being a need to budget for the amount of money concerned because we are not spending it and we do not need to spend it to have the impact that we have.

We are getting a bit better in that we are becoming more efficient with other agencies, for example in relation to our digital promotion. You will see from the Scottish Government website that we have invested early in our international promotions using websites and digital approaches, so spend for that will not be required over the next few years. There are a lot of activities, including those in China and India, that use websites to promote our services or what the Scottish Government has to offer. We can make efficiencies there, because we have already provided the spend. There will be less spend on digital work and on advertising promotions in those countries over the next few years, because we have already made the initial investment.

The job is to manage the budgets effectively and efficiently. If I have to make reductions somewhere, I would rather make them in an area in which there is less of an impact on front-line services. I am certainly not going to cut international development to do it.

As regards the recommendations of the committee, we want better European engagement, which is why we are shifting some of the budget there.

Hanzala Malik: If we have an underspend next year, would you still feel the need to have a 15 per cent cut for India and Pakistan?

Fiona Hyslop: It depends what the need is for promotion and whether there are any new opportunities in India and Pakistan. However, I do not think that there will be as much of an underspend, for two reasons. First, 2011-12 was an election year, so there were fewer ministerial visits than in a normal year. Also, I deliberately took a chunk of money from the international marketing communications budget and put it into the European budget. I know that it will be spent,

because it is on staffing. That is predictable now, and we know what we are doing. For example, we have two secondees with the Lithuanian presidency. That allows us to plan our budget a bit more, and it is a more effective use of the budget to shift it in that direction.

Clare Adamson (Central Scotland) (SNP): I wish to ask about the European strategy, which is one of the level 4 lines that has received a significant rise, from £120,000 to £500,000 in this year's budget. You have mentioned that the Nordic and Baltic countries and Ireland will be priority areas. Can you give us more information about the nature of that engagement and how the success of that engagement will be measured?

Fiona Hyslop: There are key economic interests with the Nordic and Baltic countries. With Norway, those relate to oil and gas, and there are also some environment-related issues. We also have a keen interest in some children's issues, as has been the case over a number of years for parliamentary committees. For example, when I was in opposition, I was involved in a committee visit to Denmark and Sweden to find out about early years intervention. Of course, we now have a Government early years intervention programme, a lot of which was informed by the work of committees. That shows why committee work is important.

09:30

Alex Neil is currently in Estonia, at its invitation, to discuss minimum pricing for alcohol. People are interested in many of our programmes. Finland has a keen interest in and takes leadership on e-health, as do we, so that is another area of interest. I know that the committee has taken evidence on the Danish presidency. Renewable energy and climate change issues are a big area of common interest with Denmark. Increasingly, many of our political and economic approaches are aligned, so it makes sense to have more engagement with those countries than we have had to date. I am keen that we do that, and that is what we will do. We are already doing a lot of that but, in terms of ministerial support, if our engagement increases, added spend will be required on that.

I mentioned the presidencies. It is good for Scotland to get the experience, but we also have something to offer, so it is about what we can contribute. We provided secondees to the Cyprus and Irish presidencies. Last year, I met the Lithuanian ambassador and offered to provide secondees to the Lithuanian presidency, particularly in the energy and maritime area, which is a key interest for the Lithuanian presidency and one in which we have expertise to contribute.

That work also has to be funded, but we think that, strategically, it is important for us to do that as a country. That engagement is good for our international relations and it is an example of our positive and progressive approach as good Europeans. The cost of that will come more from central Government. Should those relationships expand and deliver, we would expect SDI, VisitScotland or other agencies to pick up the work. The Scottish Government does a lot of the initial work in building relationships and identifying opportunities. That is where the spend is. I think that it is more effective to use it for that than for advertising or marketing budgets that might or might not be used internationally. That leads on from Hanzala Malik's remarks.

Roderick Campbell: To clarify, roughly what proportion of the European budget will be spent on secondments?

Fiona Hyslop: I would need to get back to you on that, but we are talking about a move from £120,000 to £500,000. We want to send good staff, but I am not going to announce their pay grades in the middle of a committee meeting. If we are looking to do more engagement, the staffing budgets for that have to be met from somewhere.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I will start with a supplementary to Clare Adamson's question on the European engagement budget. The increase to £500,000 is welcome. Your supplementary letter to the committee talks about the Erasmus programme and student exchange. Does that mean that more Scottish students will have the opportunity to work or study abroad, or does it mean European students coming to Scotland to work with us? It is probably both, I hope.

Fiona Hyslop: Part of it is about creating the conditions so that we can improve the access to, use of and contribution to programmes such as Erasmus or creative Europe. On funding, I know that Mike Russell is keen to support that, and many of the student support aspects will come from the Scottish Further and Higher Education Funding Council or from universities or the education budget. However, developing the relationships to do more of that will be done through ministerial support and visits.

I will write to the committee and correct this if I am wrong, but I was pleased to see a recent report that showed that Scottish students are outperforming the rest of the UK on international locations. We are not nearly as good as other European countries, so an awful lot still needs to be done, but that did not used to be the case. Obviously, we are starting to see a bit of a change on that. I hope that that is because more Scottish students are taking up the opportunities of

Erasmus and other projects, although it might well be because less of that is happening in England.

We need to do far more on that. We need a common understanding. The youth on the move initiative is a key aspect of the European Commission's interest. Every time I meet Mme Vassiliou, the European Commissioner for education, youth and culture, she is keen to promote that. We will see more on that area and direction from Europe, but we must be better at maximising opportunities from Europe. The committee has raised that point on a number of occasions, but it requires people to be on the ground and relationships to be built. It is also about how we motivate and galvanise agencies, universities and institutions here in Scotland to engage, and that takes resources too. That is all part of the people investment part and the increase in the budget of the European strategy.

Willie Coffey: I was interested to see the countries that were chosen to be part of that initiative—the Nordic and Baltic countries, and Ireland. Is there any particular reason for choosing those areas to work with?

Fiona Hyslop: The reason was more that we are doing more with those countries. For example, I have been in Italy recently and I was also in Berlin to promote Scottish food and drink and our creative industries. We already have fairly strong relationships with other major countries in Europe. The committee will be aware that a senior French delegation was in the Parliament just before recess. That visit was about an incoming investment opportunity. The First Minister met the French ambassador and they signed a statement of intent on education. We are already developing and maturing relationships with other countries, but we could do more with the Nordic and Baltic countries.

There are lots of opportunities for working with Ireland and I would like us to be doing more there. We have done a lot more on energy in recent years, including with the Irish-Scottish links on energy study—ISLES—project. When we are looking at accessing European projects through partnerships between two or three countries, Ireland is automatically one of the first places to call for different ideas, particularly on the northern periphery funding programmes, which we should be looking at with more of the Nordic and Baltic countries. Ireland is also a natural fit for some of the energy and other programmes.

That is the explanation. We are intensifying our activity and expanding the number of countries that we are working with at a deeper level, and the funding can help to support that.

Willie Coffey: Is that particular fund a one-off or is it part of a long-term plan? What will the benefits

be and what will success look like for Scotland and the countries that we are working with?

Fiona Hyslop: Success will mean that knowledge has been exchanged and gained, whether that be with Finland on e-health or Estonia on other health issues. Our knowledge exchange with Norway on oil and gas is already extensive. We obviously have common and important interests in fishing and we have to ensure that relationships with those areas are strong. Democracy is such that Governments change. Norway has just elected a new Government, and we will have to form relationships with new ministers. That is all part of what we have to fund and support.

When the committee calls for more funds for my portfolio, that will clearly be an area for expansion. However, we must be realistic. We have to work within our means, and they have been restricted so we are just trying to be tactical and strategic. Do I think that we are talking about a growing area? Yes, it should be, and the committee has shown leadership in identifying the importance of intensifying our relationships with Europe and using more opportunities for funding to do that, and we have the resources for that within a small budget. If the committee was looking at level 4 in other portfolios, it would not be getting the same detail as it gets in this portfolio because it is such a small portfolio compared with some of the others. We just have to manage it very effectively, which will mean switching resources.

Do I see an expanded area of European investment? Yes, I do.

Willie Coffey: We will hear later from the Croatian ambassador. As you know, Croatia acceded to the European Union in July. It is a small country of 4 million people, which is a similar size to Scotland. We will have the opportunity to ask questions of him, too. Croatia has just come into the European Union and Scotland has been in the European Union for many years, so what kind of direct engagement do we have with Croatia that will help to foster common interest?

Fiona Hyslop: I will meet the Croatian ambassador later today and congratulate the Croatians on their accession earlier this year.

Europe is changing. The European Union used to be a few large states, but now there are 28. Most of them are relatively small and a considerable number are smaller than Scotland. When I attend a European Council meeting, it is striking to see everybody round the table. Obviously, that is an increasing number.

It is also interesting that the presidency is now being taken by some of the smaller countries. Lithuania is a very good example. It is smaller than Scotland and a relatively new member of the

European Union, but it is taking on the role and being quite dynamic and forward looking in some of the agenda items that it wants to take forward in the presidency.

That reflects the changing nature of Europe. It is also about identifying common interests with other areas. Historically, Scotland has had a strong relationship with the Baltic and eastern European countries. It is sometimes worth reminding ourselves of that international link and the longer relationships that we have with some of the Baltic countries in particular. It is the same with some of the new accession countries. There are opportunities for trade and investment. We just have to identify what those are and work most effectively in that area. However, it is a two-way street. It ties in again with our Government economic strategy. Scottish Enterprise's strategy is about how we globalise our business opportunities, how we ensure that our small companies become medium-sized companies and then larger companies and how we maximise the internationalisation of exports for Scottish businesses. That is where our real growth potential is.

As I said in my opening remarks, the United States is obviously a major area for our international trade. The same is true for expanding Europe. It is in our wider economic interests that a strong, robust and vibrant economic market for our goods and services operates in Europe. Therefore, how we work collectively is important and it is important that we learn from the new perspective that a new accession state can bring, so I look forward to hearing what the ambassador has to say to the committee later.

Willie Coffey: When I attended the British-Irish Parliamentary Assembly last week, your opposite number in the Irish Government, Paschal Donohoe, the Minister for European Affairs, talked about the value and importance of the relationship that Ireland has with the United Kingdom in particular, about being a small country as part of the European Union and about the responsibilities that that brings to Ireland.

Croatia has now joined the European Union as a small nation. The message that I got was that the European Union seems to be shifting towards giving more importance and recognition to small nations and the contribution that they can make towards Europe. What is your view of that in terms of Scotland's participation in the European Union?

Fiona Hyslop: That shift also gives us great opportunities. It is the direction in which Europe is moving. It is also about consensus, negotiations and finding alliances for common interests in different areas. Obviously, there is such a number of smaller countries that we can do that.

There is a bit of a myth that only the larger countries can punch their weight and make things happen. We can see the dominance and leadership of some of the larger countries, such as Germany in the eurozone in particular, but the smaller countries increasingly help to make things happen, help to come to a resolution and identify areas of progress on a number of issues. In future, Europe will just operate in concert and through alliances and we would be very well placed to take part in that.

Roderick Campbell: The major events and themed years budget is increasing by £800,000, or 48 per cent. Is that a one-off or will the level of budget be similar in future years?

Fiona Hyslop: Clearly, 2014 is a big year, in which so much is happening. It is our second year of homecoming. Our first year of homecoming was, of course, in 2009 and we have had themed years in between. The themed years and the year of homecoming are jointly funded from my portfolio and Fergus Ewing's, which funds the VisitScotland and tourism aspects. We have increased the funding for 2014. There is more activity and there are more signature events, so the homecoming budget has been increased as a result. It is important that that support exists. There are separate budget lines for the Commonwealth games and the Ryder cup.

However, to give you an example, there will be quite a call on our portfolio to help to support the many international ministerial and other visitors who will come to Scotland next year for different events. What we do on a regular basis will be increased and ramped up. We have deliberately increased the spend for that, particularly in relation to the events that are taking place here. That was always planned and it is more of a one-off investment.

09:45

We have also transferred responsibility for the winter festivals, for which we announced this year's programmes yesterday, into major events. That includes all the different free events and the free openings on St Andrew's day—I know that Roderick Campbell will be very keen on that, given his constituency interest. The other reason for the increase in that budget is, therefore, that we have operationally transferred those festivals out of international strategy and reputation and moved them into major events, because it is more fitting that they are administrated by the major events team.

Roderick Campbell: I am still not quite sure whether you foresee that the budget will stay at the same level in subsequent years.

Fiona Hyslop: Unless my overall budget increases—and the committee should remember that I have had a 1.3 per cent reduction in this particular part of my budget, and a reduction of more than 6 per cent in the overall culture and external affairs budget—this element will reduce, although some of it will be maintained as a result of the winter festivals being transferred permanently to major events. There is a combination of two factors this year, but I would not anticipate this budget area being as large in subsequent years unless I were to get an increase in the overall budget.

Roderick Campbell: Thank you. I will move on to the national performance framework. The Government has identified three indicators as being relevant to this committee, which include improving Scotland's reputation. I have not really dug deep into that area, so perhaps you can help me by commenting on the budgetary implications of improving Scotland's reputation.

Fiona Hyslop: With regard to enhancing our reputation, I would say that we have a very strong reputation. If you look at the Anholt brand index, you will see that Scotland performs very well in comparison with other countries, particularly given that, unlike most of the other countries that we are ranked with, we are not an independent country. In terms of our profile, we have a strong reach.

What is important is not just the budget but what we do with it. We are now far more effective in co-ordinating the different budget lines for VisitScotland, EventScotland and SDI that relate to our international reach. That allows us to maximise the bangs for bucks that we get from our work.

I mentioned earlier our digital work and web activity. Greater co-ordination is really important, and that is an area that we have to work on.

It also depends on what we are trying to do. The advertising for homecoming, the Commonwealth games and the Ryder cup is about to be launched, and it is co-ordinated for all those events. The adverts will be shown in Scotland and the UK but also internationally to attract people to Scotland.

There are different ways of doing that. We want to celebrate Scotland's natural attributes in this year of natural Scotland, and our great creativity and heritage, but we also want to celebrate our people. In terms of international reputation, one of our strengths is our warm, welcoming people, and we should recognise that it makes a big difference to how people see us.

Our talent in terms of research capabilities and so on is also important, and a lot of that is about what we do with our universities. For example, I visited China with the University of Edinburgh to promote its memorandum of understanding with

Peking University in Beijing. That type of work takes place frequently, and a lot of it involves promoting our people and talent in relation to our research capabilities, our companies and what we do. It is not just a question of having a very simple advertising budget to promote brand Scotland; it is also about the integrity of what we have to promote and what we do.

On the subject of international reputation, I recall my visit to Beijing with Touch Bionics of Livingston, which produces bionic hands. Chinese television broadcasts to billions, so our visit promoted Scotland's capability, ingenuity and talent, which is as much to do with promoting our reputation as simply advertising in magazines.

Yes, our international reputation is important. Do we contribute to it? Absolutely. Is it always measured in spend? Not necessarily—it is about what you do with your budget and how you co-ordinate it.

Roderick Campbell: Where in the budget can we see an indication of help to facilitate the transition to a low-carbon economy?

Fiona Hyslop: It is probably easier to see that in the other part of my portfolio, culture. We have done a great deal with the National Library of Scotland, the National Galleries of Scotland and National Museums Scotland to reduce emissions through capital investment.

On the external affairs side, we do not have capital investment to reduce carbon emissions in buildings. However, we do things in our budget lines—you will see the Malawi renewables energy partnership in the international development funding line, for example—and some of our international development funding most definitely supports those areas.

The challenge is also about what we do on climate justice. We were one of the first countries in the world to establish a climate justice fund, which the First Minister launched with Mary Robinson and which Archbishop Desmond Tutu supported. I was quite clear that the fund would not come from the international development fund but would be additional to it. However, we co-ordinate between the climate justice fund and the international development fund on some activities. The University of Strathclyde, for example, has a very good renewables project in Malawi. We support such projects through our funding streams but, because we do not have energy-generating capital investments and so on in our portfolio, what we can do is very limited.

That gives you some example of what we are doing. We are probably doing more in the other side of my portfolio than in external affairs but, around the world, we are recognised for championing climate justice. Part of that includes

aspects of our Malawi activity, such as solar panel activity and sustainable village-by-village energy projects that do not require mass clearing of land or deforestation. That is a very practical example of what we are doing.

I was very pleased to speak to Commissioner Piebalgs, who is the international development commissioner in Brussels, about some of the work that the European Union is doing. The EU is very interested in our work in this area.

Hanzala Malik: You told us the good news about your work in China and the universities in China. I draw your attention to the fact that Glasgow and Lahore are twin cities and have done a lot of work to encourage Lahore's universities to participate in our universities and colleges in Scotland.

I fear that the UK Border Agency is making it more and more difficult for students to come here, which means that we are losing out on an opportunity to expand the relationship that we have enjoyed for many years. There are twinning agreements and memoranda of understanding between universities in Pakistan and Scotland. The UKBA is denying students the ability to come and participate in education and research and development. What will the Government do about that? Are we making active representations to the UK Border Agency on that issue? Are you considering taking some other action?

Fiona Hyslop: I have taken very direct action. Most recently, I made a direct request of David Cameron himself at the joint ministerial committee plenary session. International students are a vital part of our life in Scotland in many different ways and we welcome them. They form part of research talent—particularly postgraduates—and I am very keen on them. I have supported our universities over a number of years in my different portfolios by promoting their work on attracting international students.

I have also raised the issue with Damian Green. I was particularly concerned about the messages that are being broadcast as to whether international students would receive a warm welcome here. They do and, when they are here, they rank our universities very highly indeed.

I said to David Cameron that I have particular concerns about the provisions relating to the health levy in the Immigration Bill that is going through the UK Parliament.

The UK Government knows that there are concerns about the messages that are being broadcast and communicated. Indeed, I know that because Damian Green had to go to India and tell students that they are welcome in the UK. Moreover, during his recent visit to China, George Osborne had to let Chinese students know that

they are welcome and, in February, before his visit to India, David Cameron issued a statement saying, "We want Indian students." Why on earth would we do something to put people off? University students are young and healthy and contribute £400 million to our economy, but the proposal that they should also pay a health levy on top of the current restrictions simply does not send out the right message. I do not even think that it is cost effective. If you put off students by adding to their burdens and giving them the idea that the UK is trying to make it more difficult for them to come in, it does not help us go in the direction that we want to go in with our international visitors.

Student numbers are strong and buoyant, which is good. However, given that we have free healthcare in this country, we expect to and will treat people who fall ill here. We also have a far more efficient and effective way of recouping health spending on international visitors than exists in the rest of the UK. In fact, David Cameron has acknowledged as much and I have offered to share with him the information from our health directorate. It might just be a case of the UK becoming more efficient in recouping health costs where that is required, but I am concerned that this approach is sending out the wrong messages.

Mr Malik is obviously referring to previous activity and concerns with regard to the UK Border Agency. I am telling you now that the health levy on international students is a live issue, and I was very pleased that, only a few weeks ago, the National Union of Students Scotland and Universities Scotland issued statements expressing their concerns on this matter. I relayed those comments directly to David Cameron, because it is important that he hears them. The message that should come from the Scottish Government and, indeed, the Scottish Parliament is that we want international students; that they are welcome; and that there should be no unnecessary barriers or measures that make it difficult to communicate our positive invitation.

Hanzala Malik: Thank you very much for that wonderful response. I hope that you will continue to put pressure on this issue for us because, as you have quite rightly pointed out, not only do our universities and colleges welcome students but our educational system and industry rely on them.

Jamie McGrigor: Can you tell us what happened to the miscellaneous transfers of £4.9 million between 2010 and 2013?

Fiona Hyslop: Yes. As I tried to explain earlier, we ask other parts of the Scottish Government to deliver our services. For example, although we have an allocated budget for international marketing and communications, which we want to be spent on international activities, the money is not actually spent under my portfolio, because a

lot of that activity is centralised. A lot of the money for that programme is transferred to the people responsible for delivering it.

Jamie McGrigor: Is it likely to happen again in the 2013-14 budget?

Fiona Hyslop: Probably. I am reluctant to give up my capacity to spend money on international advertising, communications and marketing. That kind of activity matters a lot to us and I want to retain control of that budget and to have a say over where it is spent and what it is spent on. I am afraid that this is a bit of a housekeeping and technical issue but, in order for the money to be spent, it has to be transferred internally to the department that actually spends it.

As I said to Rod Campbell, this year we have transferred the winter festivals funding, a lot of which is for marketing and communications. In fact, quite a lot of the money goes to VisitScotland, which spends the money that we want to be spent on, say, tourism advertising. The winter festivals programme is great and getting bigger, and I pay tribute to Jamie McGrigor because one of his ideas might be coming forward in this year's programme. I might let him know about it later when it gets publicised.

Jamie McGrigor: I hope that it works.

Fiona Hyslop: It comes back to the point about a hub and spoke. A lot of what we do in promoting Scotland internally but also externally involves activity with agencies that are not in my portfolio. VisitScotland is a very important one, in particular in relation to the winter festivals. That is where that transfer takes place, but I would like to keep control of how we spend that budget and I have more control of that if it is in my portfolio than I would if it is transferred elsewhere, although I am sure that my colleagues would be equally as supportive of the winter festivals, in case anybody is getting worried.

10:00

Jamie McGrigor: I turn to major events. You said that the theme budget has been increased by £800,000 this year. I presume that some of that goes to Bannockburn day—the event at Bannockburn. I notice that armed forces day is on the same day. Will some of the budget go to armed forces day, too?

Fiona Hyslop: Obviously, the Stirling Council bid was very successful, and we congratulate it on that, but it is important that we look at the activities in the round. I reassure you that we are working very closely with armed forces day. The Ministry of Defence provides funding for armed forces day—for the equipment, the flypast and such activity. However, we are working closely with Stirling

Council, and our colleagues in the council want to work very closely with us, on the management of the overall weekend so that we can co-ordinate the events, because there are obviously transport issues as a result of the increased number of people coming in and so on. I reassure you that we are working together very well and closely, and that it is our intention to continue to do so.

Jamie McGrigor: Thank you. It is stated that, as a result of funding for the European strategy increasing to £500,000, the Scottish Government will increase the level of engagement with the European Union and its member countries. How will that work?

Fiona Hyslop: As I have said, it is partly about secondees and staffing, so our budget would need to pay for that. As I explained, for the current Lithuanian presidency we are funding somebody in energy and maritime and somebody in relation to general activities. The extra funding means that we will do more in terms of secondment, as that provides very good experience. Seconding in staff is a natural activity for many Governments, because the staff get the experience and we get the understanding and knowledge of how institutions can work better. A lot of the funding is spent on staffing for activity in the European Union. We are talking about a relatively small number of people, because when staffing costs, national insurance and all the rest of it are taken into account, the money will not go very far. I do not want to overegg the level of activity that will take place, but there will be more activity than there is now.

In the big scheme of things, compared with the staffing and budget levels of other portfolios, our operations in other countries are quite limited.

Jamie McGrigor: Turning to the national performance framework, I notice that one indicator is to increase exports. Aside from food and drink, are there any other specific areas in which you are looking to increase exports?

Fiona Hyslop: Yes. We are looking to do so in all areas. Scottish Enterprise's mission and targets are across the piece. We are looking at internationalisation across the piece. Architecture is a good example from my portfolio. We have very talented architects who are providing their services internationally. Such activities might not always be seen as providing an exporting base, but they provide growth in the business that is done internationally by Scotland-based companies. The idea is to do that, whether it is in the creative industries or the energy sector. Energy is a very good example and it also provides a good example of co-operation with other countries, such as Ireland—I have attended the British Irish Chamber of Commerce activities on a number of occasions and have spoken at

various events. Another aspect is the opportunities that arise for smaller companies from Ireland and Scotland to benefit from some of our energy policies when it comes to selling their goods and services.

The aim is to increase exports in all sectors. We have seven sectors, one of which is universities. To return to Hanzala Malik's point, the aim to increase exports also provides a way to measure the increase in international activity by our universities. Our test is across all the portfolios, as it should be.

Jamie McGrigor: Lastly, in May 2012 the Scottish Government created the Scottish climate justice fund. Is the international development fund integrated with that fund or is there some duplication?

Fiona Hyslop: We want co-ordination to avoid duplication, but I was absolutely clear that I did not want the international development fund to be displaced to fund the climate justice fund, so that fund had to be in addition to the international development fund. The climate justice fund is funded from Paul Wheelhouse's portfolio.

With regard to the climate justice fund's delivery and decisions about the fund, I reassure the member that international development colleagues who sit within my portfolio work very closely on that, so there is co-ordination to ensure that we maximise the impact. However, it was important that we did not displace the international development fund in order to do something new, so the new activity on climate justice had to be an additional fund.

We work very closely with the climate justice fund, but you are right to suggest that we want to avoid duplication. We do a lot of work in Malawi, for example, but that forms the bulk of the international development fund's activity and we were already funding work there—for example, work by the University of Strathclyde. We want to complement and supplement the work through co-ordination. Mr McGrigor makes a very good point.

The Convener: That exhausts our questions, cabinet secretary. I thank you and your official very much for coming to the committee. I think that we have drilled deeply into your budget again. As you said, it is a small budget, so we can get lots of detail about it. That has helped the committee in its inquiries and it will certainly help us to prepare our report for the Finance Committee.

Subordinate Legislation

Public Contracts (Scotland) Amendment Regulations 2013 (SSI 2013/282)

10:06

The Convener: We move to agenda item 2. Members will find a cover note on the subordinate legislation in their papers. We must consider the Public Contracts (Scotland) Amendment Regulations 2013 (SSI 2013/282) under the negative procedure. As members are aware, it is rare for this committee to consider subordinate legislation, but our consideration of the instrument is topical in that it involves regulations that relate to the accession of Croatia to the European Union. No motion to annul the instrument has been lodged. Do members have any comments?

Roderick Campbell: No.

The Convener: So we are agreed that the committee makes no recommendation in relation to the instrument and that we wish Croatia well.

“Brussels Bulletin”

10:07

The Convener: Agenda item 3 is consideration of the “Brussels Bulletin”, which members will see in this week’s extensive package of papers. The bulletin is very detailed, so I am looking for members’ comments, questions and inquiries.

Willie Coffey: My attention was drawn to the “Adult skills” section—the pages are not numbered, but it is near the end.

The Convener: Yes. The format is different, which threw me a wee bit as well.

Willie Coffey: I was interested to read in that section about adult literacy levels throughout Europe. Finland is near the top of the scale, but Spain, France and Poland are near the lower end. The UK seems to be in the middle, but with “great differences” in literacy levels in its population. I note the comment in the section that Scotland does not participate, but I do not know whether we do not participate in the survey or in an initiative to improve literacy among adults. Does anybody have information about what exactly Scotland is not participating in and why that is the case?

The Convener: The clerk has suggested that it probably refers to the survey, but we can seek clarification on that.

Jamie McGrigor: I remember debates and arguments raging in the past over identity cards. Is a “European Professional Card” the same as an identity card?

The Convener: Yes, but we can check.

Jamie McGrigor: It is the same.

The Convener: I think that we should clarify that for you just to make sure.

Jamie McGrigor: I remember that, in the past, the UK Government had big debates on the subject. I want to know whether, despite being called something different, a professional card is the same as an identity card.

The Convener: I think that we need to check that, as the bulletin is less than clear about what it means.

Do members wish to raise any more matters on the bulletin?

Willie Coffey: Thank you for giving me a second opportunity to comment.

In the section on the multi-annual financial framework, we are told that MEPs have not yet agreed the budget. We have previously heard that the UK and one or two other member states were agitating for a reduction in the budget. That idea

seems to be doing the rounds. One of the implications of that is that there has been quite a drop in the information technology infrastructure budget from €9 billion to €1 billion. I had the opportunity to ask the Irish Minister for European Affairs what his view of that was and what impact it might have in Ireland and throughout the European Union. His view was that, with a budget cut of that size, the change from investing in infrastructure to focusing on services seemed to be putting the cart before the horse. As members know, it is not possible to get good internet and broadband services without having the infrastructure to push them through.

I would like to know whether anyone in the EU is rethinking that, because that cut in the IT infrastructure budget is a substantial one that could delay and, indeed, prevent the improvement of broadband services throughout the EU. Paschal Donohoe thinks that the EU has got that aspect of budget planning wrong. Who is engaging on such issues with a view to getting reversed a policy that would be to the detriment of the union and would put us back some years as far as our IT and broadband capabilities are concerned?

Clare Adamson: I have a supplementary. In light of that, I thought that it was quite ironic that, as the final section of the bulletin tells us, the European Council

“agreed at its meeting of 24-25 October that a strong digital economy is vital for growth and European competitiveness”.

It is all very well to say that at the Council. Willie Coffey is absolutely right—there are concerns about the fact that there seems to be a difference between what is being said and what is happening on the ground on that issue.

The Convener: That is another of those topics on which we should seek clarification from Scotland Europa. Once we have seen what it can ascertain, the next step might be to send letters to commissioners.

Something that jumped out at me from the section on the multi-annual financial framework was that the UK Treasury has launched a consultation on the EU budget. Given that we are almost at the stage of agreeing the budget, why is a consultation being held on it? I would like some clarification of what that means in practice and what it means for the formulas that will be adopted for the funding streams for the regions of the UK. There are a number of areas, such as the lifelong learning programme, the common agricultural policy and the common fisheries policy, on which I think that we should seek clarification and advice from HM Treasury. Does the committee agree to do that?

Members indicated agreement.

Jamie McGrigor: I have a question. The format of the “Brussels Bulletin” seems to have changed quite considerably. I am not saying that the new format is worse; it is just that it now bears more resemblance to a briefing than it does to a bulletin. I am not saying that either format is better. I would just like to know whether there is any reason for the change.

The Convener: Apparently, there was much more information in the bulletin this week, which did not sit well with the template that is used. We will make the request that if less information is to be included in the next bulletin, we would like to go back to the old format. I think that you are right—it was much easier to identify areas of interest with the previous format, instead of having to look at pages and pages of text.

Jamie McGrigor: It was like looking at a newspaper—it was easier to see the headings.

The Convener: You are absolutely right. When I read the bulletin yesterday, I thought, “I don’t like this.” We should ensure that we provide feedback on that to Scotland Europa.

Jamie McGrigor: Did a different set of people produce it?

The Convener: I think that it was simply the case that the bulk of information affected the way in which the template works. The text normally sits in columns, but that could not be accommodated. It was a technical glitch. Let us see whether it can be fixed and the old “Brussels Bulletin” can be brought back.

Jamie McGrigor: Okay.

The Convener: As members have no further comments on the bulletin, are we happy to send it on to other subject committees for their perusal?

Members indicated agreement.

The Convener: I suspend the meeting until about 29 minutes past 10, so that we can welcome the ambassador at 10.30.

10:15

Meeting suspended.

10:29

On resuming—

Croatian Ambassador

The Convener: I welcome everyone back to the European and External Relations Committee. We move swiftly on to agenda item 4, which is our final agenda item today, under which we will hear from the Republic of Croatia's ambassador to the UK, his excellency Dr Ivan Grdešić.

Ambassador, we are delighted to have you along, following such a successful reception for you in the Parliament last night. Certainly, the feedback that I had from the consular corps this morning is that people very much enjoyed your contributions to the event last night. I believe that you have an opening statement for us before we move to questions.

Dr Ivan Grdešić (Ambassador of the Republic of Croatia to the United Kingdom): Good morning to all of you and thank you, honourable McKelvie, for the opportunity to be here this morning. It is a pleasure, an honour and a privilege to talk to the representatives of Scottish people here in the seat of democracy in Edinburgh. My task today is briefly to outline how the Croatian accession process went and then to answer—or not—your questions or comments about our experience of the process.

We like to say that Croatia is an old nation and a young state. We have been a nation since the fourth or fifth century, when the Slavs came—do not worry; I will not dwell on all those centuries—but we lost our independence some 10 centuries ago when we joined the Hungarian empire and had a common crown. In 1990, following the fall of communism and the collapse of the Berlin wall, there was a great opportunity for change for all those communist countries and Croatia took that opportunity very seriously.

We started our independent path with elections in 1990. What better way to start independence than through electoral decision, whereby every private citizen can go into that curtained box and mark his preference? The next morning, we found ourselves, not formally but politically and in real-life terms, in an independent country. Imagine our surprise at what we could do with independence, which was a sort of blank board on which we could write anything to define our country. Was it going to be a monarchy or a republic? What kind of republic would it be—parliamentary, presidential or both? That was a great opportunity to design, constitutionally and in many ways, what we wanted to be in the future, what we wanted to do and how we might use our independence for the benefit of our people and our neighbours.

One thing that was certain was that we wanted to be in Europe. At that moment, we did not think about European Union membership or sitting at a table such as this, but we wanted to return to Europe, which our history taught us we belonged to. We always thought that our future would be there. That electoral decision and everything that transpired after that was marked by three decisions: yes to Europe, no to communism and no to Yugoslavia. On the two noes—no to communism and no to federal Yugoslavia—we managed to succeed, but the war and the post-war situation meant that, unfortunately, the decision to say yes to Europe was an on-going project. However, that turned from a civilisation dream of return to the practical work of membership accession, which started in 2000.

In 2001, we signed the stabilisation and association agreement, which was a sort of kindergarten for full membership. We had to fulfil all the obligations and there was a process of learning how things would look in the future. The year 2000 was also important because that was a threshold year in Croatia's democratic development, when the winners over communism lost to the reformed communists. Everything went smoothly after that, but that was a test of democratic stability and it was a turning point in our European story, which really started moving on from that point.

In 2002, we received candidate status as a country seeking EU membership. Negotiations started in 2005 and ended in 2011, so it took 10 years from the stabilisation and accession agreement to the signing of the accession treaty.

During those 10 years, many things happened in the accession process. All aspects of politics and life have been marked by efforts to reform, change and adapt. Sometimes, the obstacles were internal. We were not ready to give up some things and the vested interests in the economy and in politics were strong enough to deflect the reforms and postpone them.

As you all know, our co-operation with the international war crimes tribunal in The Hague was an issue for our accession. It was difficult to overcome some of our own political issues in surrendering accused generals to The Hague tribunal, and that postponed the process in a way. Also, some things are difficult to reform in a short period of time, such as the judiciary and public administration. It takes a generation of change to move such institutions. We could pass laws that were very European but that would not be implemented in a European way. You cannot expect people who have trained for 30 years under communism to become independent judges overnight, so those reforms took some time to develop.

Some of our neighbours thought that they could use their membership to advance their interests in the negotiation process, and it took us two years to resolve that. We resolved the issue by postponing it, which is a very political thing to do. In that sense, the process was marked by a lot of obstacles that we had to deal with internally.

In my view, the realisation of the need for political consensus on European Union membership among all political parties was a must. Another essential requirement was that we had to stop thinking that our reforms were demanded by Brussels and that we had to fulfil them because Brussels asked us or told us to do so. We had to realise, with the necessary political leadership, that the reforms were for our own sake. Even without EU membership we needed to make those reforms because they were for the benefit of our economy, people, democracy, human rights and everything else in that sea of rules.

Most of those reforms were things that we had to do anyway, and in the framework of European Union accession the process was structured, timed, benchmarked and put to the test. Once we realised—I should say, once political leaders started sending the message to the public—that it was not for Brussels but for us to act, things started to move in a better direction. We managed to finish the more demanding negotiation process with Romania and Bulgaria during those 10 years. You could say that that was too long, but maybe it was not.

The European Union is an exclusive club that a country must be ready to join; it cannot join and then get ready, as can happen with the United Nations, which takes a country in first and then everybody suffers. The EU is a voluntary club, so if a country has made a voluntary decision to join it, it must do everything that is asked of it. We did not have to join because somebody told us to do so; it was a mission for this nation and for this generation to secure democracy and prosperity, and I think that we are on the right track.

It is now more than four months since we became a European Union member. We are observing how the club members behave and are learning on the spot from that behaviour. We still need to realise that we are no longer a candidate and that we have the full rights of a member state, because we are sometimes timid about expressing them. It is now time for us to formulate our own interests. At the table of 28 members, what are we going to contribute to economic development and the image of Europe? We are a small nation, but I think that we fit nicely into the puzzle of European Union nations and that without that little block there would be a piece missing in the European picture.

On that note I shall stop. I hope that I will be able to answer your questions.

The Convener: Thank you very much. As a history buff, I would have been interested in hearing about the 10 centuries of Croatian history, but we will keep that for another day.

I was interested in your comment that being a member of the EU is something that you want to do, that you are not being coerced, forced or pushed into it and that it is the right thing for your nation. Can you tell us about the benefits to Croatia of being a member of what you have called the European club?

Dr Grdešić: There are three broad benefits to membership, the first of which is that we belong to that shared civilisation. We cannot live outside our own values; instead, we must recommit to, support and live those values. We cannot have a split personality and sit outside the environment in which we historically belong.

Another broad benefit is development. Croatia has a better chance of developing its economy and everything else as part of the EU. For Croatia, EU membership is an answer to the world's global challenges. We cannot fight Brazil, Russia, India and China—the so-called BRIC countries—America and everyone else on our own, but as a member of the EU we have a better chance of surviving the pressures of the globalised world or of finding a way to protect or advance our interests.

The third benefit is stability. Membership of the EU and NATO alliance creates political, economic, military and historical stability that allows us to dedicate ourselves to the development and benefit of our people without fear of having our existence threatened by hostile forces, be they terrorism, the kind of war that we recently experienced, new threats such as transboundary crime and corruption or even geographical catastrophes such as earthquakes. The stability and security provided by EU and NATO arrangements are certainly beneficial.

Those are three broad benefits that will count historically and in the long term. In 1990, we voted yes in the referendum to be an independent country. The referendum that we held in 2012 on European Union membership was, I think, about securing our independence within that new environment. Had we not voted yes, we would have stayed a small fringe country that people might or might not visit or trade with, which is a dangerous position to be in.

The Convener: It is really refreshing to hear such a positive view of EU interaction, given the growing negative view of that in the UK. In Scotland, we have a different attitude and rail against such negative views. I find it really

refreshing to hear that your nation and your nation's population were full square behind the politicians.

You are absolutely right that stability is the key element in all of this. In the previous evidence session, we discussed with the cabinet secretary the issue of climate change and the fact that we have to live interdependently in an interdependent world if we are to tackle that problem. The same issue will clearly affect your own country.

I open the session up to committee members who wish to ask questions. Jamie McGrigor has a supplementary question.

10:45

Jamie McGrigor: I congratulate you, ambassador, on everything that you have done so far.

Although it is true that you joined the EU voluntarily and for all sorts of good reasons, did the financial crisis in the eurozone impact at a later stage on people's attitudes to joining the euro? I am afraid that that will not be a voluntary decision for you, unlike the position that we have in this country, where Scotland, as part of the UK, is allowed to keep its currency for the time being. Will your population be against joining the euro? I notice that the president of your bank has said that you should join it as quickly as possible, but I understand that polls show that the population of your country is not of that opinion.

Dr Grdešić: We joined the European Union at its worst moment—in the middle of the economic and political crisis and the crisis with the euro—but we sustained a positive decision in the referendum and kept a positive attitude. Of course, there are people and important voices in society and the media, and in some political parties, who think that we are joining a club that soon will not be around any more. There was a similar story with NATO. People asked why we were joining NATO when there was no threat from Russia any more and when NATO was going to change. They said that we would be joining a club not knowing how it would look the next year. Well, NATO is still around and it is still important. I believe that the situation will be similar with the European Union.

There is disillusionment with some elements of the European Union. Some of our economy will be hurting because of the stronger and competitive industries in other member states. We will have to adjust, as we are already doing in shipbuilding and agriculture, and that will probably be economically expensive. We hope that we will be smart enough to redevelop industries that have an advantage in other European markets, so that we can sell in them and compensate for that loss. We will certainly have to adapt to that.

The euro crisis is not good news for Croatia. It has thrown us into recession for the past three years and we are having difficulty in getting back into positive numbers. We depend heavily on the euro. We hope that the recovery of the nations with which we trade the most, such as Italy, Austria and Germany, will have a spillover effect on our economy and that we will pull out of recession. Right now, we are at the end of our austerity measures because if we keep on going with them that will prevent any growth or investment. For us, the growth part of that equilibrium is very important because without it we will stagnate in a recession for another year.

We are not ready for eurozone membership, as we do not meet the criteria. Even if everything were blossoming and rosy in the eurozone, we could not join it because the numbers on our balance sheets are not good enough. We are smart enough to wait and see what will happen with the eurozone. We would like to join it because that would reduce the operating costs to our export and import industries and it would get rid of the exchange rates for mortgages and credit lines, which are expensive for us right now. In that sense, we are eurozone ready, but we will join once we are able or when we want to do so.

Hanzala Malik: Good morning, Dr Grdešić, and welcome to Scotland. I understand that your portfolio is UK-wide, and I hope that your visit to Scotland will be one of the finest moments of your stay in the UK.

I congratulate you and your nation on achieving what you have done to date. I appreciate the challenges that you face. There are similarities to what might or might not happen in Scotland, so there is room for learning for us. Smaller states need to be more proactive in negotiating and co-operating with one another—that is important, because the two giants at the heart of Europe have, historically, more or less enjoyed a free hand, and that needs to change to reflect the real Europe that we want.

I wish you well in your endeavours. Thank you for joining us and bringing us up to speed on your work to date.

Dr Grdešić: Thank you.

Clare Adamson: Good morning, ambassador. I, too, congratulate your country on its achievements. I am so impressed with your positive words about the journey that you have been on, despite the most difficult of circumstances.

Hanzala Malik alluded to the similarities between your country's journey and Scotland's forthcoming referendum, albeit that our referendum on independence is happening under very different circumstances to your own

independence. The convener also mentioned growing scepticism about Europe. Scotland does not share that view with the rest of the UK but, if we remain within the UK, we will potentially face an in-out referendum on European membership.

Within that context, our country is—for reasons that are similar to the ones that you mentioned—examining our values, what we might put into a constitution and what kind of country we want to have. How did you go about building your constitution? How did you engage the people to ensure that they contributed to how it would look?

Dr Grdešić: As I have mentioned, we had a historical opportunity to design the constitution in the way that we wanted. Of course, that may not always be how one would like it to be but, rather, how the powerful forces want it to be.

At the beginning, we looked around and took—not copied—elements of the French constitutional system, with an elected president, a Parliament and a Government that is responsible to the president and the Parliament. At the beginning of a state's creation—this is an important lesson that other post-communist countries similarly learned—if there is a political leader as strong as the one that we had, they can mould institutions to follow their political interests and their opinions on how things should be. The first constitution was very much modelled on the position of President Tuđman as a very strong, popular elected leader, which was similar to how President de Gaulle led France after the second world war.

That was the position in our country for the first 10 years. It was probably useful—or opportune—for a country at war that needs to concentrate on defending itself to have a pulpit of power that people can look to and identify as the symbolic seat of Croatian power and understand where that power comes from. When a country is at war, there is not too much opposition in Parliament: everyone is patriotic and less minded to bother with some minor human rights or press media freedom issues because those can be resolved later on. However, those issues must be resolved right away, even in the middle of a war effort, because the consequences that we suffered later on were not pleasant.

When there is a strong political leader in a strong political party, that almost becomes a national movement and there is little space for democratic modelling or correction. In 2000, in a way we elected a new set of political ideas, leading to the reconstruction of our constitution. We no longer have such a strong president. Although a president is still elected, the position is more symbolic. Our hope was that the power would shift to the Parliament. It has probably shifted more to the Government, but the power is not in the hands of one person—the president—

and his advisers. We removed the powers of veto of the legislature and to make ministerial appointments, so the president is almost like a queen—well, not really; the president is at least elected.

Those 10 years were a period of learning. Constitutions are not Bibles; they are there to serve people and must adapt to the realities and necessities of life. At that time, it was about European Union membership, the opening of the country, democratic change and everything that we hoped to have at the very beginning.

Constitutions should not be regarded as strict—they are instruments. The communist constitution described a vision of the perfect situation under communism, whereas democratic constitutions are there to help us through everyday life and to create a rule-ordered society that we can enjoy and protect. Our lesson is that we should treat constitutions seriously but not as things that are not prone to change or adaptation.

Clare Adamson: I have a final comment. I was delighted to attend last night's event and I want to thank you for what you said about your position in giving a helping hand to other countries that are still in the process of applying for accession to the European Union. Thank you very much—your comments were very much appreciated.

Dr Grdešić: Thank you.

Willie Coffey: Good morning, ambassador, and welcome to the committee. Congratulations on Croatia's accession to the European Union.

In your opening remarks, you said that 30 years or more of communism cannot be changed overnight. That message is shared by people from other countries who have come to talk to the committee from time to time. I am thinking of countries such as Macedonia, Montenegro and Kosovo. They have told us that their countries need help to establish systems of democratic accountability, initially to get rid of years of corruption but also to offer their people systems whereby they can hold their Governments to account. Did Croatia experience that kind of process on the journey towards independence or post independence? How did you deal with that?

Dr Grdešić: Yes, we did. There was a lot of interest in helping among non-governmental organisations, the neighbouring countries, the Council of Europe and the European Parliament. That was useful, especially in dealing with procedure. A country does not need to rediscover hot water, but there are things that have been tested that it is beneficial to use and adapt, as necessary, to a country's environment.

However, sometimes it is not smart just to copy. For example, we took some of the Austrian

legislation but then found out that Austria is a federation whereas Croatia is not, so the federal element that we wanted to use did not work in Croatia. Such help is useful in dealing with the technical aspects of democratic life, but in my experience it should be left to a country's people to decide on the values and the basic institutional arrangements.

Something else that I have found useful everywhere in Croatia is outside monitoring. It is good to have somebody watching over you in the beginning, telling you that what you are doing is all right or asking why you are doing something that is not in the interests of democratic development, to put it broadly. Outside monitoring was useful for Croatia, as it makes you aware that people are interested, are watching and can help.

However, it is a peculiar position to be in. Young nations are sensitive—they are like teenagers. You cannot tell them what to do; they want to make their own mistakes. They must be smart enough not to repeat others' mistakes, but they must have the liberty to do things on their own and feel that they have decided for themselves. There is a fine balance to be struck between aid, consultancy and the opportunity for the countries to be proud and to create their own nations.

11:00

Willie Coffey: I think that your response about nations acting like teenagers is wonderful.

Dr Grdešić: But they do. They are very sensitive.

Willie Coffey: I can certainly sympathise with that.

I have another question to ask.

Dr Grdešić: Before you do so, I have to say that I think that a nation's strength is very often to be found in its capacity to laugh at itself—to take criticism, enjoy it and say, "That's really funny." If you cannot do that, you are not mature enough to understand your weaknesses and strengths. There are so many good ways of responding to what you think might be a wrong criticism; you could, for example, simply say, "This person is probably just not informed" and you could either try to educate them or just laugh about it. The ability to make a joke at your own account is a great strength.

Willie Coffey: From that response, I think that Croatia is already bringing a degree of wisdom to the puzzle of Europe that the ambassador mentioned earlier.

Now that Croatia is part of the European Union and its systems and processes, what do you think has been the impact on your neighbouring

countries that are not yet EU members but are perhaps on that journey? Do you think that, for example, your immediate neighbour Bosnia, which is lining up to join the EU, will be assisted in joining sooner by your participation in and membership of the EU, or will it be disadvantaged for a period of time?

Dr Grdešić: This comes back to Clare Adamson's question about what we as a member can do to help our neighbours. As I said last night, we joined the EU with a mission to help our neighbours; after all, we share the same experiences of a previous life. As we can communicate well in all our languages, there is no need for translation. Actually, we offered translations of all the key documents to Montenegro and Serbia so that they could speed-read through them.

There are several things that we can do. First of all, we have set the basic positive example that this piece of state business can be done with commitment from the political leadership and the political elite to do it together and that they can mobilise support in that respect. I do not like to think of Croatia as the leader of the region or any kind of regional superpower; instead, we just want to be a good neighbour that can offer handy hints.

It is in Croatia's interests to ensure stability and progress in Bosnia, Serbia and Montenegro on our eastern borders, and we think that the job of European enlargement will be finished once they are in the EU. After all, there cannot be a Europe in which Greece, Romania, Bulgaria, Hungary and Croatia are in the EU and then there is a black area covering the countries of the western Balkans that are not members. The issue has to be resolved, but it will take time. Let us face it—this is not going to happen soon. It took us 10 years and, although it is not wise to talk about numbers in political life, it will probably take them as long.

I realise that, with enlargement fatigue in Europe, the eurozone crisis and so on, enlargement is not a high priority any more, but we would like Commissioner Füle in Brussels to commit to it. Only the good clubs take new members, but there must be something that brings in both sides. The carrot still has to be juicy for these countries to aspire to EU membership, and they must feel that they are being rewarded for their progress. The situation is very frustrating: you might be carrying out your reforms but you are still just grinding away and not moving anywhere, while the decision on membership gets postponed as a result of one condition after another. Our purpose is to tell those countries what can be done quicker and to help them.

Of course, some things have changed. For example, the border rules for European Union members are different and stricter. At the moment

we are an external border country for the countries in question but, in two or three years, we might well be a Schengen country. That will create new conflicts, but also new opportunities. It is our important mission to see how we can help those countries, and it is expected from Croatia in Brussels in relation to Bosnia in particular, as we have constituent people there, that we will be creative in providing support in its European membership path.

Willie Coffey: That is very encouraging.

In my best Croatian I say, "Hvala lijepa"—thank you very much.

Jamie McGrigor: You have talked about possible problems. I understand that Croatia will have to abandon the multilateral agreement on free regional trade due to the new EU commitments, so regional trade with the rest of the Balkan countries that are not in the EU will have to rely on the bilateral trade agreements between those countries and the EU. Will that prove difficult for you? It might be seen that Croatia will have to change its relationships with its neighbours because it has become a member of another organisation. Do you think that that might prove to be aggravating, especially in respect of free trade?

Dr Grdešić: It is true that there will be some economic costs on both sides. There is a transition period, and we are asking Brussels to extend that to see how we can create a special arrangement with our previous regional free trade agreement partners so that our exported and imported goods are not taxed in a way that they will be.

The way in which we will make the change and our economy will adapt to it is certainly a challenge. Some of our businesses are already opening factories in Bosnia and moving production there to offset it. We do a lot of business with our neighbours in Serbia and Bosnia, and we own industries there. That is an important part of our economy.

There will probably be a cost in one segment. Perhaps once the countries really start the negotiation process and sign a stabilisation and association agreement, as we did, they will have beneficial import and export rates with the European Union and us. That is a little bit into the future. We had beneficial rates with the European Union in the stabilisation period, and that can be arranged with the other countries once they have signed the agreements. They have not signed them all, so we will just have to suffer through it. That is a problem now, especially for businesses that export a lot to Bosnia.

Jamie McGrigor: Thank you.

Roderick Campbell: I want to follow through on the Bosnia-Herzegovina point. I think that I am

right in assuming that it has not yet reached the stage of being a candidate country for accession, so it is some way behind in its ability to join the European Union. I think that I am correct about that—you are nodding your head.

Dr Grdešić: I am nodding my head, but I am not the ambassador of Bosnia-Herzegovina and it would not be appropriate to comment on a situation in a neighbouring country. However, we have an interest in seeing Bosnia-Herzegovina as a stable state with a stable and sustainable economy for economic reasons and because there is a substantial Croatian population that is a constitutive part of that republic.

It is important for us that we see good development, and we are offering good services in that respect. Recently, our Prime Minister visited Bosnia-Herzegovina and said, "We cannot tell you what to do, but we can help you once you decide what to do." We are a little bit cautious, and we are not interfering. We do not want to be seen as an obnoxious neighbour; rather, we want to be a helpful neighbour and to let Bosnia-Herzegovina primarily decide what it wants to do. We will then see how we can help.

Bosnia is a very important country for us, and its progress towards joining the European Union is very important for us. However, that is its job.

Roderick Campbell: The European Union is providing €40 million for enhanced border controls. What does that mean in real terms for people trying to get between Croatia and Bosnia-Herzegovina?

Dr Grdešić: All border passes must now be categorised. On some, you can no longer carry out trade because special screening is required of trucks going in and out. Some passes are just for local businesses, to enable people to go across the border and work in their fields on the other side of the border. The system is now regulated and the border crossing facilities—roads and things like that—need to be upgraded.

Our biggest problem with border crossings is connecting the whole of Croatia. As you know, Bosnia-Herzegovina borders the Adriatic along the southern Croatian coast, separating Croatia in two at that small section and leaving Dubrovnik and the southern region disconnected territorially from the rest of Croatia. That means that a part of EU territory is disconnected from the rest of the EU territory, and we need to connect it.

Right now, probably the most important investment opportunity is to build a bridge or find some other way of connecting the two parts of Croatia, to allow continuity of EU territory down to Dubrovnik and the southern Croatian border. However, there is a bit of a dispute about that with Bosnia-Herzegovina, as it does not like the idea of

us building a bridge. It thinks that big ships will not be able to pass under the bridge or that it will somehow violate the country's territorial waters.

The decision is pretty much in Brussels's hands. We could build a bridge alone, but we want to be a good member state and do what is good for the European Union as a whole. We are hoping to get some funds to do it, as it will be a rather expensive project.

Roderick Campbell: What has your accession meant to your relationship with Slovenia and to movement between Croatia and Slovenia?

Dr Grdešić: The situation is better now than it was two years ago. As I mentioned, we have postponed the issue of the bay and the maritime border for arbitration. We now have three judges involved and recently shipped boxes of documents to the British judge who is going to read them. We have agreed to regard the outcome of that arbitration as valid and to obey it.

There are so many connections and there is so much potential for co-operation between the two countries that they overshadow any political disagreements of previous, current or future Governments. I often meet my colleagues in Ljubljana and we do not mention anything, not because we do not want to embarrass each other but because we think that there is already a life going on outside the political debate that involves all kinds of co-operation. A major Croatian company recently bought a Slovenian company. It was not an easy process because a lot of money was involved, but it was an economic process that will eventually benefit all consumers and producers. Under EU membership, we will first equalise our starting positions as two member states at the same table and we will then talk as adults.

Roderick Campbell: Thank you. I omitted to congratulate you on your membership of the EU—let me do so now. I wish you well for the future.

Dr Grdešić: Thank you very much.

The Convener: There are no further questions for you, ambassador. Thank you very much for your evidence this morning. We are delighted to have had you here. You have shone a bright and warm light on Croatia's process of accession and its relationships with Europe and the wider world. You have also raised a lot of further questions that we may investigate on our journey towards our Government's white paper and the inquiry that is coming up about Scotland's place in Europe. We are scouting the world over for examples of extremely good practice, and you have given us some today. I like the idea of our countries being teenagers who should, nevertheless, discuss things as adults.

On behalf of the committee, I wish Croatia well. Please take our good wishes and good will back to Croatia. I also wish you good luck in Brussels and hope that you enjoy the rest of your visit to Scotland—please come back soon.

Dr Grdešić: Thank you very much. I invite you all to visit Croatia. Come in the summer—it is a good place to visit. I will see you there or back here in Edinburgh or somewhere else in beautiful Scotland.

The Convener: Thank you very much.

I remind members that we will have a brief extra meeting next Thursday morning to discuss a technical issue that we need to deal with as an urgent matter. I thank everyone for attending today.

Meeting closed at 11:15.

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