

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Tuesday 23 March 2004
(*Afternoon*)

Session 2

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

7th Meeting 2004, Session 2

CONVENER

*Richard Lochhead (North East Scotland) (SNP)

DEPUTY CONVENER

*Irene Oldfather (Cunninghame South) (Lab)

COMMITTEE MEMBERS

*Dennis Canavan (Falkirk West) (Ind)

*Mrs Margaret Ewing (Moray) (SNP)

*Phil Gallie (South of Scotland) (Con)

*Mr John Home Robertson (East Lothian) (Lab)

*Gordon Jackson (Glasgow Govan) (Lab)

Mr Alasdair Morrison (Western Isles) (Lab)

*Mr Keith Raffan (Mid Scotland and Fife) (LD)

COMMITTEE SUBSTITUTES

Ms Wendy Alexander (Paisley North) (Lab)

Murdo Fraser (Mid Scotland and Fife) (Con)

Nora Radcliffe (Gordon) (LD)

Nicola Sturgeon (Glasgow) (SNP)

*attended

THE FOLLOWING GAVE EVIDENCE:

Dr Manfred Beschel (Directorate-General for Regional Policy, European Commission)

Neil Coull (Macphie of Glenbervie Ltd)

Alan Hardie (Paterson Arran Ltd)

Gavin Hewitt (Scotch Whisky Association)

Graham Meadows (Directorate-General for Regional Policy, European Commission)

Andrew Ovens (Quality Meat Scotland)

CLERK TO THE COMMITTEE

Stephen Imrie

ASSISTANT CLERKS

Nick Hawthorne

David Simpson

LOCATION

Committee Room 1

Scottish Parliament

European and External Relations Committee

Tuesday 23 March 2004

(Afternoon)

[THE CONVENER *opened the meeting at 14:03*]

Regional Development Funding Inquiry

The Convener (Richard Lochhead): I welcome everyone to the seventh meeting in 2004 of the European and External Relations Committee. No apologies have been received, although a number of members will be a little late; I hope that they arrive in the not-too-distant future.

The first item on the agenda is the last evidence-taking session in our inquiry into the repatriation of European regional development funds, the United Kingdom Government's proposals and the impact on Scotland. I am delighted that we have with us Graham Meadows, the acting director general of the directorate-general for regional policy in the European Commission, and his colleague, Dr Manfred Beschel, who is the head of the unit for regional development in the UK. They are here to give us their views on the future of regional funding and the impact on Scotland. We are keen to find out what the benefits will be for Scotland of the third cohesion report, which was published a wee while ago. I have no doubt that there will be lots of questions on the report.

Mr Meadows has offered to make a quick opening statement for about five or 10 minutes to put his attendance into context, after which members will have the opportunity to ask questions. Without further ado, I hand over to Mr Meadows.

Graham Meadows (Directorate-General for Regional Policy, European Commission):

Thank you, convener. It is a great pleasure for Manfred Beschel and me to be at the committee today. We view it as a day's holiday. Perhaps I should not have said that publicly, but it is very nice for both of us to be let out of prison for the day to talk to the committee; we have to be back before sundown.

Rather than gallop through an opening statement that ought to fill about four and a half hours in something like five minutes, perhaps I may refer to a couple of points. If members want

to do so, we can go into more detail in questions or in our later discussions.

My first point concerns the calendar within which the committee will produce its report. Now that the third cohesion report and the Commission's financial perspectives have been placed on the table, the European Council of Ministers is beginning to talk about life between 2007 and 2013, which includes cohesion policy. Its intention is to produce some conclusions—albeit that they will be introductory or very outline—by mid-June at the European Council meeting in Dublin.

To that effect, a series of weekly discussions has started in Brussels in the Committee of Permanent Representatives, which has also had its first exchange on cohesion policy. The committee's report will fall into that active and evolving—although I would not like to say that it will be rapid—European debate. That discussion is now beginning to move forward between the member states. If members want to do so, we could go into more detail on that subject. The positions of the different member states are already becoming clear in Brussels.

Perhaps I should clarify that Manfred Beschel and I divide our labour in the following way: Manfred answers all the difficult questions and I answer the easy ones. As we were travelling to the meeting, we talked about what might be of interest to the committee. As the convener said, one of the questions that the committee is asking in its inquiry is, "What is the benefit to Scotland of a Europe-wide cohesion policy of the sort that the Commission proposes?" A number of member states oppose the policy, in the sense that they feel that it is driven by a view of what should be a right-sized European Union budget. They feel that the benefits of the policy should be confined either to the 10 new member states or to regions that are similar to those in the 10 new member states.

We could go wider and talk about what the benefit would be to Scotland of keeping the policy Europe-wide, so that all member states would benefit under the policy just as member states contribute under the policy. There are a number of points that we could make in that regard without making the somewhat obvious point, which I find difficult to make and to sustain in courteous political discussion. That point is that European policy offers medium-term stability to 2013 in which regions like the regions in Scotland can plan their development. The reason for my saying that it is difficult to make that point in courteous discussion is that emphasising medium-term stability as a major selling point of European policy is equivalent to saying that national policy could not in some way provide such stability. From experience, that may be true, but it need not necessarily be so.

What are the benefits to Scotland of having a Europe-wide policy? One such benefit is that a policy with European funds that helps regions that are growing slowly to grow more quickly buttresses the single market, which is one of the achievements of recent years; according to some views, it might even buttress the idea of the single currency. The single market helps Scotland to earn its way as a trader. Without a European Union cohesion policy with EU funding, we think that that achievement would be made somewhat more fragile. The single market is viewed as important for the United Kingdom.

A European regional policy compels Scotland to compare its regions with the fastest-growing regions in Europe. It puts Scotland in a thoroughly European context, in which the benchmarks for progress are more ambitious than would be possible with a purely UK policy. A third factor for Scotland is that a European regional policy ensures that regions in similar positions are treated similarly. That means transparent criteria and the use of comparable data and so on. The loss of a European policy might lead to some sort of regional policy race, which could work against Scotland's interests.

As far as we are concerned, a Europe-wide policy brings added value to the EU—although we care about that, the committee might care about it to a slightly lesser extent. Such a policy improves the EU's visibility, encourages a form of economic governance that is well fitted to the way in which affairs proceed in Scotland and fosters the idea of working with regions through partnership. It also encourages contact between regions in Scotland and regions in different member states.

A big reason for our preferring a policy that operates equally in all member states is that such a policy is politically sustainable. To us, the idea of a policy through which only the 10 new members draw down resources that the other members have contributed does not seem to be politically durable. Experience shows that such a set of circumstances would not resist for long the pressures that would grow among all the 15 members—not just among the net payers, who form a clearly defined group—who would be paying for the 10 new members. Those members would argue for the contraction of such a policy, because they would draw no benefit from it.

Those are just some of the reasons why we argue that Scotland and its regions are better placed with a genuinely European policy that operates in all member states than they would be if they were subject to a national policy that drew some of its inspiration from Brussels but drew its funding only from the UK and which would try to draw a distinction between the old and the new member states in the EU, in the belief that the task

of the old members was to pay for the new ones. That distinction between the old and the new is totally foreign to our thinking in Brussels. The proposals that are on the table draw no distinction at all between treatment for the old member states and treatment for the new member states—all will be treated equally.

14:15

The Convener: Thank you very much.

We have taken a lot of evidence from the agencies in Scotland—especially the local authorities—that have expressed concern over the UK Government's proposals to repatriate the policy and funds in the UK context. Can you say a few words about how the final decisions will be made in Europe, what influence the UK will have over those decisions, what the latest feedback is from the UK, and how the cards stack up among all the member states at the present time?

Graham Meadows: Okay. It is easier for me to tell you what is happening in Europe than it is for me to tell you what is happening in the UK. Perhaps the two things become more or less similar.

I mentioned the fact that the European Council meeting in Dublin in mid-June will talk about the Commission's proposals for the evolution of the budget between 2007 and 2013; cohesion policies will be part of that discussion. We hope that the European Council's conclusions will contain some broad negotiating guidelines or broad guidelines for the future of cohesion policy. To prepare for those discussions in June, each week in Brussels COREPER discusses some aspect of the financial perspectives. The week before last, the committee discussed cohesion policy and, during those discussions, we were able to see unveiled in a formal context for the first time the positions of the different member states, of which the United Kingdom is one.

You will remember that, last November, a group of six member states wrote in a letter that they felt that the size of the European Union budget should be constrained to 1 per cent of Community gross domestic product. The six signatories to that letter—they are known as the group of six—were the Federal Republic of Germany, the United Kingdom, the Netherlands, Sweden, France and Austria. It was interesting to see whether their positions had evolved between November and the week before last.

We discovered that Austria's position has become much more softened. I do not know why that is, although it may have something to do with the fact that Austria is close to the new member states and, under the sort of policy that is envisaged, its businesspeople, its regions and its

workers would be hard against the 10 new member states where there would be a high level of intensity of financial and national support under state aid rules in neighbouring economies. It is clear that a number of Austrian regions are afraid that they would lose jobs and businesses across the borders into the new member states. So, it looks as if the Austrians have left the group of six already, although we have only just begun.

The federal Government in Germany is under the same kind of pressure, as it has regions that will be hard up against the east. It is noticeable that the new Länder are taking a rather tough line with the federal Government in saying that they are opposed to an approach whereby policy would be repatriated, in effect, to 15 states and a genuinely Community policy would continue only in the 10 new member states. I may be optimistic—and why not?—in saying that, before the discussions are at an end, the Federal Republic may begin to be more affected by Austria's example.

Sweden, which is another of the six signatories, has its own highlands and islands problem. It has sparsely populated regions in which it is determined to maintain a level of economic activity. Already we hear from Sweden that it would prefer a European Union policy that was restricted to the 10 new states, as long as the policy was also present in its sparsely populated areas. It is clear that Sweden has already departed from the idea of a policy operating in the 10 new states and not in the 15 existing states.

France has had regional elections this weekend that might affect its view. At the moment, the view that we get depends on whom we speak to in Paris. If we talk to the regional policy lobby we hear support for the European Commission's proposals, but if we talk to the finance ministry we get a view that sounds like the view from the Exchequer in the United Kingdom.

I will not comment on the Netherlands. I can comment only on the discussions that have taken place so far in COREPER. The United Kingdom intervened late in the discussion, so it did not take the first position; it did not expose its alternative vision, but contented itself with asking about value added and the leverage effect of existing policy. We can read into that all sorts of different things. The United Kingdom came into the discussion late, so perhaps because time was wearing on, its representative felt that it would not be appropriate to sketch out its alternative vision of repatriated policy. The United Kingdom might have been concerned to see which way the wind was blowing.

I should not say this on the record, even in Brussels, but what struck us in the discussion in Brussels was that only the six signatory states

have ever said that the Commission's position would not be a basis for the discussions. Of the six, Austria has probably crossed the wire already and Sweden appears to be equivocating, which leaves a group of four. In the discussion, we did not get outlined an alternative vision—other than that from the Federal Republic of Germany—to the vision in the Commission's proposals. I have said a lot and I do not think that my answer was necessarily the one that you wanted to hear, but it was probably about as near as I could get.

The Convener: It was an interesting answer.

Phil Gallie (South of Scotland) (Con): You said in your opening remarks that you were reluctant to have a regional policy race. Surely the term "regional policy race" could be replaced by the word "competition", which is what the EU was based on originally. What is your interpretation of who the competition is between?

Graham Meadows: Two things come to mind. One is an attempt to answer the question and the other is a thought that was provoked by the question. Given the way in which competition policy and state-aid policy—which is, in a sense, an instrument of regional policy—work, we find that even now the better-off member states spend more money on state aids than do the worst-off member states. The short answer to the question who would be the leaders in the competition for more intense regional policy is that it would be the better-off member states.

Indeed, the policy exists partly to offset the self-service view of regional policy. It is also one of the reasons why Mario Monti, the commissioner in charge of competition policy, is constantly trying to reduce the scope of such policy—and why that is difficult to do. He is not arguing with the poorer member states; instead, he is always arguing with the richer member states, which have the means to favour their own companies.

Your question provoked the thought that examining the workings of competition policy might also give us some idea of how an unfunded European regional policy from Brussels would work. In other words, we might be able to think about how national regional policies for the 15 states might operate inside some sort of European framework. After all, competition policy itself is not funded.

However, member states are always trying to steal a march on each other and are constrained only by the threat of court action. That happens even with the non-budget competition policy that is wanted by the most economically powerful member states and which is seen as an important part of the European achievement—in other words, it happens with a policy that has the best possible pedigree. If we set beside the current

proposals for a European regional policy, which will operate in all 25 states in a transparent and co-ordinated way, the vision of a policy that will operate not in large parts of the EU but in the 10 new member states, or in those 10 states plus similar regions in some existing member states, we will find that that vision will be much more fragile. After all, member states have already shown that if they find themselves faced with a non-budget policy, they will not stop using their economic muscle to steal an advantage.

Phil Gallie: My idea of competition differs slightly from yours. I believe that the countries in the east will use their social fabric to compete strongly with western European countries. However, I also think that, in line with the objectives of the Lisbon agreement, our main competitors are on the world stage. It seems to me that you are not looking outside Europe at major areas of competition; instead, everything that you have said has referred to competition within Europe.

Graham Meadows: No. It is true that everything that I have said has been about competition within Europe; however, it is not true to say that the vision that is set out in the Commission's financial perspectives and third cohesion report looks solely at Europe. A fundamental reform that has been proposed is to tie the policy closely to the achievements of the Lisbon and Gothenburg agendas. In fact, the policy itself places renewed emphasis on the pursuit of competitiveness as the only antidote to the globalisation of markets and to the maintenance of the European Union's relative economic position. We are now trying to make the policy an integral part of the pursuit of competitiveness in a world context.

From reading some of the submissions that the committee has received, I notice that when it has asked which sort of policy people would like, they have said that they preferred the devil that they knew to the devil that they did not know. However, the truth is that they do not know one devil or the other. A fundamental reform of European cohesion policy is being proposed, so one is faced with a reformed devil that one feels one knows and a brand new devil that no one knows, because it is perceptible only in some rather misty context.

After 2007, cohesion policy will be firmly anchored to the Lisbon and Gothenburg agendas. Progress in the regions towards achievement of that competitiveness agenda will be discussed annually in the Council of Ministers. The regions will report to the Council and will be privy to conclusions that flow from it about what, in global terms, is becoming important for the maintenance of our competitiveness. A genuine attempt is being made to fit the policy to the pursuit of that much wider target.

14:30

Phil Gallie: I see from the overall cohesion report that the recommendations of the outgoing Commission for 2007-13 include the installation across Europe of a common tax policy with respect to corporation tax, energy and VAT. Is that essential to the success of the cohesion report?

Graham Meadows: No.

Phil Gallie: Thank goodness for that.

Irene Oldfather (Cunninghame South) (Lab): I note from Mr Meadows's opening comments his feeling that it is not politically durable for only 10 member states to draw down moneys and his view that a commitment to a Europe-wide regional policy is very important in the whole debate.

Last week, we took evidence from the minister with the relevant responsibility in the Scottish Executive. You will not be surprised to hear that his views were quite different. He said:

"it is both logical and fair that future structural funds be concentrated largely in the new member states."—[*Official Report, European and External Relations Committee*, 16 March 2004; c 493.]

As a committee, we are trying to reconcile two noticeably different approaches and to consider how Scotland fits into the whole picture. I think that I am right in saying that the Commission's view is that about 50 per cent of funding should go to existing member states. Will you comment on the two approaches and tell me whether 50 per cent is the right level at which we should be pitching funding for the existing member states?

My understanding is that the UK's position is that it aims to contribute about 1 per cent of its gross national product, whereas the Commission favours a figure of about 1.2 per cent. Would meeting somewhere in the middle assist in any way, or would that not allow the Commission to achieve what it wants to achieve over the 2007 to 2013 programming period? Academics have put to the committee the fact that there is already an underspend in the EU budget. Will you comment on that in relation to the 1 per cent and 1.2 per cent figures? Do you think that the accession countries have the capacity to absorb any shortfall? It would be helpful if you could put on record the Commission's view on that.

Finally, in relation to the common agricultural policy agenda, should we be considering spending more efficiently rather than spending more? Perhaps we could redirect moneys to the accession countries from somewhere within the CAP.

I am trying not to hog the whole meeting, but I think that, as you are here, it would be helpful to have answers to my questions put on the record, because they deal with many of the issues that

have been coming to the committee over a significant period.

The Convener: Feel free to keep your answers relatively brief.

Graham Meadows: Unfortunately, I suffer from Alzheimer's so I can remember only the last question, but I will try to answer them all.

I said a few minutes ago that we do not distinguish between old members and new members. That is important, because we are already hearing in the Council the view that cohesion policy is for the new members and research and innovation policy and other traditional policies are for the old members. There is the idea that the different groups ought to pursue their economic agenda in slightly different ways, but we do not make the distinction.

The second question was whether 50 per cent or more of the money should go to the new member states. We do not say anything about that. As a result of what we have proposed, more than 50 per cent of the money will go to the new member states, but we have not said, "We think that 52 per cent must go to the new member states and so we must now try to construct a policy that ensures that." I will return to that point in a minute.

I turn to the point about the apparent difference between what I am saying and what the Deputy First Minister said last week. You quoted him saying:

"it is both logical and fair that future structural funds be concentrated largely in the new member states."—[*Official Report, European and External Relations Committee*, 16 March 2004; c 493.]

The important word there is "largely". Under the Commission's present proposals, something like 78 per cent of the funding will go to the convergence regions, which include the new member states; 18 per cent will go to all the other regions, under a priority called competitiveness and employment; and 4 per cent will go to regional and national co-operation—I hope that those figures add up to 100 per cent. The funding will be concentrated largely in the convergence regions—the worst-off areas—of which the new member states form a large part. There is no difference between the Commission's proposals and the view that money should be concentrated largely in the worst-off regions—of course, a lot of it will find its way to the new member states.

If, in the course of the discussions, the budget devoted to European cohesion policy shrinks, what happens will depend on how the shrinkage occurs. If the architecture of the policy keeps its present form, with the same relative share going to each of the three priorities that I mentioned, everybody will feel the pain. If an economic

position is achieved by lopping off a part of the policy, that part would obviously feel the pain. Some of the rhetoric about shrinking is that it is wrong to put money into the regions of the richer member states that are able to pay themselves. If that rhetoric were to prevail, the shrinkage of the policy would cut off European Union funding to those regions, which would clearly affect the United Kingdom.

As a result of the rule for automatic de-commitment—which is known as the N+2 rule and which says that if money that has been allocated has not been spent within two years it must be handed back—we have managed to reduce considerably any underspend in the EU budget for cohesion policy. Whereas underspend was a constant theme of our lives until 2000, when the new rule came into force, since 2000, the rule of automatic de-commitment has led people to manage their programmes in a much more proactive and vigorous manner.

In the two years for which the rule has been applied—it did not really apply until the end of 2002—we have seen automatic de-commitments from the regional development fund of something less than €20 million, although the total amount allocated from the fund in that time will have been in the thousands of millions. The rule has put an end to underspending in policy. There have been some underspends for the European social fund, but they have been much tinier than they were in the past. The idea that there is an underspend inside cohesion policy is now not accurate.

If you examine the European Union budget in any year, you will always find that there is an underspend, because money that is committed in a specific year might be spent a number of years afterwards. Before the automatic de-commitment rule for European regional policy, money could have been spent any number of years after it had been committed. Throughout those years, while we were waiting for the spending to take place, it looked as if funds were being underspent. If €100 million were committed for the building of a railway and it was paid out as the work proceeded, the budget would obviously look underspent until the railway was completed. However, inside our policy, the new rule on automatic de-commitment to a large extent has eliminated any underspend—certainly from the regional development fund.

As you know, the payments to the new member states are limited to 4 per cent of their GDP as a way of trying to tackle the danger that they will not be able to absorb the resources that are allocated to them. In the Council discussions that have taken place, there have been some signs that some of the 10 states are beginning to say that the operation of the 4 per cent capping rule should somehow be modulated. You may say that

anything that expresses absorption as a percentage of GDP bites more severely on the poorer member states, which have a need for the resources, than it does on the richer member states, for which the need is lesser, although the capacity to spend might well be a function of the size of the income and of the public sector.

At the moment, as officials, we see a certain challenge in ensuring that the resources are drawn down—certainly, in the period from 2004 to 2006. We feel that, because the money is committed, because the European Union is committed to making a success of its enlargement and because this policy is part of that effort, we must do everything that we can to ensure that the new members are able to absorb the money that is placed at their disposal. We will use funds for technical assistance, education and all sorts of things to try to ensure that they have professional administrations that can do that. Often, capacity to absorb is more closely linked to the modernity of the administration than to the investment power in the state concerned. Therefore, the degree of modernisation in the administration or the quality of the administration is something that we can try to influence.

There was one more question, but I am prepared not to answer it if the convener does not want me to do so.

14:45

The Convener: If it was the question on the common agricultural policy, I accept your preparedness not to answer it. We will move on, as there are still a few members who want to ask questions. If there is a specific point that the member wants to pursue on CAP, you could always write to the committee.

Graham Meadows: Right.

The Convener: I encourage members to be brief with their questions. I encourage the same spirit in the answers. All of the questions up until now must have been far too easy. Mr Meadows has answered all of them and yet he said at the outset that he would answer only the easy questions.

Mrs Margaret Ewing (Moray) (SNP): I am glad that you feel that you have been “let out” for the day, Mr Meadows. In the interests of brevity, I will play my part in ensuring that both of you are home by sundown.

I want to tease out something that you said in your first response to the convener on the subject of the cohesion fund. You said that the Commission’s views would not be the basis for future discussion and that only Germany out of the group of six—I do not want to say “gang of six”—

offered alternatives. You also said that guidelines on many of the issues would emerge at the European Council meeting in Dublin. However, if only one country has offered alternatives, what will the basis for discussion in Dublin be? What is the exact legal status of the rejection of the Commission’s views as the basis of discussion? Is it written down somewhere? Has legal advice been given or are we talking about something along the lines of people saying that they are just going to ignore the Commission’s views and put them in the wastepaper bin? I would like to know where the Commission is going on the issue and whether Westminster or the Scottish Executive has expressed an opinion on it.

Graham Meadows: Let me be clear that, out of the 25 member states that are to be represented in the Council, all but six say that the Commission’s proposals are to be the basis for the discussions. In my view, it is possible to talk about six minus one, as Austria is crossing the floor, so to speak, and the same might be said at some point about Sweden. The Commission’s proposals will be the basis for the discussion in Dublin. What must the six do if they want to prevail in the discussion? They will simply have to try to prevail.

It would be unwise to expect the European Council meeting in Dublin to come out with any detailed views about how the policy should develop. For example, the conclusions could contain a sentence like, “European cohesion policy between 2007 and 2013 should pursue three priorities: convergence; competitiveness and employment; and co-operation,” which are the three priorities that I mentioned a few minutes ago. If the conclusions contained only that sentence, it would mean that the 25 accept that the policy will operate in all of the member states and not only in the 10 states. What it would be helpful to have in Dublin is not necessarily detailed conclusions about how all of that will operate, what the budget will be and so on. You can imagine that, if an agreement is reached on some general principles such as the ones I mentioned, that would close down the options that are available at the moment. However, you will also be able to imagine that, if the 19—the 25 minus the six—tried to put that sentence into the conclusions, some of the six would say that they did not agree and that they think convergence should be the only priority in the future. If that happened, the sentence would not make it into the discussions. Those are the kinds of arguments that might go on.

The inspirational force for the guidelines that will come out of the Dublin meeting will be the Commission’s proposals. They are the only proposals that are on the table at the moment.

Mr Keith Raffan (Mid Scotland and Fife) (LD): It is interesting to compare your earlier answer to

Irene Oldfather with the minister's comments, because it shows that the issue is not so much what you say but how you say it. Indeed, your two positions are quite close.

Obviously, it is hard to pin down things at the moment because basically we are looking at a snapshot in a movie. The situation is progressing and changing all the time; as I said last week, it is in a state of flux.

I want to ask about the difference between the Commission and the group of six over whether the expenditure ceiling should be set at 1 per cent or 1.24 per cent of the EU's gross national income. I do not know what that difference comes to in billions of euros; indeed, it might make a significant impact if it was set out for us in such a way. Mr Meadows said that if the ceiling was set at 1 per cent, part of the policy might have to be lopped off. You then talked about those who would suffer the most pain. Castrate is perhaps a strong word, but if the Commission does not get its way on setting the ceiling at 1.24 per cent, that will have a devastating impact on regional policy. By the way, with reference to a comment that you made earlier, I hope that some of us are as European as you are: I certainly am.

Graham Meadows: You are probably more European than I am.

Strangely enough, I do not like talking too much about the figures. That is not because I am afraid of them, but they are calculated on a number of different bases, and unless you are absolutely clear with people about the basis on which you are talking, all the figures tend to get distorted. However, in the Commission, we argued the policy through by pointing out the difference between 1.24 per cent of Community GDP, which is the figure for the level of commitments, and 1 per cent, which is what a number of people want as the alternative figure. That is why I did not reply when I was invited earlier to say whether it was okay to have a ceiling of 1.1 per cent of GDP as a compromise figure between 1.2 per cent and 1 per cent. It was not because I had not written it down or had forgotten it. In that context, a ceiling of 1.1 per cent of GDP might sound okay, but when you are talking about commitments, a 1.1 per cent ceiling comes between 1.0 per cent and 1.24 per cent, which is obviously a fairly big cut.

The important question is whether, if we decide instead to have a smaller impact on the budget than the Commission proposes, we can achieve that by ensuring that the policy is present only in the new member states and regions that are in a similar economic position. In other words, only the convergence objective would be taken into account, which would mean that Scotland would fall out of the system. On the other hand, could we achieve a smaller budget impact by retaining the

same architecture and shrinking the whole thing, which would mean that some of Scotland would always be present?

As far as the figures are concerned, I prefer to stick to 1 per cent and the highest figure of 1.24 per cent. Dr Manfred Beschel is more versatile than I am and can translate the different sets of figures. The other figures come in lower, but I measure things in terms of commitments and Community GDP. The Commission has proposed that cohesion policy accounts for 1.24 per cent—*[Interruption.]*

Dr Manfred Beschel (Directorate-General for Regional Policy, European Commission): The figures are 1.22 per cent of GDP for commitments and 1.12 per cent of GDP for payments. In other words, if we are talking about payments, we are already in a position of compromise compared to the 1.24 per cent threshold that is fixed by the financial regulations. In that sense, the Commission's proposal is not that far off.

Mr Raffan: Right.

Graham Meadows: Manfred Beschel is right. However, unless someone knows the difference between payments and commitments and the difference that that will make in Scotland, it is extremely difficult to move confidently between sets of figures. What Manfred Beschel said is quite right, but I still feel that it is best to sort out a standard set of figures and ensure that everyone works to it.

Mr Raffan: Fine.

I do not think that we have talked enough about Scotland. Although I am a European, we have a responsibility towards Scotland. Given that we have enlarged the Community and have added 20 per cent to its population, but only 5 per cent to its GDP, some of the 19 existing regions that are below the threshold of 75 per cent of average income in the EU 15 will rise above it. However, nothing will change, because that will happen because of the dilution from the addition of the new members, and we will still have specific problems that are, arguably, as bad as the problems in parts of the accession states.

Obviously, peripherality is a particular problem, and we must consider the amount of money that is spent on transport infrastructure in the accession states. However, there are also pockets of acute deprivation in the region that I represent. Such pockets are less widespread here than they are in the accession countries, but the deprivation is nonetheless acute. There is also the question of our progress against the Lisbon targets. GDP per head is more than 4 per cent below the target. Our gross domestic expenditure on research and development is low, at 1.6 per cent of GDP compared with Sweden's 4.3 per cent, and private

investment is towards the lower end of the European average.

Obviously, we are concerned about all those issues. If we accept that the policy as you have outlined it goes ahead, the question is what the individual state can do and what we can do within the arrangements that we have with Westminster—the so-called block grant—to ensure that we do not lose out on money. I understand your hesitance to talk about ball-park figures, but as one distinguished left-wing Tory chancellor once said, money is the root of all progress, so money counts. We need money to target areas of acute deprivation and the particular transport infrastructure problems that we have. I hope that you have got my point. It is a question of how much the state will be allowed to do within the confines of the new policy.

Graham Meadows: I am not going to hog the floor, convener. We limit the discussion unnecessarily if we see it only in budget terms. I am not denying that the budget is important, but laying it to one side for a moment, the question that you can ask yourself is: if the amount of budget resource that you can get from the United Kingdom and the amount that you can get from Europe are equal, which way do you prefer to have the policy operate? Do we prefer to have a national policy or a European policy? In my opening remarks I suggested some of the reasons why the answer might be that we prefer to have a European policy. I had another point to make, so when it comes back to me I will weave it into another answer.

The Convener: Are you aware of a specifically Scottish view on the future of regional funding and policy? If so, to what extent has that view been communicated to you, and through which channel did that communication come? Did it come directly from the Scottish Executive or through the UK Government in London?

15:00

Graham Meadows: It has been communicated to us directly in a number of ways. Scotland's First Minister was at an informal meeting of ministers in Rome where he made it absolutely clear to the entire Council of Ministers what Scotland's view was. It was a view that could be distinguished from the view that the minister from London had just expressed for the United Kingdom. Those of us in the room picked up a clear difference between the view from London, which was the view that I have mentioned several times already, and the view from here, which was that there was a certain advantage to be gained from the operation in Scotland of European Union regional policy.

The other ways in which the Scottish view comes to us are through Manfred Beschel and his work in partnerships in Scotland; through the submissions that are made directly to us from organisations in Scotland; and through the debate that Michel Barnier has been holding for the past two or three years. That debate began with a huge cohesion forum, which I think was held in 2001. It will reach a crescendo on 10 and 11 May this year when another cohesion forum is held in Brussels, which about 1,500 delegates will attend.

We have been apprised of the Scottish position—or positions—ever since those discussions started in 2001. Obviously, the position of the Scottish Parliament, which is the position that will be taken in the committee's report, is awaited with some interest.

The Convener: That is very interesting—the Deputy First Minister was at our previous meeting, and we tried to get a view out of him at that time.

I have a final question about the Highlands and Islands, which is a region that takes a close interest in the future of regional funding. I understand that, under the proposed cohesion policy, the Highlands and Islands will benefit from 85 per cent of the cash that it would have received if objective 1 funding had continued. Is that your reading of the proposal? If so, why did you reach that view?

Graham Meadows: I am sorry if I appear to be hiding something. Obviously, we have not taken a view yet about what the Highlands and Islands will get as a region. It all depends on which group of regions the Highlands and Islands falls into at the critical moment.

What are the possibilities? At the moment, we measure the level of income per head in the Highlands and Islands as a percentage of the Community average of income per head. If, at the critical moment—which we have not yet reached—the Highlands and Islands is below 75 per cent of the new Community average, it would be eligible for aid under the convergence objective. We do not expect that to be the case, however. All of us would have to examine our consciences if, when Community average income falls by 12 percentage points, the Highlands and Islands were to find itself below 75 per cent of that lower figure.

The next group of regions into which the Highlands and Islands might fall is the group of regions that, without Community enlargement, would have found themselves below 75 per cent of the present level of Community GDP. No one yet knows the exact number of regions in that group of statistically affected regions—there are 18, 19 or 20—because we are still tracking the situation and will not know the number until we get to the end of that process.

If there had been no Community enlargement and if the policy had stayed as we proposed, that group of regions would have been eligible for objective 1 funding, if you like, the next time round. Those regions will not be eligible, however, as Community average income will have fallen by 12 points. As Mr Raffan said, they are no better off in real terms; they are only better off statistically.

The Commission proposal is that regions in that group will receive special treatment. They will not get as much as if they were full convergence regions—I think that is what the convener alluded to in the point that he raised about percentages—but they will get considerably more than if they were priority 2 or competitiveness and employment objective regions. Under the Commission's proposal, even at the end of the seven-year period, such regions would not have phased down to the same level as those in the competitiveness and employment group, so throughout the next period, they would receive better treatment.

The Highlands and Islands would fall into the third group if it was not in the intermediate group but was simply a competitiveness and employment region. It is worth underlining the fact that, like all other regions, the Highlands and Islands would then be eligible for the successor to objectives 2 and 3, which will not have restrictive eligibility. The Highlands and Islands would benefit from that, because at the moment, the policy is only temporary. I do not mean that it will disappear, but that regions must qualify for it, and not all regions in the Union qualify for help under the existing policy. Even the Highlands and Islands is a transitional region that will receive no benefit from the policy from 2006.

Under the Commission's proposals, that will change and the Highlands and Islands will receive support. It will be easier to compensate the Highlands and Islands for its structural problems such as sparse population and difficult topography under the new policy as the region will have a permanent place in the policy at one level or another, than it is under the existing policy, for which a region qualifies only if it is undergoing an economic downturn. A region might remain relatively less well-off but not benefit under the current policy.

On the constancy of the policy, the reforms that the Commission proposes have important benefits for a region such as the Highlands and Islands that are not present in the policy's current operation, and that is independent of the intensity of aid.

Mr Raffan: I understand why the policy must be based on regions. The policy is complex enough and I understand that it is hoped that the new policy will simplify matters. However, in relatively

prosperous regions in Scotland—I am sure that the situation is the same throughout Europe—we have pockets of acute deprivation, which is a phrase that I used earlier. I do not know how well you know Scotland, but my region—Mid Scotland and Fife—includes Raploch in Stirling, which is very deprived, as are parts of Clackmannanshire. Some regions are relatively prosperous as a whole and do not fall into the categories that have been described. Will the new policy address pockets of acute deprivation, social exclusion, major drug problems and major unemployment in areas where people are trapped and have no jobs and no hope?

Graham Meadows: The convener likes pithy answers, and Manfred Beschel just said to me that we will be able to deal with those issues better than in the past.

Michel Barnier would like to mainstream the Urban initiative that we have operated and are operating in less favoured parts of some cities. He would like that to be more widespread. The detailed draft legal texts that we will probably produce after the European Council in June will show a broadening of the availability of special treatment for pockets of deprivation in towns and cities. That is what Manfred Beschel refers to when he says that the situation will be better than in the past.

Some rural areas have pockets of deprivation and it is unclear whether solving those problems is the job of the agricultural policy or of regional development policy. That has dogged the operation of cohesion policy. The proposals that are on the table now make it clear that tackling rural deprivation is a problem for regional development policy, not agricultural policy. That clarification should be of considerable importance to national Administrations because, often, they have not known which policy they should deploy. Our tackling of rural deprivation has suffered from the fact that although people might have been well motivated in trying to deal with that phenomenon through agricultural policy, they were able to do so only through the agricultural sector, which might not have been the most efficient approach.

As the policy is conceived at the moment, after 2007 wider use will be made of special measures to help pockets of acute deprivation in towns and cities and there will be a clarification of the way in which the policy works in conjunction with agricultural policy, which will make it easier to tackle acute deprivation in rural areas.

The Convener: That is something that we would all welcome.

Irene Oldfather: I am glad that Graham Meadows has been able to put his views on the record.

I understand from a statement that Commissioner Barnier made in Brussels to the Committee of the Regions that he was keen to recognise what one might call areas of natural handicaps, such as mountainous regions, and depopulation. At the time, I made the point that it was important that we do not just take a snapshot on one day but that we examine depopulation trends. That would be important for us in Scotland, particularly in relation to our island communities.

On the permanency of the process within the new policy objectives, I think that you are saying that it would not be just a case of taking a snapshot at one point in time but that we would be willing to examine depopulation trends. If I understood him correctly, that is certainly what Commissioner Barnier indicated to me was his understanding of the situation as well.

The Convener: Please make your response very brief.

Graham Meadows: One of the features of the policy after 2007 will be that, in working out the financial allocation to member states under the policy and in indicating the share-out of that allocation among the different regions, the Commission will take account of statistical indicators that express natural handicaps or difficult topography and will use an indicator that is based on population. When the regulations come out in July, we can expect flesh to be put on the bone that you have outlined—in other words, there will be explanation of exactly how the policy can take account of the permanent handicaps that arise as a result of natural or population factors.

The view of Michel Barnier is that, although the pursuit of a competitiveness agenda is more costly and more difficult in such regions, they should not be excluded from the modernisation, or the general advance, of the economy. He views the price of that non-exclusion as being a more generous financial allocation.

The Convener: I must bring the session to a close, although it has been most informative. I thank the two witnesses for coming from Brussels and for their frank comments, which were most welcome.

That is the end of the evidence-taking part of our inquiry. All that remains is our proposed visit to London to speak to the UK ministers, which is in hand—the parliamentary authorities have given us the go-ahead to undertake that visit. My understanding is that the Treasury has refused to meet the committee, but that the Department of Trade and Industry is showing a slightly more open mind. We are hoping to exploit that by arranging a meeting in the near future.

We will have a two-minute comfort break while we change witnesses.

15:14

Meeting suspended.

15:20

On resuming—

Promoting Scotland Worldwide Inquiry

The Convener: The next item on our agenda involves the taking of further evidence in relation to our flagship inquiry on promoting Scotland overseas. I remind members and witnesses that the main purpose of the inquiry is to consider not the promotion of Scotland per se, but how the Scottish Executive manages and defines its strategy for supporting Scotland and works with other agencies and organisations to promote Scotland overseas.

Today, we have with us representatives of the food and drink industry. I thank the Scotch Whisky Association in advance for its written submission and welcome Alan Hardie from Paterson Arran, Gavin Hewitt from the Scotch Whisky Association, Neil Coull from Macphie of Glenbervie, and Andrew Ovens from Quality Meat Scotland.

I invite our witnesses to introduce their organisations and companies.

Alan Hardie (Paterson Arran Ltd): I am the managing director of Paterson Arran, which is a management buy-out company. We purchased it in 1995. Our turnover is around £12 million, of which exports make up about 10 per cent. Most of our exports go to the dollar-linked countries, such as Japan and those in North America, rather than Europe. We have about 200 employees in our two businesses; our industrial business is based in Livingston and our other business—a small rural business—is on Arran.

Gavin Hewitt (Scotch Whisky Association): I have been the chief executive of the Scotch Whisky Association since last October. The Scotch Whisky Association will not need much in the way of an introduction, but I will give you a few relevant figures. Scotch whisky accounts for more than £2 billion of exports and contributions to the balance of trade figures. Of the 90 per cent of our product that is exported, 40 per cent goes to the European Union. The 56 companies that are represented in the Scotch Whisky Association represent 98 per cent of whisky production in Scotland.

Neil Coull (Macphie of Glenbervie Ltd): I am the international sales director for Macphie of Glenbervie, a medium-sized company that employs around 280 people on two sites in Scotland, one in north-east Scotland and one in Tannochside in the west. We produce food ingredients, mainly for the bakery, food service

and catering sectors, and have a turnover of around £25 million, of which around 14 per cent is made up of exports that go mainly to Europe and the middle east.

Andrew Ovens (Quality Meat Scotland): I am the marketing controller for Quality Meat Scotland. We are a levy-funded body that represents the interests of the red-meat industry in Scotland. Our industry has limited exports at the moment because beef exports are effectively closed to us. Companies that are represented by us export lamb and pork. We would like to export more and are considering opportunities for the industry in that regard.

Dennis Canavan (Falkirk West) (Ind): My question is directed specifically to the Scotch Whisky Association. Your submission says that

“Scotch Whisky should ... be one of the default refreshment options offered at official events.”

As you are probably aware, when the Scottish Executive or the Scottish Parliament, or indeed other public bodies in Scotland, organise a reception for overseas visitors, Scotch whisky is often conspicuous by its absence, despite the abundant presence of wines from many countries, including France, Italy, Spain and the United States of America. Do you think that you are getting fair treatment from the Scottish Parliament, the Scottish Executive and other public bodies in that respect? You referred in your written evidence to your correspondence with the Presiding Officer on the matter, and I hope that you are making some progress. Do you sense that you are up against some unarticulated obstacle?

Gavin Hewitt: I do not think that we are up against an obstacle, but I certainly agree that it is remarkable how often we see the drink products of other countries on the tray as we come into a room, and sometimes whisky is not present. I will use an example from where I came from: the Foreign and Commonwealth Office. I wrote to the Foreign Office to say that I find it surprising that one of the main drinks of the United Kingdom is not served when the Foreign Office holds receptions. It is a common problem. I do not know whether it is a question of cost, but all that I can do is encourage everyone, particularly here in Scotland, to ensure that at receptions—particularly official receptions—we serve our national drink.

Dennis Canavan: Do other panel members feel that their industries are being unfairly dealt with in a similar way?

Alan Hardie: From an oatcake and shortbread industry point of view, not really. Shortbread is being served here today, so you are covered. It is a lot easier to serve such products at receptions.

Andrew Ovens: From the point of view of the red-meat industry, I would say that chicken has become a bit of a default protein for catering. I can understand that, as it is cheap and easy and, because it is so bland, it rarely offends anybody. It would be nice if Scotch lamb and beef, and possibly even Scotch pork, which accounts for quite a large proportion of the red meat that is produced, were represented more often. A little imagination now and again would perhaps make matters a little happier.

Neil Coull: Macphie does not sell a consumer-finished product; we sell semi-finished products that are sold to people in the industry who then add things to our products. Therefore, we would not expect to see Macphie products on the shelves.

The Convener: I remind members that although Dennis Canavan's point was worth making, our job is to scrutinise the Scottish Executive, not our colleagues in the Parliament.

Mrs Ewing: I have a general question for the panel, but first I would like to assure Gavin Hewitt that I know how to spell "whisky", despite what was said in *The Scotsman* today.

We previously took evidence from Scotland the Brand. Have any of you been involved with that organisation? How has the Executive handled the promotion of Scotland the Brand—or not handled it, depending on your point of view?

The Scotch Whisky Association's written evidence, which is at annex A of our paper EU/S2/04/7/2, says that

"there is a role for the Scottish Executive and the Parliament in these and other areas"

in relation to

"the Scottish economy as a whole."

The association highlighted the issues that are reserved and those that are devolved. What is the association's assessment of how the Scottish Parliament could do much better in that regard? As an aside, I agree with Dennis Canavan that whisky should be served at receptions, or people should at least be given miniatures of a good brand. Has there been an impact on the Scotch whisky industry as a result of the issues surrounding Diageo? I think that that situation had a generally damaging impact. That might be just a perception, but the time when those issues arose was not a happy one for the Scotch Whisky Association. What recommendations is the association making to ensure that people throughout the world, to whom we are trying to promote this wonderful industry of ours, have the benefit of clear labelling, with kite marks or whatever might be necessary?

15:30

Alan Hardie: We were members of Scotland the Brand, but left this year. We joined at an early stage on the basis that we believed that the leverage of a number of companies joining and using the mark could benefit the whole industry—the whole being greater than the sum of the parts. We ran with it for about five years, but we found that there was a disconnect between our attempts to develop our markets and where Scotland the Brand was going. There seemed to be rather too much emphasis on Scotland, although at the beginning the mark was supposed to be for external markets and was about promoting Scotland overseas. It seemed to us that a lot of the funding was turning back inwards to promote Scotland within Scotland, which was not the original purpose.

At the same time, we were not seeing enough activity in the markets with which we were trying to align, with the exception of North America. Therefore, we did not feel that membership of Scotland the Brand was value for money, and we withdrew. We have a unique, if somewhat strange, position in North America as we are positioning ourselves as an English company there. A certain shortbread company has a very strong position in North America, and we own an English brand name, so Scotland the Brand was not appropriate for us in America. That situation was unique to us, but the other points that I made are valid.

Andrew Ovens: We have found that Scotland the Brand has a very North American focus in all its activity, which is not appropriate for our markets. We are focused much more on Europe in our export opportunities, rather than looking to North America. We have worked well with Scotland the Brand on a number of markets in Europe, but its overall focus seems to be more North American and therefore less appropriate for our work.

Neil Coull: As you can imagine, Scotland the Brand was not appropriate for Macphie of Glenbervie's business, as our customers are industrial consumers.

Gavin Hewitt: In my first few months, I have had no contact with Scotland the Brand.

The Convener: I will jump in with a question for Alan Hardie and Andrew Ovens. If Scotland the Brand, which is now a private initiative, is not going in your direction, are the Scottish Executive, the Scottish agencies that it funds, or anyone else who promotes Scotland overseas doing so? There have been a number of initiatives, such as the Scotland in Catalonia week and the Scotland in Sweden week, and the Scotland in the Netherlands week is coming up.

Alan Hardie: Scottish Development International is going in Paterson Arran's direction, in that the most likely markets for Scottish exports are European, and SDI is strongly linked to Food from Britain, which has a number of offices throughout Europe and is therefore well placed to deliver what is needed. I forget the figures on Scottish exports to Europe, but they are high. Food from Britain, which works in conjunction with SDI, has point men strategically placed in the European markets. That suits the Scottish food industry.

Andrew Ovens: I support that. Quality Meat Scotland has been involved in SDI events in Catalonia and during tartan week in Italy of late. We have been able to interest Scottish processors in attending those events as well, as they are good opportunities to meet continental buyers and further push the cause of Scottish red meat to them.

Gavin Hewitt: Margaret Ewing was right to say that we look to Whitehall to look after our overseas interests in respect of certain issues, such as tax and international trade. However, it is nonsense to suggest that we do not talk about those issues to the Scottish Executive as well, as we need its support. The past three months are perhaps a good example. We talked regularly and in depth with the Scottish Executive about the Chancellor's proposals for strip stamps. Unfortunately, we got the wrong result last week, but we do not lack support from the Scottish Executive. The Executive ensures that our views are known and supported, so we go direct to the Scottish Executive and expect it to pick up some of the points that we make and to ensure that they are reflected back to Whitehall and, most important, to Europe. We have direct links and parallel links.

Margaret Ewing talked about the event that was worrying us towards the end of last year. That has become a good-news story. One company has seen the light and returned the product to what it should be, which has removed a problem from within the whisky family. All that I can say is that the whisky industry obviously wanted to test me to destruction in my first few weeks to make sure that I was able to put the family together again. I was pleased to find a temporary solution, which I was sure would lead to a permanent solution, and we found it when Diageo mentioned two weeks ago what it was going to do with its product.

Mrs Ewing: What will be the permanent solution for the whisky industry overall?

Gavin Hewitt: The solution that has been produced by Diageo is the right solution: to ensure that once again there is a distillery called Cardhu that produces only a single malt.

That leads on to the second part of your question, on what we are doing. One of the commitments that we made in the wake of that case was that we would get the industry to work out the definitions of whisky. It is quite amazing that blended whisky, Scotch malt whisky, vatted Scotch malt whisky and so on are not defined. We will be putting proposals to our council meeting at the end of next week with a view to developing secondary legislation, probably within the next year, to define some of those categories. Later on, we will take our work into more depth in some of the more contentious areas, largely to protect the name of Scotch whisky in all its forms.

Mr John Home Robertson (East Lothian) (Lab): As the constituency member for Glenkinchie, which I think is the closest distillery to Parliament, I am obviously keen to follow up that question, but I also have a question about Quality Meat Scotland, which represents an area in which we are starting from nothing as far as exports are concerned; the meat industry has been an important one in Scotland, both in primary production and in processing, but because of BSE, foot-and-mouth disease, the export ban and the rest of it, exports have gone. However, I presume that we are now in a position where our quality, competitiveness and traceability are second to none, so there must be opportunities when the full export ban goes. What are you looking to the Executive and Parliament to do to exploit that opportunity, which could be valuable for rural Scotland and other areas?

Andrew Ovens: Primarily, the Scottish industry seeks a level playing field. It will be quite a big step change to move back into selling beef in Europe. Scottish processors have been exporting lamb and pork in the intervening years, but you really need to go back to 1996 to find the last time we were exporting significant amounts of beef. We managed to export only 69 tonnes of beef in 1999—a relatively insignificant amount.

We are involved actively in all the major European trade shows and will be taking a big space at the Salon International de l'Alimentation in France this autumn. I hope that representatives of virtually every Scottish processor will be at the show looking to expand the market. We obviously want any help and support that we can receive, so we are working closely with Scottish Enterprise on such activities. SIAL will be useful in opening up potential export markets in Europe and reintroducing beef to our continental cousins.

Mr Home Robertson: Given that there must be a lot of prejudice against Britain because of the industry's history, are not there opportunities to set out a pitch for Scottish red meat as being better, cleaner and so on? Is not that something that the Executive could usefully do?

Andrew Ovens: That would be helpful. We have carried out our own consumer research in all the European markets, which has shown that Scottish beef is not tarnished. We get weekly requests from various importers who have in the past had dealings with the Scottish beef industry and who want us to let them know the minute we resume exporting because they would like to renew the acquaintance. We are actively following that up. During the past few months we have invited a large number of potential buyers and importers to Scotland to show them our products: we have taken them from the farm to the processor to the end meal to show them the quality of Scotch beef and let them sample it for themselves. There is no shortage of people from Europe who want to join us on that. We will seek help to show potential importers our product.

Mr Home Robertson: Are you getting the help that you feel you need from the Executive?

Andrew Ovens: We are getting help, but more is always welcome.

Phil Gallie: I have a point to put to Mr Hewitt: I think that he will find that it is cheaper to provide a bottle of whisky than it is to provide a number of bottles of wine. That is just an aside, but I checked that out when I received his original letter.

How important to each of the witnesses is the tartan and heather image of Scotland, as opposed to the smart, successful Scotland image that the Executive is promoting?

Neil Coull: I do not think that the tartan image is particularly appropriate for Macphie's; the smart, successful Scotland image is much more appropriate. The sort of strategy that we would like to see being set out for Scottish companies would involve professional and well thought-out plans that are funded for the long term and monitored, with benchmarks for success.

Alan Hardie: For us, the tartan and heather image is appropriate within certain markets, such as North America and Japan. We have tested packaging with and without tartan and there is no doubt that the tartan sells. However, the situation in the UK market is completely different. There is a definite trend that suggests that we can leave a signature of tartan on products, but it should be quite small: we live and die by how good the product is. That probably extends into Europe, although we have not done the same amount of research into that. The issue is how good the product is and how it fits the market. Only North America, Japan, China and possibly Australia go for tartan.

Andrew Ovens: In the beef, lamb and pork markets, the quality of the product is obviously key. However, the tartan image can be useful consumer shorthand, so we use it in certain

markets, most notably France, where the use of tartan can be positive.

Gavin Hewitt: Obviously Scottish icons are important. We should not throw away our tradition or the image that prevails. It would be sad to think that Scotch whisky was just a tradition of the past. It is important to view the whisky industry as one of Scotland's innovative manufacturing industries. It should not be put in a different category from the sunrise industries and it should not be suggested that we belong only in the past as a traditional industry, because there has been more innovation in the Scotch whisky industry in the past 30 years than there was in the previous 100 years.

Phil Gallie: Is that why 50 per cent of your products are exported worldwide, 40 per cent go to Europe and only 10 per cent go to the home base?

Gavin Hewitt: That is simply because whisky is an incredible product that sells. The way in which the Scotch Whisky Association sells whisky overseas, which builds on a long tradition of sales, is fascinating. Marketing and business skills go into developing the markets in the 200 countries to which we sell. We also have to consider the size of the UK population. Whisky is the largest-selling spirits drink in the UK, so we cannot complain about the size of the market.

Phil Gallie: Are you beginning to find a niche in countries such as China? What kind of assistance are you getting from the Scottish Executive and Scottish Development International in trying to move into that market?

15:45

Gavin Hewitt: We always welcome the support that any of the Scottish authorities can give us in moving into markets but, having said that, many companies are capable of getting into those markets themselves.

China is an interesting market. As far as foreign spirits are concerned it has traditionally been a cognac-drinking market, but significant growth is beginning to happen in whisky. An attraction is that, under World Trade Organisation membership, China's tariff and tax on whisky or on spirits is down to 10 per cent, compared with India, where we are talking about approximately 250 per cent. We believe that China is a very attractive market—it is certainly one of our top developing markets.

Gordon Jackson (Glasgow Govan) (Lab): In a sense, Phil Gallie has dealt with the issue that I was going to raise. I am interested in how we are branding Scotland—I do not mean as regards Scotland the Brand, but in general. I am interested in the issue because I get the impression from

talking to people that there is, within the whisky industry, for example—I do not want to name firms—a tendency towards moving away from traditional Scottishness, which has been done in a positive way, however. A big Diageo plc promotion in central America was cancelled recently because there was a huge Scottish emphasis on pipes and tartan, which Diageo said it did not want any more.

I wonder whether the Executive is going one way—you mentioned tartan day—while the companies are going another. You have mentioned leaving Scotland the Brand, which is one example of that. Are the lines of communication between the Executive and the industries adequate to ensure that you are not pulling in different directions?

Alan Hardie: I can, to a degree, speak for the food industry. An industry strategy group works to improve the general performance of the food industry. The group is run by industry people, but the Scottish Executive sits on it as do Scottish Enterprise, Highlands and Islands Enterprise, the Convention of Scottish Local Authorities and various other organisations such as Quality Meat Scotland. The group is processor driven, but one of the issues that we tackle is the SDI side of things and how we get the funding and strategic direction right.

One of the issues that we are wrestling with is a report on the implications of expansion of the European Union, which was referred to earlier. There will be a huge polarisation of earnings within Europe, and Scotland always directs itself towards the high earners, so we have been considering the implications of expansion for our business, which will affect how we position our products.

Research shows that there are in the world 44 metropolises where consumers of Scottish quality goods exist. They are all similar as individual consumers, but they do not necessarily want tartan all over the pack. However, having said that, such Scottishness is a hugely strong introductory note. We can blow into markets on the back of that image and then undertake conversion to the values of the individual product. It was mentioned earlier that the situation is complicated because individual companies make decisions about their individual products and it is therefore not easy to set a global policy. As an industry, we constantly wrestle with how to put a supportive structure in place while leaving individual companies to manage their own affairs appropriately.

Gavin Hewitt: It is interesting to see how much the marketing of whisky has changed. In markets such as Spain or Greece it is not being sold using tartan and the heather, but as a fashion product. It is marketed using a young and dynamic image and as being among trends that people will follow—the fads of fashion. That is perhaps a little

bit dangerous because fashions change, but that is the line that is currently being pursued in the big markets in which growth has been phenomenal.

Gordon Jackson: Does that take away from the products' Scottishness? For example Scotch is made in Scotland, but the Scotch advert that uses Martin Scorsese shows him very much as an international American figure from New York. There is nothing particularly Scottish about the advert. I am not criticising that; people must sell their products in their own way. However, we are talking about how to promote Scotland and perhaps some of the big industries are not particularly interested in the Scottish dimension at all.

Gavin Hewitt: The fact that whisky that is exported from Scotland invariably has the word "Scotch" on the label is a tremendously good selling point. That in itself makes the whisky iconic. Of course, there are Canadian, American and all sorts of other whiskeys, but the one whisky that everyone knows is Scottish whisky and the one thing that people associate with Scotland is whisky. Scotland and whisky go together and there is no question about that. When whisky is mentioned in the market, people talk about Scotland; when Scotland is mentioned, they talk about whisky.

Gordon Jackson: You could keep the Scotland link while not having the Scottishness link, as it were.

Gavin Hewitt: That is an interesting aspect. Some of the Scottishness is perhaps less prominent than it used to be, but the Scotchness is very strong.

The Convener: I have a brief question for Alan Hardie. You said that there are markets that do not want the tartan image. Can you give us an example of such a market and explain why such markets do not want tartan?

Alan Hardie: That is product linked. For example, you cannot get a more Scottish product than an oatcake: we are developing one for the Spanish market, but it is highly unlikely that we will use tartan to sell it. The oatcakes will be positioned in the healthy eating market as a healthy, high-fibre, low-sugar product. The product must stand in that market. We might have a signature piece of Scotland on it, because that is a seal of approval and quality. All the research shows that Scotland has a good reputation for the quality of its exports. We can use that while not overtly marketing something to the consumer on the basis of its Scottishness—the selling point can be the product's attributes. Our new oatcake is a classic example of how such promotion works.

Mr Raffan: Gavin Hewitt commented in his written submission on what he regards as the

narrow focus of the smart, successful Scotland campaign and its emphasis on sunrise companies to the exclusion of industries such as his. Perhaps Mr Hewitt could elaborate on that. The other panel members could comment, too.

I would like to hear about two more points. First, do we lose out in comparison with the Irish, who use their President effectively in trade missions? The accession countries are several years ahead of us in doing that. The Irish send over their President with a huge delegation of 50 people and all the doors open because the Irish President has arrived. I am not saying that the markets are at their feet, but there is tremendous drive and energy. Do you find that to be the case in Scotland? Secondly, what are you doing to establish markets in the accession countries?

Gavin Hewitt: First, the Irish have the advantage that is Ireland; Scotland, however, is a bit of the United Kingdom. When we had the presidency of the European Union it was as the United Kingdom; Scotland takes its place within that. However, I do not in any way feel that we are missing out, although I believe that we are sometimes taken for granted in the UK, particularly in Scotland. Scotch whisky is invariably among the top five exported products in the UK and the top three in Scotland. I do not believe that there is a manufacturing industry in the UK that exports as much of its product as we do—we export 90 per cent. Therefore, the hallmarks of success are written all over our industry. We produce a massive amount for the balance of trade and a massive amount of revenue for the Exchequer from the UK market.

On the enlarged Europe, it is significant that some of our biggest growth is taking place in central and eastern Europe in the new accession states. We want to develop those markets. We are absolutely certain that those markets will develop further as the accession states get richer and more developed. One market about which we are concerned at the moment is Poland. Like all the accession countries, Poland will be required to reduce its tariffs to zero on 1 May, but Poland has a big distilling industry that it might want to protect. We will look carefully to see whether there is any backsliding in that country from what it is obliged to do under its accession treaty.

Mr Raffan: Would the other witnesses like to comment?

Alan Hardie: Do you mean in relation to eastern Europe?

Mr Raffan: Yes, or in relation to the general points that I made. Do you feel that you are part of the smart, successful Scotland campaign or is the Executive's focus too narrow?

Alan Hardie: The food industry feels that it is somewhat excluded from that campaign, but that is life and we are not at the glamorous end of things. We provide a lot of jobs in a lot of different places. The seafood industry, for example, just gets on with the job. It is not affected by the common agricultural policy. People in that industry are on the road around the world doing tremendous business and they just get on with it without the smart, successful Scotland campaign.

Support mechanisms are available through SDI, through which we have access to overseas offices. If we need support, it is there. SDI is not a closed shop and we can use the network, but it is not generally used by the food industry.

Neil Coull: As an industrial producer, we have to stand on our own two feet when it comes to exporting. There is no particular focus on our sector, but support is available if we seek it out. We find that some organisations are a bit fragmented and that some of the support is reactive rather than proactive. It is my experience that one needs to know where to go to get support if one is looking to develop into a particular market area.

Andrew Ovens: The Scottish beef industry has not been exporting for a while and many of the skills that we had have now been lost to the industry. We need time to build them up again. As we are a traditional industry, we are not seen as being glamorous. Alan Hardie made the point earlier that we just get on with it.

Mr Raffan: I was struck by what Mr Hewitt said about whisky being a fashionable product. When I lived in Manhattan, whisky was regarded as an old-fashioned product that came in old-fashioned bottles with label designs that featured woodcuts and old-fashioned lettering. It did not compare with Australian and Chilean wines that have been regarded as fashionable and glamorous and have seized parts of the French wine market. Whisky bottles were lined up above the bar and they looked old fashioned. Is your marketing and design perhaps not innovative enough? Is there enough energy behind it? You are saying that you just get on with the job while the Executive promotes a smart, successful Scotland. Do you have enough oomph?

Gavin Hewitt: Responsibility is largely with the companies for how they market themselves, rather than with the Scotch Whisky Association. We must ensure that the conditions in respect of market tariffs, quotas or whatever other restrictions—technical barriers to trade—are reduced as far as possible.

To return to the point about fashion, whisky has always been popular in the United States, but Spain and Greece have never before been whisky

markets and France was not previously a whisky market. However, I have some interesting statistics. In France we sell more whisky in one month than they sell cognac in a year, which is useful to know, and Spain is now our second-largest market in the world. The Greeks drink more whisky per head of population than any other country in the world. We are going into new and different markets and we have to gear our marketing to ensure that we take advantage of those markets.

Mr Raffan: My final point is about the Executive in relation to Westminster and the reserved matters to which Mr Hewitt referred in his written submission. The question also affects the other panel members because it is concerned with international trade barriers and tariffs. That matter is obviously reserved. The second issue is that of the tax regime that favours other alcohol drinks over spirits. Not much progress seems to have been made on the issue.

When I was a Westminster MP in the 1980s, I remember going along with Professor Sir Donald Mackay to see ministers at the Treasury—I was a Tory at that time—to try to do battle on the issue. Does the Executive give you the added value of pressuring the UK Government when you want it to do so?

16:00

Gavin Hewitt: Yes, in the context—

Mr Raffan: Can you give us evidence?

Gavin Hewitt: I will give the UK and then the overseas context. This is the seventh year running that there has been no increase in the excise duty on spirits and on whisky in particular. Seven years running is quite a useful period of time because that narrows the differential between spirit drinks and other drinks.

When Executive ministers are travelling overseas, they are invariably briefed by us. Even though excise duty is a reserved issue, it would be a nonsense for a Scottish Executive minister not to have a brief in his pocket that would assist him in raising a technical barrier to trade, a tariff or a quota issue. Scottish Executive ministers must be briefed to make sure that they raise such issues. Their hosts would think that it was silly to do otherwise. We take every advantage of every visitor who goes in or out of the country. We ensure that there is a brief on the table and that it is used properly. I have no hesitation in saying that we are given Executive support. We are given the openings and we monitor and track visitors.

Alan Hardie: We were caught out in the banana wars. Cookies were either to be banned from the States or to attract 100 per cent duty and the

same was to happen with mustard. The product that people probably heard most about at the time was cashmere. The Scottish Executive was heavily involved in pressuring and lobbying to resolve that situation. Obviously, it did so jointly with the UK Government. That said, we certainly felt that pretty strong representation was made through the appropriate channels to resolve the dispute.

Andrew Ovens: We are working closely with the Scottish Executive to look at how the restrictions on Scottish exports of beef can be lifted. We feel that we are making progress, albeit that it is being made ever so slowly.

Phil Gallie: What help are our embassies, consulates and their trade attachés to Scottish companies?

Alan Hardie: If a company is moving into a new market, such people are generally a port of call. At first, we would make contact with the commercial attaché by telephone or e-mail. A piper has just started to play—

The Convener: It was laid on for you.

Mr Home Robertson: We cannot escape it.

Alan Hardie: There is a tremendous network. Most companies that are moving into a market will start by making contact with the embassy or consulate or they will go there at some point during their visit to a new market.

Gavin Hewitt: In terms of Scotch whisky, most of the association's work is trade policy work; it concerns questions of tariffs, technical barriers and all the rest of it. Invariably, the embassy or high commission is the vehicle through which we tend to work. Very often we know more about what is happening than they do, but we want to work in tandem with them.

When individual companies such as Diageo plc, Allied Distillers Ltd or the Edrington Group Ltd try to break into a new market, they work with the embassies, too. I remember one recent trade visit that one of the major companies made to China. It used the embassy to ensure that it had access to the people to whom it wanted to talk and that it was, indeed, able to talk to the right people.

Phil Gallie: Given your history, Mr Hewitt, can I abuse the opportunity by asking you to put aside Scotch whisky for a moment and say what help the ambassadorial service gave to Scottish companies in the past?

Gavin Hewitt: The question is perhaps unfair given that, as a Scot, I always felt that I had a particular responsibility in that respect—I did not count my time. Perhaps I was particularly able to help when I was bilateral ambassador in Brussels, because we had the UK permanent representation

there and UK ministers tended to drift there; they would be sitting there—day in, day out, week in, week out—talking with ministers from the other member countries. I felt that I could give something special to the devolved Administrations in the United Kingdom. I found that a great deal of my time was spent looking after Scottish, Welsh and Northern Irish interests, because I was able to give them entrées—for example, into the regions of Belgium—that would not otherwise have been available. That allowed me to go through all the processes in the diplomatic service and ensured that I was pulling in others on the back of bilateral and very often devolved regional contacts that were interesting, useful and very helpful. For example, the biggest annual seafood exhibition is held in Brussels. Invariably, many Scottish seafood exporters attend the event and a Scottish minister represents the UK because of the size of the Scottish fishing industry. I was very proud to be associated with that.

Irene Oldfather: I attended one of Mr Hewitt's receptions in Brussels. I think that it was for Scottish artists and the First Minister opened it. It was very good indeed.

The Convener: Did they serve you whisky?

Irene Oldfather: There was some very nice sparkling wine, which I must say I preferred.

Gavin Hewitt: I think that there was some whisky.

Irene Oldfather: I am sure that there was.

Dennis Canavan: The SWA submission is quite critical of some aspects of EU legislation and regulation. For example, it refers to the potentially detrimental effect on the Scotch whisky industry of the Commission's one-size-fits-all approach to water regulation. Will you highlight other specific examples of EU regulation or legislation that have had a detrimental effect on the food and drink industry?

Andrew Ovens: The beef industry has suffered greatly as a result of its inability to export produce. We would have preferred restrictions to have been lifted much earlier than they have been and we are pushing for the removal of the existing restrictions.

Gavin Hewitt: All the health and safety regulations, freshwater fish directives and gosh knows what else have a huge impact on the industry. I am not suggesting that the Scottish Executive does not play its part in looking after us. Indeed, on the water framework directive, we received help from the Scottish Executive and Westminster to secure a dispensation that recognised that the Commission should not take a one-size-fits-all approach. However, our problem is to ensure that the derogation that we secured in the legislation is applied by the relevant authority

in Scotland. Although that authority would like to have a one-size-fits-all approach, we said that we had negotiated something different and that we wanted a new policy that took account of the various economic factors. Sometimes the issue is Europe, but sometimes it is our own home-bred authorities.

Dennis Canavan: Do you all agree with the SWA's suggestion that the Scottish Executive should be more proactive in flagging up at an early stage the possible effects of proposed legislation and directives on your industries? Are the Executive and the Parliament not doing enough to consult you early on?

Alan Hardie: In the food industry, the Food Standards Agency communicates very well on that front. For example, it keeps us up to date and asks for our position on various issues; we also receive all the committee materials by e-mail. If one has the time to become involved in the system, it is great. However, 30 per cent of European legislation applies to the food industry and 75 per cent of the companies in the Scottish food industry have only 50 employees. Who is dealing with this flood of stuff? Frankly, we are buried in it. It is important; we need not only to read it but to act on it. The system is there, and we have the opportunity to have an influence. We are well communicated with, but we are buried. Small companies have a real problem.

Dennis Canavan: Are there any trade associations that monitor on your behalf what comes out of Brussels?

Alan Hardie: Yes. We are fortunate in that we have a strong trade association—the Scottish Association of Master Bakers—which is good at interpreting the position to help the smaller players. However, not everyone has that benefit. I do not know about other trade organisations, but the matter is tough for people to handle. At the end of the day, people have to implement the measures in their businesses, so they have to be aware of what has come out. Scottish industry is made up of a huge number of small companies—that is the issue that we face.

The Convener: As there are no further comments or questions, I thank the witnesses for coming along today to give evidence. The session has been interesting. We will take on board the views that were expressed about serving whisky. We have learned a lot today, including the fact that Keith Raffan used to live in Manhattan—we did not know that before. I hope that your companies all do well, given that the tourist season is starting and a lot of people will be coming here looking for Scottish goods.

Regional Development Funding Inquiry

16:11

The Convener: The next item on the agenda is a brief discussion on our regional development funding inquiry. We have finished taking evidence for the inquiry and briefing paper EU/S2/04/7/3 outlines some of the themes. At a previous meeting, we discussed taking a few minutes to go over the themes before the first draft of our report—Keith Raffan was keen for us to do that. I hope that we will discuss the first draft at our next meeting but, in the meantime, we must give the clerks some guidance on the issues that we want the report to cover.

The briefing paper lists 11 headings that cover areas that we might want to include in the report. I am relaxed about most of it, but I am sure that members would like to make comments to give the clerks some guidance for the first draft.

Irene Oldfather: Quite a lot of information has come before us, and I want to reflect on the *Official Report* of our meetings before I make substantive comments on what is a crucial piece of work. To be honest, I do not think that I want to take a position on the issues in the space of five minutes without reflecting on the evidence, particularly the evidence that we took today from the European Commission. It would be appropriate for us to take time to look over what Mr Meadows said and to reflect before we cover these key areas.

Phil Gallie: I thought that the intention today was not to go into detail but to consider the headings that cover the areas of interest. On that basis, the only thing that I would like to see some comment on in the report is the fact that all the changes go back to the aims and objectives of the Lisbon agreement. I would like a section in the report to refer to that. Given what the witnesses from the directorate-general for regional policy said to us today, some comments on competitiveness would also be helpful.

The Convener: I reiterate that at some stage we will have a first draft of the report, which will form the basis of the direction that the committee wants the report to take. To help the clerks to put that report together, we will need some broad headings. Although today's evidence brought up various aspects, I do not think that it will lead to any new headings.

Mr Raffan: Perhaps not new headings, but there was a difference in emphasis. Today's evidence was important, particularly on issues such as absorption capacity, on which Mr Meadows gave a

detailed answer. The paper lays out the core issues and questions. We will have to answer those questions and come down on one side or the other, sooner rather than later. We cannot delay indefinitely. Very important issues are clearly laid out and we have to make choices. For example, are we in favour of setting the budget at 1 per cent of EU 25 gross national income or 1.24 per cent, or somewhere in between? Do we accept today's evidence from Manfred Beschel that the new regional policy will in fact help us and be better than before?

Mrs Ewing: I do not want to go into a lot of detail; the headings in the paper seem fine and I agree with Keith that we will have to take decisions at various points. However, the repatriation framework is important. The evidence from the European Commission indicated that the Scottish Executive had taken a different line from that taken by the UK Government, but we have been told in Parliament that, on the whole, the Executive seems to be going along with the UK line. That detail needs to be clarified for us, because we operate as a Scottish Parliament committee.

Irene Oldfather: We still lack some evidence. We will have to read over what Mr Meadows said today, and I presume that we are also waiting for an opportunity to raise some issues with the DTI. I do not see any problem with having general headings but an awful lot of questions arise from the paper. It will be the answers that are important.

We may have to add to the paper. For example, one of the headings is "Reform of State Aids" and quite complex information arises through consideration of flexibility in state aids. The DTI evidence mentions the principles of decentralisation and devolution and I would like that to be discussed and questioned, and included in the paper.

The Convener: The committee is perfectly at liberty to invite more witnesses to give evidence any time we choose. However, we would have to take such a decision soon. We have now had our last oral evidence session. At some point, we will have to give the clerks some guidance so that they can begin to draft a first report. When we receive that first report, we can demolish it, turn it upside down, agree to it, or whatever, and then receive a further draft.

We still have more to do, such as the visit to London, and more will be added to the report in due course. However, we must make a start. Otherwise it will be several weeks before we even have a first draft to discuss.

Mr Raffan: Margaret Ewing has raised an important point. We will have to clarify that point, probably by writing to the First Minister. What

happened at the meeting in Rome when the First Minister distinguished Scotland's position from the UK's position, with a UK minister next to him, is important. We need to know exactly what he said. Because of what the European Commission witness said today, we need urgent clarification.

Phil Gallie: What you have done, convener, in presenting us with this briefing paper should become our practice in future for other reports. The paper has fixed in my mind some of the questions that I have to ask myself and some of the aspects that I have to consider from previous reports. The paper is very useful and I would not like the clerks to be dissuaded from producing similar papers in future.

The Convener: We have two issues to discuss. The immediate question is whether, in light of the director general's comments, we should pursue further evidence from the Scottish Executive on its view of the UK's repatriation proposal. That could be written rather than oral evidence. Keith Raffan has suggested that we write to the Executive to seek clarification.

Mr Raffan: We should write to the First Minister.

Irene Oldfather: We took evidence from the Executive last week, when we heard from Jim Wallace, whose evidence is on record. We simply need clarification on this point.

The Convener: We may seek clarification, but we need not do so. Our report could simply reflect the fact that the Executive's position was not clarified, so there are various options. Is the committee minded to write to the First Minister for clarification?

Members indicated agreement.

The Convener: Secondly, we must decide whether we want the clerks to produce an expanded version of the paper that is before us that takes on board the comments that we have just heard, or whether we want to allow them to begin producing a first draft. The draft report would not contain agreed recommendations or conclusions but would form the basis of a proper discussion.

Irene Oldfather: In preparing previous reports, the clerks have taken due cognisance of the evidence that the committee received and have had the time to go through the evidence in detail. The paper before us provides a framework, so I would have no problem with the clerks preparing a first draft as a private paper that committee members could then reflect on. That should be the next step.

Mr Home Robertson: The report could be kept very sketchy at this stage.

The Convener: In the first instance, I suggest that we have a draft report for general discussion

that does not have any agreed recommendations and conclusions. If the clerks produce a really good draft, we can then start taking decisions. That might be a good way forward that would avoid wasting too many meetings discussing a draft report.

Mr Raffan: I do not want to waste the clerks' time by requiring them to write "on the one hand" and "on the other". If the draft report has no conclusions, the final report might look very different. Members are capable of seeing both sides of the arguments, so I do not want to require the clerks to produce a draft that must then be rewritten. I know from experience how difficult it can be to start off with a draft with no conclusions and then rewrite it so that it has conclusions. It can mean starting the whole thing again.

Mr Home Robertson: Do you think that we need the conclusions first?

Mr Raffan: We have to argue and decide on the basis of the evidence, which is already available in the documents that have been provided for us. We have to do the work.

Mrs Ewing: Regardless of whether we have a mini-draft, a first draft or a preliminary draft, can we try not to cram it in at the end of a long meeting? We need time to give the clerks whatever guidance we feel may be required for the excellent work that they do.

Irene Oldfather: I agree.

The Convener: Are we agreed that the clerks should prepare a private paper for the committee to discuss in private?

Members indicated agreement.

Irene Oldfather: We probably could not consider such a paper at our next meeting, as we will take evidence on that day. Margaret Ewing is quite right that we should come to it fresh.

The Convener: Proper time will be put aside for the discussion.

Dennis Canavan: Will the draft report contain conclusions?

The Convener: I was about to ask that. We have decided that we want a private paper. Should the paper include options for recommendations and conclusions?

Members indicated agreement.

The Convener: On that basis, we will take on board the comments that have been made and set aside a decent time at a future meeting to discuss the paper that the clerks produce.

Convener's Report

16:24

The Convener: I will try to go through my convener's report relatively quickly. We held over two papers from last week's meeting that we did not have time to read as they were given to us at the last moment. The first paper is the Scottish Executive's analysis of the European Union's medium-term priorities and the potential implications for Scotland. It is important that we receive such papers. I certainly found the paper interesting. Have members any comments on it?

Phil Gallie: Perhaps unusually, I would like to record my thanks to the minister. He has responded very quickly and he has been fairly thorough. I cannot say that I agree with every one of his conclusions, but I think that he has done a pretty good job in a short period. I wish that all ministers would respond in the same way.

Irene Oldfather: I would echo Phil Gallie's comments, which I think are fair. We have been quick to criticise, but it is important that when we get a good response and a good result, we place that on the record.

The Convener: That has now been done.

The next item under the convener's report is a reply to our letter following up the evidence given by the Minister for Finance and Public Services to the committee a few weeks ago on the European strategy and the European Union's forthcoming priorities. We welcome the speedy response to our requests for some of the issues to be followed up. The reply from the minister is quite meaty and there are some issues in it on which members may wish to comment.

I draw members' attention to the relevant annex, which I found fascinating. It shows how Scotland is progressing in terms of the Lisbon agenda that was set out by the European Union, in relation to both the UK and other member states. Unfortunately, from some of the indicators, it seems that Scotland is not performing that well economically. We perform better in some respects than in others. That annex is a substantial bit of information from the Executive. I invite members' comments.

Mr Raffan: I am grateful to the minister for the Executive's detailed answers, which were certainly helpful in response to several of my questions. In particular, the minister went into some detail on the fifth question, which relates to

"the Executive's plans to increase education/infrastructure/trade links with the accession states".

That also relates to our promoting Scotland worldwide inquiry. There is a lot in the Executive's

response. Much of it will be helpful to us for our inquiry and for bringing things together. I would not describe it as piecemeal in a critical sense, but it is like that. It underlines my wish to compare what we and the Executive are doing with what the Irish Republic is doing. As Mr Hewitt said earlier in the meeting, the Irish have some advantages, but in any case it is important that we compare and contrast the evidence. A lot of questions arise out of the response—which I can lodge at the chamber office for written answers—but it was very helpful.

The Convener: I suggest that we copy the letter, and especially the annex to it, to the Enterprise and Culture Committee, as I think that it would be of interest to that committee.

Members indicated agreement.

The Convener: The third item under the convener's report is the letter from Lewis Macdonald on renewable energy targets in Scotland, which we had requested from Andy Kerr on 24 February, when he was giving evidence to the committee. Andy Kerr had offered to arrange a reply from the relevant minister.

Phil Gallie: This is something that I have been seeking for quite a long time. The minister's letter raises more questions with respect to the targets than it answers. The letter mentions

"an additional 1,000 megawatts (MW) of new capacity",

which relates to about 5 per cent of what is required if we consider the actual generation time and demand on a reasonable winter's day. All kinds of questions surround that. At least we have something in black and white now, which gives us something to argue on in future.

Mr Raffan: The information is helpful. This may be going beyond the committee's remit, but I would like to know exactly how the Executive sees things panning out, and how the overall target for Scotland can be reached in such a way that projects are not over-concentrated in one specific area. That question has been raised with a number of local authorities in my region. Perhaps, however, I should pursue that matter on my own.

The Convener: The reply is indeed very interesting, but it is clearly not our remit to delve too far into the matters concerned—unless members can identify a European dimension.

Phil Gallie: I think that there is a European dimension. It comes from the specific requirement under the Lisbon agreement to secure reliability of supply. The paper that we have received suggests that there are massive questions in this area, and that the Lisbon agreement cannot be met with respect to security of supply. I think that the matter very much concerns the committee.

There is no mention of our aging coal and nuclear plants. How is the Executive to secure the Lisbon requirements for security of supply, given the information that we have before us?

16:30

The Convener: It might be worth copying the letter to the Enterprise and Culture Committee. I understand that that committee has been doing some work on renewable energy, and it would make sense for it to pursue some of those matters. We could also send a covering letter, if the committee is happy to do that. Members are also at liberty to pursue the issue in their own time.

Mr Home Robertson: We will. The question is 20 per cent or 40 per cent of what. It is relatively easy to build up the percentage of renewables simply by shutting down existing plant, but that could blow a huge hole not only in our domestic generation capacity but in our ability to export to England, Ireland or anywhere else. The issue has the implications about which Phil Gallie talks, so it is important for Scotland.

The Convener: It is very important. Are committee members happy to take the suggested course of action at the moment? They are free to bring the matter back on to the agenda in future if they think that the committee should pursue it separately.

Members indicated agreement.

The Convener: The next letter from the Scottish Executive is on the transposition and implementation of the Honey (Scotland) Regulations 2003, which particularly concerned the labelling of country of origin. We wanted to raise that issue with the minister, and members will note the minister's helpful reply, which states that the European Commission has informally informed the Executive that Scotland could be labelled as the country of origin on honey.

Do any members have comments on the reply?

Irene Oldfather: When this matter came before us previously, I mentioned that my reading of the directive was that that would be the case, so it is good to have that confirmed. We should also note the point that John Home Robertson raised last time about the labelling for honey that contains quantities of non-European Union honey. The minister seems to confirm that consumers would be able to determine whether honey contained even a small quantity of non-EU honey. That is important.

Phil Gallie: How important is it to the consumer? To read the correspondence makes me ask why on earth we need a regulation on labelling honey. It is a load of bunkum. Some civil servant sat somewhere had nothing to do one wet

afternoon and produced another regulation. It is a load of nonsense, and anybody who read it would surely agree.

Mr Home Robertson: I am being goaded. In Europe, extremely high-quality honey is produced; honey is produced in other parts of the world that is of far lower quality and may contain various additives, which could be of concern. The point was put to me that it might be possible, under one reading of the regulations, for an unscrupulous wholesaler or retailer to produce a bucketful of, for example, Chinese honey, put a few spoonfuls of European honey into it and market it as being of European standard. The reply that we have indicates that that could not be the case, and that is good news.

Mr Raffan: As usual, it was Phil Gallie who was producing the load of bunkum. The letter is helpful, as it states that Scotland can be labelled as the country of origin. That is helpful, in contrast to the chaotic free-for-all that Mr Gallie and the Conservatives would impose on us all yet again—as if we had not learned enough.

Phil Gallie: You used to be one.

Mr Raffan: I learned. I am a sinner, but I repented.

Phil Gallie: So many options are offered, and anybody who reads the second paragraph of the letter must recognise a "Yes, Minister" element to it.

The Convener: I am sure that there is a lot of sympathy for some of your points, Phil, but perhaps not all of them. We can always use this matter as an example when we discuss subsidiarity and the transposition of legislation at a future date. We have talked about addressing that at some point.

I move on to the letter from the Scottish Executive Environment and Rural Affairs Department regarding the provision of information to the committee on pre and post-council scrutiny. One point occurred to me when I read it. As the committee will note, the Deputy Minister for Environment and Rural Development says that part of the problem is the delay in getting information from Europe to the Executive, and that that information must in turn be passed to the committee. To me, that raises the question whether the Executive is pursuing the matter with the Commission. The whole scrutiny process depends on information going right down the line to the Scottish Parliament. There might be an option of writing back to the minister to ask what steps have been taken to speed up the process at the Commission's end.

Irene Oldfather: To be fair, the minister points out that the deadline for getting information back is

often less than two weeks away by the time the committee has contacted him and that the matters that we ask about sometimes require input from a number of different sources. He says that he will make every effort to respond timeously. It would be helpful to note his response and to continue to monitor the situation.

Dennis Canavan: If, in monitoring the situation, we discover any more undue delays, we are at least entitled to an explanation of why there has been a delay. We must ask whether it is the fault of the Scottish Executive or of someone in Brussels, or the result of a lack of communication in between.

The Convener: That is an option that we should leave on the table. We cannot just let the buck pass. The Commission has to be dealt with as well.

Mr Raffan: The minister says that his department

“has a particularly high volume of EU business.”

That is true, but the issue is whether his department has sufficient human resources to deal with that volume of business. We should continue to monitor the situation and, as Dennis Canavan says, we should ask questions if there are further delays, to find out whether the minister's department is under staffed or whether the problem lies with the Commission.

The Convener: I will move on to the final item under the convener's report—the last item that we will deal with today—which is consideration of our proposal for a committee-led debate in the chamber on 22 April. That is the provisional date; the debate might be on 21 April.

The committee has agreed on the motion for the debate, which reads:

“That the Parliament welcomes the enlargement of the European Union that will see ten new member states join on 1 May 2004, recognises that this provides both challenges and opportunities to Scotland and encourages the Scottish Executive to promote actively the benefits of enlargement across Scotland.”

If members are content, we will proceed with that.

Irene Oldfather: I think that the motion is suitably consensual and I hope that we can all sign up to it. In the week before enlargement, it would be inappropriate for amendments to the motion to be lodged. I hope that, in the debate, we look for issues on which we can agree, even though we might want to make different political points, which is fair enough. I hope that the committee can agree on the motion. The danger is that, if one political party lodges an amendment to the motion, we will end up having three or four amendments to it. In the week before enlargement, that would send out the wrong

signals from the Parliament. I hope that we can all sign up to the motion.

The Convener: Of course, those are matters for political parties, which the committee is unable to influence.

Mr Raffan: I do not know about that. Are you saying that you are so weak and powerless? I hope that you will bring your influence to bear this time. I strongly support what Irene Oldfather has just said. What happened before was most unfortunate and I hope that it will not be repeated, because such an outcome is divisive, particularly in committee terms. I hope that you will use all your good offices and influence; you will have an opportunity to show that you have some influence in your party.

The Convener: My view is that it is not for committees to influence the debates that take place in the chamber.

Irene Oldfather: If the debate is a committee debate, I think—

The Convener: As the member will appreciate, the committee is responsible only for the motion. I do not know what will happen.

Mr Raffan: You should use your good offices.

Phil Gallie: I think that what has happened in the past will happen again in the future if what is written in a motion does not align with the beliefs of parties or individual members. On this occasion, because of the way in which the motion has been written, I think that there will be unanimity, but that is not to say that there will be unanimity on every motion that the committee lodges in the future.

The Convener: Okay. There are no further comments. The next meeting is next Tuesday.

Meeting closed at 16:39.

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