

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Tuesday 21 November 2006

Session 2

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

16th Meeting 2006, Session 2

CONVENER

*Linda Fabiani (Central Scotland) (SNP)

DEPUTY CONVENER

*Irene Oldfather (Cunninghame South) (Lab)

COMMITTEE MEMBERS

*Dennis Canavan (Falkirk West) (Ind)
*Bruce Crawford (Mid Scotland and Fife) (SNP)
*Phil Gallie (South of Scotland) (Con)
*Mr Charlie Gordon (Glasgow Cathcart) (Lab)
*John Home Robertson (East Lothian) (Lab)
*Gordon Jackson (Glasgow Govan) (Lab)
*Mr Jim Wallace (Orkney) (LD)

COMMITTEE SUBSTITUTES

Ms Wendy Alexander (Paisley North) (Lab)
Derek Brownlee (South of Scotland) (Con)
Richard Lochhead (Moray) (SNP)
Nora Radcliffe (Gordon) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Philippa Bonella (Equal Opportunities Commission Scotland)
Stephen Boyd (Scottish Trades Union Congress)
Linda Boyes (Scottish Council Foundation)
Gerry Edwards (Institute of Directors Scotland)
Dave Moxham (Scottish Trades Union Congress)
Dr David Silbergh (Glasgow Caledonian University)
Niall Stuart (Federation of Small Businesses in Scotland)
Andrew Watson (Federation of Small Businesses in Scotland)
David Watt (Institute of Directors Scotland)

CLERK TO THE COMMITTEE

Jim Johnston

ASSISTANT CLERK

Emma Berry

LOCATION

Committee Room 1

Scottish Parliament

European and External Relations Committee

Tuesday 21 November 2006

[THE CONVENER *opened the meeting at 14:00*]

European Commission Growth and Jobs Strategy Inquiry

The Convener (Linda Fabiani): Good afternoon, everyone, and welcome to the 16th meeting of the European and External Relations Committee in 2006. I have received no apologies.

Item 1 is the fourth evidence-taking session in our inquiry into the European Commission's strategy for growth and jobs. Today, we are taking evidence on the targets that relate to the employment and labour markets.

I welcome our first panel of witnesses. We have with us Niall Stuart, head of press and parliamentary affairs, and Andrew Watson, deputy head of press and parliamentary affairs, of the Federation of Small Businesses in Scotland; David Watt, the director of the Institute of Directors Scotland; and Gerry Edwards, the managing director of National Semiconductor (UK) Ltd, who also represents the Institute of Directors.

We have quite a lot to get through and have allotted 40 minutes for the evidence taking, so there is no need for opening statements. I open questioning to committee members and ask the witnesses to let me know if they want to respond to a particular question.

Dennis Canavan (Falkirk West) (Ind): The average number of business start-ups in Scotland is considerably lower than the United Kingdom average—from the evidence that is available, it appears that we lie somewhere between Finland and Denmark. How could and should the Scottish Executive assist with the creation of an economic climate that encourages more business start-ups? For example, is the Scottish co-investment fund helpful? Is the provision of risk capital one of the biggest problems? If not, what are the problems and what should the Executive do to alleviate or solve them?

Niall Stuart (Federation of Small Businesses in Scotland): The fact that Scotland has a poor record of business start-ups is an historical and long-lived problem. In some part, it must be due to our industrial heritage of large, public sector employers, such as British Steel and British Coal. Scotland has not had a strong enterprise culture,

certainly not in the latter half of the 20th century, and the Scottish Executive must foster and generate a stronger one, which it is doing to some extent. That can be done by working in schools; the determined to succeed strategy is starting to teach children the skills that they will need to go out and start their own businesses. However, we could do more along similar lines in colleges and universities, because people who leave college and university are of the right age and have the right skills set to set up their own businesses.

The situation is starting to change. Each year, the Hunter centre for entrepreneurship does a study on attitudes to entrepreneurship. What it describes as the total entrepreneurship activity in Scotland has risen over the past three or four years and attitudes to starting up one's own business are becoming more and more positive. However, that has yet to feed into an improved business start-up rate. Scottish Enterprise staff will say clearly that, as good as it is to provide advice and support to somebody once they have made the decision to start up their own business, we must get more people interested in starting their own business and thinking of ideas to start up businesses, which is the point at which we should offer support and advice. The only way to boost our start-up rate is to change that culture.

David Watt (Institute of Directors Scotland): The point is well noted and a source of some concern. To be blunt, we need to have more innovative approaches and we need to look elsewhere. Scotland must be one of the few countries in the world in which somebody who wants to start a business does not automatically get some sort of financial support, and it seems to me that, rightly or wrongly, most people would expect such support to be available. That has been a problem for some time. Other approaches are taken in North America, for example, through links with chambers of commerce and other organisations. We need to consider that point seriously.

Scottish Enterprise is retendering for the business gateway franchise, which might have been an opportune time to have a longer look at the issue, although it is easy to say that now. We could examine different approaches because we are not where we should be, especially given our history of being an innovative country. Niall Stuart's point about the determined to succeed strategy is true, but it will take some time to percolate through. The initiatives at places such as the University of Strathclyde are helpful, but although spin-outs from universities are good, the argument about them is slightly different from the one about how we handle the person in the street who has a good idea and wants to start their own business, which I do not think that we are good at.

We need to examine closely what we do and what we could do.

The co-investment fund is a major step in the right direction. It is probably just beyond true start-ups, but it has been found to be extremely valuable and its establishment was a highly positive step. I have heard no one speak badly of it—it has been well received by everyone.

There is an issue about venture capital. People who are starting up a business will say that there is no money available but, within the past month, I have spoken to significant angel investors who have told me that that is not the problem. One of them said that he was involved in an organisation to which 150 approaches had been made in the past year, five of which it had invested in. My reaction was that that must have been the result of a lack of money, but he said that that was not the reason. The problem was that the proposals were not ready for investment, either because the personnel were not ready to run and manage the business or because the plan for how the business would work was not adequate, even though the idea itself might have been quite sound. There is an issue about how we help people to structure their proposals so that they are ready for serious private investment. I am assured that the availability of money is not the problem.

I had a similar conversation with another venture capitalist from Aberdeen. He said that he liked the idea that had been put to him, but did not like the structure of the business or the people who were going to run it. We must think about how we provide support and help for development at that level.

The Convener: Irene Oldfather has a small question on the same theme.

Irene Oldfather (Cunninghame South) (Lab): I know from experience in my constituency that for some small business start-ups there is a £1,000 grant. I know that that is not a great deal of money but, especially for young people who have ideas, it could make a difference to whether a business gets off the ground.

One of the difficulties that people have come to me about is the follow-through from the business gateway. Some people feel that although they have been given the start-up grant, there is a lack of follow-through support—the mentoring is not adequate and it is difficult to get hold of people. Someone who is starting up a business is probably quite busy, so it will not always be easy for them to keep phoning back. I do not know whether the panel has any experience of that or feels that if improvements were made, people who have taken up the grant to start up a small business might be encouraged to keep it going.

People have also complained to me about the fact that the training programmes that are held by

business gateways and others are often on weekdays. It is extremely difficult for someone who is just starting up a business to take time off so that they can go and do a training programme. Do members of the panel have any experience of that or any thoughts on the subject?

David Watt: I can tell you a lovely story about the grant that is provided when a suitable business plan has been submitted. It took a contact of mine, who is a former journalist, 15 months to write a business plan that was considered to be satisfactory. One would think that a journalist might have some of the skills that would enable him to do that. It is quite simplistic to say that people can just walk in and get £1,000—there are more strings to it than that.

Your second point is completely valid. The issue is where we go from here and how we help businesses to develop. As representatives of the Institute of Directors, we would say this, but our job is to develop corporate leadership. Bluntly, we deal with businesses once they are set up. You are right that there is a gap. About a fortnight ago, someone told me that they could not get to the courses that are provided because they were all during the day, when they were trying to make money. Such people need courses that are held at 9 o'clock at night, for example, when they have some spare time, or which are available online. Some online provision is developing, but more could definitely be done in that area. Development is required.

Niall Stuart: The main rationale for the £1,000 grant was less about businesses needing money to start up and more about catching the attention of 18 to 30-year-olds as they walked down the street or opened a newspaper. It was designed to get them thinking about starting their own business. The points that Irene Oldfather has made show that even if people are given money to start up a business, they will not succeed if they do not have a strong business plan and the motivation and determination to make the business a success. Unless the business has a clear market and there is a demand for the product, a grant of £1,000, £2,000 or even £3,000 will not be enough to enable it to succeed.

We have commissioned some work on the business gateway, on which will get a report at the end of the week. The research examines what our members think of the business gateway and what benefit they get from it. There are certainly issues about differences between regions and in the quality and emphasis of the service. Some business gateways are better than others. I have even heard of 18 to 30-year-olds who have gone along to the business gateway and not even heard about the £1,000 start-up grant for 18 to 30s.

Phil Gallie (South of Scotland) (Con): I have two questions and an observation on a comment

that Mr Watt made. He spoke about funding for start-up businesses. I recall that when some such funding was made available in the late 1980s complaints came from the business community, because it felt that competitors or potential competitors were receiving funds that businesses that were already up and running could not get. Perhaps the panel could comment briefly on that.

The first of my two questions is perhaps slightly controversial. We are talking about the Lisbon agenda, which has been seen to be unsuccessful across Europe. I have long argued that some of the social implications of Lisbon act against economic growth. I would like to hear the panel's comments on the effect of gender balance, disability legislation and race legislation on businesses' performance.

My other question follows on from that point. We hear much about Ireland's success, which seems to be based on low tax structures. Will the witnesses comment on that?

The Convener: I do not see them all rushing to answer.

David Watt: I will have a bash while the others come up with intelligent answers.

I do not think that business would object to the level of support that we are talking about. Indeed, if, in an ideal world, we were able to give people up to £5,000, so that they had the opportunity to start their own business and develop their idea, I do not think that anyone would object to that.

The Prince's Scottish Youth Business Trust is a good model. As you are probably aware, Scotland has the highest pay-back rate in the United Kingdom. More than 80 per cent of people who are given a loan—which, in effect, is what it is; it is given as a grant but the hope is that it will be a loan—return it. The business gateway could perhaps adopt a similar system and we should consider that approach. The sum of money that is involved would not present a danger to other businesses.

On your point about legislation, the IOD has written several books on our views on how European legislation is stifling business growth—I could give you copies of them. There is no question about it. The working time directive is one example. When one speaks to French businesspeople, one discovers that they are not happy, to put it mildly. The French economy has had major problems. The working time directive is one reason, although there may well be others. We could go into that on a later occasion. We must examine the matter.

I will sum up the situation. Not that long ago I listened, as I often do, to a late night radio programme. An American economist was asked to

analyse the next 10 years of the world economy. Obviously, he mentioned China, India and America. The interviewer said, "What about Europe?" He responded, "I do not consider Europe to be a serious threat in business terms. They are legislating themselves out of existence." That is an extreme view, but many people in business share it. Significant costs to business are brought about by legislation. That is not to say that all legislation is bad—it is not as simple as that. Jim Wallace and I have discussed the issue before. It would certainly help all businesses if we adopted the sensible rule that when we introduce a new piece of legislation, we get rid of an old one.

On the point about Ireland, of course business would like lower business rates and low corporation tax. That has worked in Ireland and it would work elsewhere. An interesting issue that then arises is where the rest of the money to run our public sector and various other aspects of our society would come from, but the matter is worth considering. We in business would certainly favour lower taxes. Ireland has been extremely effective in attracting world-class companies, which we struggle to do in Scotland.

Phil Gallie: If your business were to pick up as a result of lower taxes, would not that create additional cash to go back to the Exchequer?

David Watt: Absolutely—that is the whole point. I note in some of the papers that I get a bit of abuse for decrying the public sector. That is not what I am doing, but public sector efficiency is an issue. It is absolutely correct to say that some people could be released to create wealth that would, in turn, be spent by the rest of society.

14:15

Gerry Edwards (Institute of Directors Scotland): Mr Gallie asked about social balance. Large companies do not have a problem with that. For example, companies have many opportunities to take on disabled workers, and more women are going into engineering. I support that because it is good business.

We use a company in Scotland called Haven Products, which acts as an intermediary to get employees into business. For businesses the size of mine, that makes good business sense. However, it is more difficult for a small business to cope with all those issues at the same time as trying to start up and get going. There is no one-size-fits-all solution for businesses.

It is reasonable to ask the questions of bigger businesses and to make it easier for them to engage people. Haven is a charitable company. It brings people through and it mentors us and coaches us in how to cope, because we are not experts and we are always learning. That makes it

easy for us. However, such work may be too much for a business to cope with while it is small.

Andrew Watson (Federation of Small Businesses in Scotland): Race, gender and disability issues do not present particular problems per se. The indicators of progress in "A Smart, Successful Scotland" show that rates of employment among all those groups have been going up since 1999. The problem is the legislation and regulations that are implemented to cope with those perceived problems. Regulation has an impact—particularly on small businesses rather than medium-sized or large businesses. I have a funny feeling that the topic of regulation will come up later, so I will not say too much about it now.

Mr Gallie spoke about low tax rates. Obviously, anything that reduces costs for businesses—particularly small and medium-sized businesses—in Scotland and the rest of the United Kingdom will make it easier for them to do business and to increase their turnover and profitability. It will also make it easier for them to invest cash back into their businesses.

Niall Stuart: It is not only the four of us on this panel who say that regulation is having an impact on business. The European Commission has set a target to reduce the impact of regulation on business by 25 per cent. That is not a target for the sake of having a target; the Commission believes that the reduction will have a positive impact on gross domestic product. It says that GDP could increase by around 1 per cent across the European Union. Not only businesses say that there is too much regulation; the European Commission has explicitly acknowledged it too. What are we in Scotland doing to contribute to an environment of better regulation?

The Convener: We might come back to that subject because I know that there is a lot of interest in it, but I am keen to move on.

Mr Charlie Gordon (Glasgow Cathcart) (Lab): As I understand it, all the sole traders out there do not meet the definition of a business. Is that correct?

David Watt: It depends on the definition that is used. Gordon Brown might not necessarily agree that they are not businesses when it comes to levying VAT. The Department of Trade and Industry generally recognises companies once they are above the VAT threshold, whether they are sole traders or not.

Mr Gordon: We are discussing our concerns about the rate of business start-ups. If we factor in sole traders, what difference does it make to the figures that we use in comparisons?

The Convener: Does the FSB consider sole traders as small businesses?

Niall Stuart: I think that the distinction that you have in mind is the one between companies limited by guarantee and sole traders, partnerships and self-employed individuals. For the purposes of today's discussion, there is no need to distinguish.

It is true that only limited companies can apply for the research and development tax credit; the credit is distributed via corporation tax, which is paid only by limited companies. However, if we are talking about start-ups and research and development in general, there is no need to distinguish. They are all one and the same thing.

Mr Gordon: Does taking that more inclusive definition of businesses, and including sole traders, affect the comparisons with the Danes and the Finns? We are struggling to make comparisons. You will be aware that we have had difficulty obtaining any meaningful regional information. We cannot make any meaningful statistical comparisons with Catalonia or Tuscany. When there is an apparent disparity, I wonder whether there are problems of definition. How is a sole trader defined in Denmark, Finland, Catalonia or Tuscany?

The Convener: Does anyone know?

Niall Stuart: All the data that we have before us—the briefings from the Scottish Parliament information centre and the data that come out of the European Commission—include limited companies, sole traders, partnerships and limited liability partnerships. I imagine that there are closely equivalent business structures throughout the European Union—certainly in Spain, France and their regions. I am confident that we are comparing like with like.

Mr Gordon: There is a related issue. Presumably we could encourage many sole traders to register as businesses, but that would not make any real difference to what happens on the ground.

David Watt: Your point is valid, but the discrepancy in statistics that may exist here probably exists in other countries, too. The figures are fairly valid for comparative purposes. However, no one has to tell anyone else—apart from the taxman—what they are doing. They do not have to tell the DTI or Scottish Enterprise what they are doing, so there is the potential for people to fall through the net and not to have contact with any part of the various structures that exist. That is true in any country.

Mr Gordon: Earlier Mr Stuart referred in passing to the determined to succeed initiative, which is, broadly speaking, an enterprise programme in our secondary schools. I am sure that he is aware that determined to succeed is really about creativity. Enterprise can apply equally to the public and

voluntary sectors. We should not encourage the impression that kids in our secondary schools are being told that they should really get out there and start a business. They are being taught to look at examples from the adult world—the world of business and work—and to think in a more enterprising way, but the definition of enterprise is rather broad. In the short to medium term, it will not necessarily mean that we will have a generation of school leavers who will rush off and start businesses.

Niall Stuart: No, but determined to succeed was founded on the premise that there seemed to be a deficit in careers guidance and the culture of education when it came to considering self-employment as a genuine opportunity for people when they left school or after they had three or four years of work experience. The initiative was intended to redress the balance.

You are right to say that an entrepreneur is someone who thinks creatively, works with others, is not afraid to take risks and shows leadership. Children can be taught those skills in a number of ways. That was already happening, but the aim of determined to succeed was to teach the skills within an enterprise environment, to help children to make the link between the skills and one day being either a self-employed entrepreneur or, as you say, an entrepreneur within the public services or a big corporate company.

Mr Gordon: We have heard from Careers Scotland and similar bodies in previous evidence-taking sessions. We may have an opportunity to highlight the issue in our report.

Gerry Edwards: I echo the points that have been made. I fully support entrepreneurship in businesses and the public sector. It is too narrow to think of entrepreneurship in relation only to start-ups. If we had more entrepreneurship in businesses based in Scotland, there might be different stories to tell about attracting research and development and so on.

The Convener: We have talked about the different sorts of business that exist. The SPICe research that we have includes some information on comparators. It is not quite clear enough, so we will get clarification of the data to inform our final report.

Mr Jim Wallace (Orkney) (LD): I want to follow up on two points that David Watt made. My question is primarily, but not exclusively, for the FSB. I was very interested in what David said about discussions with venture capitalists. He indicated that there was not a lack of venture capital. I thought that he was about to say something that I have heard from other people—that there is just a lack of ideas—but that is not what he said and, intuitively, I do not think that that

is right. He seemed to say that a proper idea of the company's structure or the personnel were lacking. Will the panel elaborate on that? What should those of us who are charged with public policy be doing to address that?

The second point that David Watt raised was about the fact that, in most countries, any person who wants to start up a business gets some support. Should the state just hand out money? I am sure that the Institute of Directors Scotland is not advocating that, as it would never suggest that we should be profligate with the public purse. Were you thinking of something like the scheme for 18 to 30s, David, or did you have other ideas in mind?

I know that those are two separate issues.

The Convener: I was at the same seminar that Jim Wallace attended recently, at which a lot of these issues were discussed. I was thinking around the questions that he has asked, and I would like to expand on them.

Another thing that was said at the seminar was that we are not ambitious enough for some venture capitalists. People are not producing ambitious enough plans to catch venture capitalists' imagination—in simple terms, they are sometimes just not asking for enough money. Is that a myth that is flying around, or is it a valid point?

At the same seminar, Denmark was cited as having put in place the legislative framework to allow and encourage entrepreneurialism. Leading on from what Jim Wallace has said, I wonder what kind of things legislators could put in place to allow that to happen.

Bruce Crawford (Mid Scotland and Fife) (SNP): My question is in the same area. If it would be helpful, I will ask it now.

David Watt: You are testing my memory, now.

Bruce Crawford: What I am hearing is that the ideas are there, but the structures and disciplines to ensure that the ideas can flow into the market and get going are not. Before the existing enterprise network was set up, local trust networks existed wherein local businessmen were able to contribute to growing the economy in their area by mentoring the companies—especially the small businesses—that were growing up in those areas. My impression is that much of that was lost in setting up the enterprise network. Do we need to reinstate that type of approach, at the lowest level, and have local businessmen help to mentor growing companies on their business plan, their marketing plan or getting their products to market—the discipline and structure issues? If that is not how we should make use of that expertise and professionalism, how best could we get the

energy and information out of established companies to help to grow companies that are trying to get into the marketplace now?

The Convener: There is a whole circle of issues, there.

David Watt: I will kick off as best I can. I will return to venture capitalists in a second.

I am not saying anything definitive; this is just something that has come to me lately about our start-ups and how we handle them. It may sound strange but, judging by the PSYBT system, I believe that if we totally revamped the system and gave everyone who knocked on our door £5,000, we might do better than we are doing just now. However, that would be a radical use of public money. Contrary to popular belief, the business sector is not averse to those involved in public policy taking risks with public money. We would prefer you to do that. We sometimes think that politicians are naturally conservative because the press and others would lambast you if you were otherwise but, funnily enough, we would not lambast you for taking risk; the opposite is true.

I do not have a preconceived notion of exactly how the system should be run, but I do not think that what we are doing—judging by this evidence and other evidence over a period of years—stacks up to a good record for Scotland. Historically, our young people are as you say—they have ideas and can do things. I do not want to get into the confidence argument, which is another debate, but we perhaps do not have the right structures at the business start-up level. We need to have a long look at that to see how we can do things better. It might be a case of people knocking on our door and, if they have anything like a decent plan, our giving them £3,000. They could give us the money back in a year's or two years' time, if they have it; if they have not, that is too bad. Even if that adds up to £300,000, we will have started to make progress and will have got people out there trying to start up businesses.

That links into the determined to succeed programme and what has been said about creating a culture in which it is all right to try and to fail. We have heard that before, but it still matters. As I always say, the determined to succeed programme is great but we need to link it to business. Although it is not all about business, it needs to be linked more closely to business, and I am still worried that that link is not as good as it could be.

14:30

The point that was made about mentoring is absolutely valid—we have lost that. To be blunt, people can find less time for free mentoring in their working days. Many of our members try to make

mentoring a commercial business, but it is difficult to make it pay, so mentoring is an issue. Local schemes can be considered through the FSB. Niall Stuart can speak about this for himself, but organisations and chambers of commerce have strong networks that mean that such things can be done. It is certainly worth considering how we can do that. I take the point that the old enterprise trust model was not all bad.

I have not answered the questions that have been asked because I do not have all the answers. However, we must consider what is happening because we are not delivering. I am not blaming anyone for that, but we need to have a totally fresh look at things. We should keep things going for a year or two, but try to find out whether there are new answers. There could be. I mentioned North America, where chambers of commerce will give people money and off they will go.

On venture capitalists, at our conference the other week, when you were all at the business in the Parliament conference, somebody famously mentioned the “South Park” business plan and that the idea for making money was there, but there was nothing in the middle. That was absolutely spot on. We must help people in the middle.

Good ideas are coming out of universities in barrow-loads and if I ask young people in schools how they would make money if I gave them £10,000, they will have great ideas. The challenge is taking that spark and developing it. That is at the lower level.

To be blunt, venture capitalists look to get their money back as quickly as possible. They need good ideas about things that will sell, people who can take ideas to the market and confidence in the people who are involved, which is more important than having a business plan. There is a slight weakness from their perspective. Very good scientists and engineers come out of universities, but can they run a business and market and sell products? Somebody from one of the bigger companies in Scotland said to me recently that we lack sales ability, not ideas. We do not have a structure that supports selling well enough.

Mr Wallace: In times past, I thought that there was a gap in marketing, by which I do not mean only sales; I mean more than that. I am sure that someone will point out that there are university courses here and there, but do you agree that, if we use the widest definition of marketing, we will find that there is a gap in overall provision?

David Watt: Absolutely. Recently, I sat with a vice-principal of the University of Edinburgh who is involved with the Roslin Institute. There are examples of things that have been done well, but I

am not sure that universities share examples enough or that marketing departments in universities speak to spin-out departments and business management departments. A student who has a good engineering idea should receive good advice on how to do other bits of work.

People who are not in universities are a bit isolated. People at the VC level are beyond the start-up level and the business gateway will not deal with them. Not many people volunteer to get involved with the enterprise network, so we need to make that network more aggressive in finding them.

Niall Stuart: David Watt said that he does not have all the answers. I am struggling to remember all the questions that have been asked.

I return to the issue of culture. The more people start up their own businesses and are successful, the more people will be encouraged to do what they have done. We hear time and time again that Scotland does not have a marketing and selling culture. That makes sense to us when we go to the States and see how different people are there.

I want to make some points that will directly or indirectly answer the questions that have been asked. I still do not think that the links between universities and business are right. There are still insufficient rewards for academics who set up companies, commercialise their ideas or spin out companies. By doing such things, they lose the time that they could spend on research, on which they are ultimately judged as successful or unsuccessful—

The Convener: I must interrupt you on that interesting point. Are people in universities reluctant to move beyond academia and consider what they are producing from a business point of view? Furthermore, is there an issue relating to intellectual property?

Niall Stuart: I am not sure about your second question, because I do not know an awful lot about intellectual property. However, I think that academics who have ideas that could be commercialised face institutional barriers to commercialising them. Ultimately, an academic's success depends on the number of times they are published in journals, and time that is spent on developing a business is time away from that. A person who wants to step back into academia might have wasted—in terms of their academic career—five years creating a successful business.

As has been said, the determined to succeed initiative involves children who are 11 or 12 years old, who will not be in a position to set up their own businesses for another 10 or 15 years, whereas university students will be in such a position in two or three years.

I am not sure whether mentoring needs to be done locally, as was the case with enterprise trusts. However, it is important to place with a young business someone who has experience of its sector, its business and the problems that it is likely to have to overcome in growing. Perhaps bodies such as Scottish Enterprise's intermediary technology institutes are better placed to organise mentoring, because they work in particular sectors with people who have experience of them.

As for venture capital and other funding, the anecdotal evidence is that the situation is improving with the proof of concept programme. Businesses that have applied for the research and development tax credit through the Treasury have said that it is a nightmare and is not worth the bother. The Scottish Executive's schemes are more streamlined and focused and are much easier to apply to. Businesses are positive about that, so some things are starting to change.

I make a plea. The First Minister said that he would examine how to reduce business rates for small businesses to encourage them to invest more in R and D, but I understand that the scheme will not proceed because of European rules. Given that, we are keen for the money that was earmarked for the scheme to be used to bolster existing schemes.

The Convener: I will add something to the pot. We keep hearing about entrepreneurs, business start-ups and new businesses. David Watt said that universities are producing great engineers and great scientists. Will Gerry Edwards address why big companies are not giving enough of their turnover to research and development? Why does it all have to be down to people having ideas and starting their own businesses? Surely big businesses have a responsibility to work towards our targets.

Gerry Edwards: I had planned to comment on that, and I will speak from personal experience. I have been down in Greenock for 10 years. My company is a high-tech company by any definition and it is also a manufacturing company, which is a rare combination these days. In those 10 years, we have had much dialogue with Scottish universities to try to link stuff that we want to do into them. Until now, we have not succeeded in that, because what we are about, what we do, what we produce and where we want to go as a business have not linked with the academic direction in which Scottish universities want to go.

Three or four years ago, I managed to get my company's executive and senior vice-presidents of R and D to visit Scotland, and they toured universities—I will not say which ones, but they were the obvious ones. After that, they said, "Gerry, what they're doing is very nice, but there's nothing for us," and they went home. I was quite

deflated by the fact that nothing was on offer that interested them.

However, there is good news about what the situation could be like. We keep in contact with universities, and recently we said to the University of Edinburgh that we were to pitch for an R and D project. The university said that, coincidentally, it had funding to do research on the same issue. That was serendipitous. For me as a businessman, that provides a great hook into the States, because I have a university on my doorstep—it is in Edinburgh, but to Americans that is on the doorstep. Money is being pumped into Edinburgh University as we speak. That is such a lever, but I had to wait 10 years for some alignment with what industry is doing and what I am doing.

Among the multitude of large companies, a market exists—I read that 9 per cent of R and D budgets come from industry—but the other side of the coin might be that academics want to be independent and to research what they think are the right subjects. I do not know whether the balance is right.

On entrepreneurship, I will speak from experience again. My company sent me to a two-week entrepreneurship course at Stanford University. The university runs that course and, as members would expect, it makes lots of money from charging businesspeople a full rate to listen to speakers for two weeks. The university has a department that is all set up for entrepreneurial industry—I do not remember its exact name. On the course, some very high-profile people gave a two-week master-class on how to start a business and how to be entrepreneurial. They did not care whether we were going to start our own businesses; the message was that we should return to our companies and be entrepreneurial. That course runs in silicon valley and taps into it. For example, Andy Grover from Intel comes in to talk, as does the guy from Oracle, and even Bill Gates has appeared. All those lecturers can be accessed.

My point is that, when it works, the link with academia is powerful. I wish that we could do more, but I am not sure how to change the situation. The R and D figure of 9 per cent is very low. I had to wait 10 years to find the link before I could exploit it. It is valuable when it is exploited.

Irene Oldfather: I want to raise a couple of points. First, we have spoken a lot about the top end of the market, the commercialisation of ideas and creating bigger companies. However, we have a shortage of electricians and plumbers. How can we encourage young people who are leaving school and are interested in developing a craft, skill or trade to recognise that they could set up their own businesses and have a role in the small

business economy? Are we doing enough at that end of the market?

My second point is on David Watt's comment about Europe regulating itself out of business. I have some reservations about that. We all want better regulation and more simplification—the committee is examining that in terms of European legislation—but I worry about the perception that regulation is all bad and simplification is all good. I note from the Scottish Trades Union Congress submission that international surveys continually confirm that the United Kingdom is a good place to do business. That has been verified by the World Bank rankings on ease of doing business. I am a little concerned about the points that were made about China and India, which seem to be low-wage, low-skill economies. Surely in Scotland we want high wages, high skills and high productivity, which drive innovation and sustainable growth.

David Watt: Your first point about trades is probably slightly dated, as anyone who lives in Scotland knows how expensive, well paid and desirable plumbers, joiners and other tradespeople are.

Irene Oldfather: But young people do not set up their own businesses.

David Watt: But they live in houses where, if they want to get their toilet replaced, it takes at least two and a half years to find a plumber to do it. They realise that plumbers are in short supply. When I was younger, plumbers were not in short supply and were not well paid. The economic and rewards drivers will make people go into trades and start up their own businesses more frequently. I talk to builders all the time who struggle to get tradesmen, because they all shoot off and start up their own businesses.

Irene Oldfather: I agree with you about tradesmen shortages, but how can we make young people who perhaps come from the less academic end of the market but who have skills go into business by themselves? Young plumbers and electricians do not always have the skills that are needed. What can we do innovatively to encourage people to do more at that end of the market?

David Watt: There could be a role for further education colleges. In this country, we tend to educate people in silos, which is not necessarily helpful. When someone studies plumbing at an FE college, perhaps they should also study business. I know that some do that already, but it needs to be encouraged more.

On your second point, I was quoting an American economist, and we should not believe everything that they tell us. However, the point is still valid. Although people think that Britain is a good place to do business, it is not because of a

lack of legislation; it is because of our quality of life and the reliability, honesty and integrity that Scots in particular exude.

The competition with China is not just in the low-wage economy. China will become a high-wage economy in five, 10 or 15 years, and it will still be competing with us. Perhaps the low wages will move to other parts of the world. The situation is transitory, so we need to do what we can to make our economy better and easier to do business in.

I must tell you a story about an Institute of Directors member in Fife, although I know him from a different circumstance. This chap runs a small engineering business and employs 100 people. He tells me that he employs 10 people whose work does nothing to earn money for the business. They attend to health and safety, wages, national insurance, VAT collection and so on, so 10 per cent of his workforce just collect money for the state and comply with regulations. I am not saying for a minute that all the regulations are bad, but we need to be careful when we impose burdens on business. Fife does not have that many engineering businesses and it cannot afford to lose any more. If we can do anything to help that man in his business, we should do it, and if we are doing anything that burdens him unnecessarily, we should not be doing it. That is my point.

14:45

Andrew Watson: I would like to address some of the points that you have raised. I note from its submission that the STUC supports measures to make regulation clearer and easier to comply with, and I am sure that the STUC witnesses will tell you that themselves. However, it seems uncomfortable with some parts of the deregulation agenda. It seems to think that business is against employing more public servants to take that agenda forward.

At the moment, Scotland does not really have an agenda to cut regulation. In the European Union, the Commission has said that cutting regulation by 25 per cent would improve gross domestic product across the EU by 1 per cent, which could help Scotland to meet its target. Scotland is currently on course to fail to meet the Lisbon targets. Across the United Kingdom, the cost to business of implementing and complying with regulation was estimated at something like £40 billion by the Chancellor of the Exchequer, and that led to the creation of the Hampton report and the better regulation executive. In Scotland, however, we are not doing anything. There is the improving regulation in Scotland unit, of which I am sure Jim Wallace is aware, but that is two civil servants who can only advise on where regulation should be reduced. The unit has no power, and there does

not seem to be any clear commitment in Scotland to go ahead with the deregulation agenda.

Irene Oldfather: It is important to get the balance right, and I do not think that anyone would disagree that it is important to clarify and simplify regulations, where appropriate. However, I am conscious of the fact that we heard all the scaremongering stories about introducing the minimum wage, the social chapter and so on, and that is not something that I—or most people in business—want to go back on. It is about getting the balance right.

Andrew Watson: The FSB supported the introduction of a sensibly set minimum wage, so we have no problem with that. What we are concerned about are the above-inflation increases year on year and the ability of small businesses to absorb the cost of those increases. That is the view of small businesses.

On the wider point about regulation, our members are spending on average 28 hours a month dealing with regulation, which is about five times more expensive for an SME to administer than for a large company. If we are really serious about growing the Scottish economy and meeting the Lisbon targets, we must start cutting regulation on small businesses.

Mr Wallace: I want to follow up on Andrew Watson's point, because I am sure that he has thought about it a lot. Can you give us five examples of regulations that you would like the committee to recommend to the Executive should be scrapped?

Andrew Watson: I thought that you would come up with that. It is always an issue that we struggle with, because we have so many members in Scotland, and it is difficult for our members to stick their heads above the parapet and give us examples of the regulations that they would like to get rid of. I am sure that there are many more than five. We are commissioning research into some of the regulations that we would like to get rid of. It is not necessarily about specific, individual regulations. Often, it is about the cumulative effect of regulations. I am sure that the leader of the Liberal Democrats would be happy to say more about that, based on the pre-manifesto submission that he sent to our organisation.

The Convener: Before I bring Gerry Edwards in, I note that the subject is exercising committee members greatly, so I shall ask Bruce Crawford to confine his question to fewer than 12 words. However, I shall indulge Gordon Jackson.

Bruce Crawford: We should ask everyone who tells us about regulation to step up to the plate and tell us what they want to be changed. There is no point in coming along and talking about regulations without giving us concrete examples. It

is nice to understand the concept and the feeling, but we need concrete examples of things that we can change or advise Westminster to change. I am sorry to go on for so long, convener.

The Convener: I should think so too. We shall hear from Gerry Edwards, then from Niall Stuart, and then Gordon Jackson can ask the great big important questions of the day to round us off.

Gordon Jackson (Glasgow Govan) (Lab): I have been waiting so long that I have forgotten what I was going to ask.

Gerry Edwards: My only comment is that the issue needs to be juxtaposed with our earlier discussion on how we can make it easier for people to go into business, such as by starting up their own plumbing business. The feedback that we hear from people is, "If I ran my own small business, I would be required to take care of all the regulations to do with health and safety, VAT, the working time directive and so on. Why would I do that? It is just not worth it. I will go and work for a big company that takes care of all that."

The balance that my colleagues and I ask the committee to think about is that start-ups require entrepreneurial behaviour—by definition, that means thinking differently, so we should not think that one size fits all—and there will be some threshold beyond which regulation will have an impact. I cannot sit here and honestly say that regulation is my biggest headache but, if I wanted to start up my own small business, I would think twice because of what it involves. I ask the committee to think about that balance. If we impose too much regulation, when a one-man business tries to expand, the businessman will find that he suddenly has all these regulations on his plate once the business gets over a certain threshold.

Having mentioned a few regulations that would be worth considering, I also highlight the fact that the minimum wage will begin to have an effect as it increases. The minimum wage has been increasing at 6 per cent a year. If it continues to increase at that rate, we will have problems with differentials in the workplace. There are already rumblings, as people have seen what is happening to their wage differentials and they are asking for greater wage inflation. That problem will start hitting soon. Up until now, I grant you, the minimum wage has not been a big deal, and its introduction was the right thing to do. However, if regulation keeps imposing wage rises, we will need to think about the effects that they will have, especially on small guys who employ one, two, three or perhaps 10 people. We are putting a big burden on people if they need to find another 6 per cent of their wage bill because of an increase that has been imposed on them.

The Convener: Has Niall Stuart come up with five regulations for Jim Wallace?

Niall Stuart: I have been scribbling away.

When businesses have an inherent understanding of the objectives of regulations, see the sense of them, know how they work and see that they work well, businesses genuinely have no problem with them. Businesses get frustrated when, for example, their application for planning permission does not receive a response until two months later and the response says simply that they will need to speak to the roads department because the proposal will have implications for local transport management or that there are issues with Scottish Water.

The administration of debt collection is another issue. If an employee has a bad debt, the business is required to take time going through the pay-as-you-earn system and removing the money from the employee's wages so that it can be sent to the debt collectors. The business is required to do that even though it is a completely unrelated third party in the transaction.

Licensing regulations are also an issue. Taxis are sometimes taken off the road for fairly trivial matters. Again, people understand that they cannot drive around in a taxi cab that is a threat to health and safety or is not fit for purpose. However, when people are told that they cannot put up a small advert for their own taxi firm in their own cab, they ask why not.

Building standards is another issue. Why do City of Edinburgh Council's building standards people take two months to process things that take West Lothian Council only two weeks?

Why do the Scottish Environment Protection Agency, environmental health departments and trading standards departments all ask repeatedly for the same information on different forms rather than ask for it on the same form?

Let me give one more example. Why are small businesses excluded from all the investment that has been made in Scotland's recycling network? Although a small business might throw away only cardboard, paper, polythene and glass—for which there is a separate collection for the households in the same street—the recycling lorry will drive past the small business. Businesses are given a separate 5 o'clock collection, for which everything is required to be in the one bag that is then chucked to landfill. Businesses are required to pay a premium landfill tax because of the pressure on landfill space that is pushing up waste disposal costs. However, exactly the same waste streams from households are dealt with in a different way. Businesses get frustrated when aspects of common sense are not applied.

The Convener: Thank you. That was really interesting. Some of those regulations will be picked up in Jim Wallace's inquiry into the better regulation agenda and the transposition and implementation of EU directives.

Mr Wallace: None of them was a European regulation.

The Convener: That is true. However, I think that Niall Stuart has now found one.

Niall Stuart: I deliberately did not mention any European regulations, as I wanted to highlight regulations that are devolved to the Scottish Parliament. I did not want to be told that the obvious answer was that the regulation came from Westminster. If the committee wants me to mention another half dozen regulations, I am happy to do so by e-mail.

Phil Gallie: Social chapter issues are European issues.

The Convener: Phil Gallie would spend the next hour talking about such things if we allowed him.

This has been such an interesting evidence-taking session. Gordon Jackson has been sitting patiently for the past 30 minutes. Has he remembered his question?

Gordon Jackson: I have, but I am slightly hesitant about asking it. I had wanted to ask about something that interested me while we were talking about universities, but let me go back to that subject anyway.

Gerry Edwards talked about the difficulty he has getting universities to tie in, but Niall Stuart seemed to be talking about the other side of that coin and—to use the word Niall used—barriers to academics starting their own businesses. I wonder what you mean by barriers. Obviously, sometimes it will be a choice rather than a barrier—not everybody wants to be a businessman. Someone could be an academic and have brilliant ideas, but they would prefer to put on their sports jacket and brogues and go up to the university every day. I see a barrier as something that prevents academics from entering business and as something that we can remove. I am trying to tease out what you mean by a barrier.

Niall Stuart: Departments within universities and academics within departments are all judged by the research assessment exercise, which grades universities according to their level of research and how distinguished and cutting edge that research is. If I am the principal of a university, the best way in which I can get prestige for my university is by making it a cutting-edge research institution. However, what if one of my best staff, who heads up a department that is leading cutting-edge research that is gaining maximum points through the RAE, asks me

whether there is any chance they can go on secondment for three years because they quite fancy setting up their own business? That is a difficult decision for the manager, because he knows that that will threaten the status of the university according to the RAE. The university will lose points, and if it loses points it potentially loses funding and prestige. If it loses prestige, it runs the risk of not attracting the same number of students, which has a knock-on effect on university finance.

What I am interested in exploring is how we create a mechanism that gives university staff the flexibility to go away and do other things without it having a negative impact on their careers or on their institutions as a result of points lost in the RAE.

Gordon Jackson: For all I know, that could be a theoretical position. Are you conscious of people who have wanted to set up a spin-off business but have been unable to do so? We all know about people who have been able to. There are very successful spin-offs from bioresearch and so on. What is your solution? Universities exist for a particular purpose. I find it difficult to fault a university principal for saying, "This is what I'm here for. This is a centre of excellence and I want it to stay that way. I do not want to become just a business." How would you deal with that? You have given me a problem but not much in the way of a solution.

Niall Stuart: The short answer to the first part of your question is no, no one has said to me, "I'd love to go away and start up a business, but I'm going to lose points through the research assessment exercise. It's going to impact on me, my career and the department." However, that is bound to be a factor in people's decisions and their motivation for what they do with their academic career and their research. As an academic, I am rewarded for publicising that research. I am not terribly well rewarded for commercialising it.

On the second part of your question, I think you have somehow to reward commercial expertise and commercial excellence within academic institutions, as well as research excellence.

Gordon Jackson: Who is the rewarder?

Niall Stuart: The Scottish Further and Higher Education Funding Council, the Economic and Social Research Council and the various other funding councils. I do not know the names of all the institutions. I am not saying that I have a concrete solution, but the issue is worth exploring. If we do not explore it, there will be no motivation for academics to pursue the commercial sector.

Gordon Jackson: I wish I had thought about that a couple of weeks ago when we had people here from the universities.

The Convener: There is nothing to stop us going back to previous witnesses and asking them to submit further written evidence.

Gordon Jackson: You may remember that we had a pile of extremely able university people here. I would like to ask them what they have to say about the evidence that we have just heard.

The Convener: We can do that.

One of you was talking about America earlier, where, from Government level, there is funding for research in universities and so on, and where there are ties with business.

15:00

Gerry Edwards: American universities market themselves much more to business. It was commented that 9 per cent of the R and D in our universities comes from industry. If they were set a target of getting that figure up to 20 per cent, I think that the universities would tend to bang on doors, find out what businesses throughout the country are doing and offer to help them. My business is in Greenock, and I have to go out and find out whether there is anything close to me.

A lot more can be done on that. American universities are more entrepreneurial about engaging with business than our academics are. I blame not the people, who are very clever, but the funding streams, because there is no money for academics in engaging with business.

David Watt: I should mention Interface, which has been set up recently and is designed to bring universities to industry. Interface should do a bit more of the facilitation when somebody in industry is looking for a particular project. That is in its early stages, but the establishment of the organisation is a step in the right direction. However, the point is valid. The universities could face slightly more towards business in the same way that we do work in schools on creativity and entrepreneurship. We do not want to damage what is happening, but it would be valid to examine the focus.

The Convener: We will ask the university sector for further answers to Gordon Jackson's questions about barriers. We should also find out more about Interface. It is certainly new to me. I do not know whether other members are aware of it. Thank you for dropping that into the pot.

I thank all the witnesses for coming. It was a really interesting evidence-taking session and their evidence is much appreciated.

I suspend the meeting for two minutes while we change witnesses.

15:01

Meeting suspended.

15:04

On resuming—

The Convener: We move on to our second panel of witnesses. We have with us Stephen Boyd and Dave Moxham, who are both assistant secretaries of the Scottish Trades Union Congress; Linda Boyes from the Scottish Council Foundation, who, I understand, is the prosperity and work theme leader; and Dr David Silbergh, who is a senior lecturer in globalisation and public policy at the Caledonian business school, which is part of Glasgow Caledonian University—Dr Silbergh was running late, so I am glad that he managed to get here. On the end, we also have Philippa Bonella from the Equal Opportunities Commission Scotland.

I thank the witnesses for coming. I will not ask them to make opening statements, so I open the questioning up to committee members.

Dennis Canavan: From the previous witnesses, we heard allegations that there is too much regulation and legislation. In fact, one witness quoted somebody as claiming that the European Union is legislating itself out of existence and therefore will be unable to compete with the rest of the world. Is there a case not only for existing legislation and regulation, but for more such regulation and legislation to ensure greater respect for women's and workers' rights while, at the same time, improving our economic performance in line with the Lisbon agenda?

Stephen Boyd (Scottish Trades Union Congress): I am conscious that we will be back before the committee to talk about regulation on 16 January, so I will try to be brief, although we would be happy to talk about the issue all day.

I suggest that Europe is competing well against America, China and India at the moment. If we compare and contrast Europe's export performance with the USA's, Europe knocks the USA into a cocked hat.

I do not know that it is always helpful to talk about a need for more or less regulation. We concur with the employer organisations in that both sides aspire to better regulation. That will sometimes mean more regulation, but sometimes something might require simplification. I suggest that Christmas club contributions could benefit from more regulation, and the STUC certainly

believes that there is room to increase employment protection regulation in certain areas.

The debate about regulation suffers from two main problems. The first is that there is a fundamental lack of clarity about what we are discussing, because we conflate legislation, health and safety enforcement, employment protection regulation and product market regulation. Very different issues are wrapped up in those areas, but they are conflated under the usual monikers of red tape or business burdens, which is entirely unhelpful.

The second problem is that there is a fundamental disconnect between the assumptions that underpin much of the public policy debate and the evidential base. Regulation can be measured. There has been a lot of empirical work on that and, as I hope is reflected in our written submission, the UK consistently scores highly on the ease of doing business. I must disagree with the comments that David Watt from the IOD made. The World Bank's ease of doing business index is a composite empirical measure of matters such as taxation and regulation and is well understood. I have some concerns about the UK being sixth out of 155 countries, but that is where it is, so Scotland's underperformance—if that is what one wants to call it—is not attributable to regulation.

If we aspire to fair and equal pay, healthy and safe workplaces and truly sustainable economic development, we need a sufficient level of effective regulation. It is not always entirely helpful to talk about a need for more or less regulation.

Philippa Bonella (Equal Opportunities Commission Scotland): There are certainly issues about how regulation is managed and about the bureaucracy around it, which can always be improved.

Our submission mentions the gender equality duty that will come into force for the public sector in a few months' time. That duty will not place any new regulations on public bodies by giving women and men new rights in employment or service delivery, but it will set out new ways of ensuring that public bodies do what they should already be doing to ensure that they are fair to women and men in delivering public services and employing people. However, that will leave a big hole in the regulation of the private sector's employment functions, which we are concerned about.

It might be that, over time, the public sector will very much welcome the new duty, which I hope will lead to better public services. We have to recognise that there will also be better employment relations if we tackle the big public sector issues such as equal pay. However, if that does not happen in the private sector too, there will be a widening employment gap between public

and private sector workers, which would be a real shame.

The Convener: It is obvious that women are underutilised in all aspects of business. Have sufficient measures been put in place to try to address those problems?

Philippa Bonella: The Sex Discrimination Act 1975 and Equal Pay Act 1970 have both been in existence for more than 30 years, as has the Equal Opportunities Commission, and yet we still have a significant pay gap in Scotland and minimal numbers of women in senior positions in the public and private sectors, the media and elsewhere. If we consider those issues together with a range of other indicators, we see clearly that we are not moving as quickly as people expected we would back in the 1970s. There are lots of reasons for that, such as the assumptions that girls and boys make at very young ages and the way in which those assumptions are perpetuated by our culture. However, another reason is the way in which people are employed and educated, and we can do something about that through public policy.

Dave Moxham (Scottish Trades Union Congress): The STUC is strongly of the view that organisations of a certain size should undertake mandatory pay audits. Although we have not yet achieved agreement for that at Westminster level, we continue to support that aim.

Dr David Silbergh (Glasgow Caledonian University): I know that the committee has looked at the example of Denmark, the evidence from which suggests that regulation in itself is not necessarily a big barrier to employment and economic growth. According to the European Commission, Denmark has the highest employment rate in the union this year. Its economy is known to have more regulation than ours, yet it is also very productive and the improvements in productivity that it has managed to make more than outstrip any increased costs imposed by higher labour costs or extra regulation.

Linda Boyes and I have looked at a wide range of indicators and no matter which way we compare Denmark to Scotland and, sometimes, the UK, it appears to outperform us, whether we look at hard indicators, such as those to do with the Organisation for Economic Co-operation and Development and figures for productivity per hour, or soft, quality-of-life indicators. We have looked at a host of indicators and always get the same ranking, with Denmark outperforming Scotland and the UK, despite more regulation and high labour costs there.

The Convener: Is that to do with the simplicity of regulation?

Dr Silbergh: It is to do with the consistency and effectiveness of regulation.

Phil Gallie: I would be interested to have some follow-up information about Denmark. The explanation can come down to only two things: better people, or less governance in other areas. I wonder what the public sector to private sector ratio is in Denmark.

The IOD witnesses commented earlier on equal pay. What are the STUC's views on the minimum wage and the fact that workforces guard jealously the differentials between lower and higher paid employees? Does the minimum wage reduce those differentials? If not, will wage bills go through the roof and make us unable to compete?

15:15

Dave Moxham: You will not be surprised to hear that we do not believe that the minimum wage has yet reached a point at which it causes economic difficulties; indeed, we believe that it should be increased further.

I felt that there was a bit of a disconnect between the first and second parts of your discussion with the first panel. At the beginning of the discussion, the panel concentrated on entrepreneurship and high-quality start-ups but, at the end of the discussion, we were hearing that the real problem was that paying someone £5.35 an hour would affect differentials. Encouraging lots of low-skill start-ups was not one of the ideas in "A Smart, Successful Scotland".

Phil Gallie: I should point out that it was stated that, at the levels that the minimum wage had started off at, it had had no detrimental effect. The concern was that, if it continues to rise at the rate at which it has been rising, it will create problems with regard to the wage differential.

Dave Moxham: I suppose that there is a point at which that could happen—what that point is would be a matter for debate. For instance, it is interesting to note that, as a result of recent age discrimination legislation, supermarkets such as Asda have decided to equalise some wages and get rid of some of their differentials that related to employees' ages. There is a recognition in industry that, sometimes, you have to pay the right rate for the job.

Stephen Boyd: I would like to suggest two other reasons for Denmark's success. Denmark's post-second world war social-democratic consensus allowed sustained and regular investment in the people and I think that the country has reaped the benefits of that. Further, the quality of Denmark's labour-market institutions is vital. The level or the type of regulation is not the issue as much as how that regulation is formulated and the extent of buy-in from the social partners. Countries that have strong labour-market institutions can see the benefit of that approach.

Bruce Crawford: The paper on Denmark that has been prepared for us by the Scottish Parliament information centre says that the country has set some challenging targets for the future, such as tightening the requirements for jobs for immigrants who receive benefits, lowering the average age for finishing tertiary education, reducing absence due to illness and increasing the average retirement age. I think that those targets show that the Danes are moving into areas that are different from the ones that they were in previously. Which of those targets do you support? What is your perspective on the direction in which Denmark is heading?

Linda Boyes (Scottish Council Foundation): I spent a week in Denmark in August, speaking to social partners and people in Government about some of those issues.

Denmark's public-private split is similar to ours. There is also a strong focus on efficiencies in public services, and a lot of public sector reform is being done, which we are also doing. Agreements are reached in the public and private sectors through social partnership agreements, rather than legislation; only when those do not work is legislation used. Employers and trade unions agree working conditions, employment rules and so on at the workplace level. There is a consensus in most workplaces across the country. I spoke to the employers federations and the trade unions, all of which told me that there were close working partnerships. All of them work closely with Government. The Government stepped in only when smaller businesses that were not covered by the collective agreements seemed to be disadvantaged. In the main, however, it let the marketplace take care of itself.

On immigrants, it is important to remember that Denmark has not opened its borders to accession-state migrants in the same way that we have. However, between now and 2010, Denmark is considering a strong programme of inward migration because unemployment is low, the workforce is aging in the same way that ours is and there is a struggle to get skilled employees, which is something that some Scottish companies are finding as well.

On absence management, Denmark has a programme that allows people to work part time and to receive part-time sickness benefit, which recognises that some people who have illnesses or disabilities cannot go straight from sickness benefit into full-time work and that there has to be a bridge between the two. If someone can work at only 40 per cent capacity in the workplace, the other 60 per cent of their wage can be made up from welfare.

Denmark is also considering ways of intervening quickly when people go on to welfare or sickness

benefit so that they can get back to work quickly. One of the projects that we looked at dealt with people with back complaints and involved physiotherapists and occupational therapists being brought in. The medical and social aspects of what is needed to get people back into employment quite quickly are rolled up into one package. The approach is tailored to meet the needs of each individual.

Denmark is also considering raising the retirement age between now and 2020. There is an issue of culture, as most people retire at between 60 and 62, and very few people work past the age of 62. That started in the 1970s and 1980s, when older people were advised and encouraged to leave the workforce early, because Denmark was trying to create a market for younger people moving into employment. That has now become a problem, because people expect to leave employment in their early 60s. Attempts are being made to encourage people to stay on longer. The Prime Minister and the Minister for Consumer and Family Affairs have been trying to encourage businesses to take on older workers. When I was in Denmark, the phrase "grey gold" was used with reference to older people. Denmark is encouraging more people to stay on longer in the workplace and encouraging more employers to think about employing the over-50s and over-55s. It is trying to create a different culture and way of doing things. When making comparisons, we must recognise that underlying issues of that sort are important.

Dr Silbergh: Denmark has managed skilfully to combine aspects of capitalist practice with aspects of welfare practice. It has succeeded in managing the labour market actively and is much better than we are at encouraging low-skilled people into work and keeping them in work. At the same time, businesses are still able, if they wish, to dispense with people's services. It is not the case that employees are there for ever and a day and cannot be got rid of. However, if someone loses their job they are paid a high level of benefit for a very short period, rather than a low level of benefit for a very long period, and there is active intervention by the state to help them back into work. Denmark has done well in that area and should be proud of what it has achieved. Interestingly, it does not do quite as well as Scotland at the top end of the skill agenda—it probably has fewer university graduates than we have. However, its successes at the lower end of the labour skill market are considerable.

The Convener: Would Dave Moxham like to comment on how Denmark has achieved management of the labour market? Everything that I and others have heard suggests that it has been done successfully and that unions and employers are happy. Is that your perspective?

Dave Moxham: It is our perspective on Denmark and the nordic model more generally. David Silbergh was right to refer to the high level of welfare support that underpins what Denmark does. Clearly, that is not the case here. In Denmark, levels of benefit are about double those that are enjoyed in the United Kingdom and, therefore, Scotland. We would emphasise the role that trade unions could play here. There is scope through workforce plus, the Scottish Executive's employability strategy, which we broadly support, for the trade unions to play an enhanced role. The problem seems to be resource levels. In Denmark, around 2 per cent of funding is allocated to occupational health support in work, but here the figure is more like 0.5 per cent. In Denmark there is a high level of support for flexible and family-friendly working, which makes it much easier to manage the active programmes that are run to promote employability.

Philippa Bonella: I do not have anything useful to add about Denmark, but here in Scotland an increasingly big issue is the impact of caring responsibilities on people's working lives. In workforce plus, the Executive's new employability strategy, the issue of caring is mentioned only with reference to a small problem group of women who are lone parents.

However, beyond that group, a large number of people in Scotland are trying to juggle caring responsibilities, either for children or older people, with work. The number will only increase. If we are looking at how we manage our workforce now and in the future, one of the biggest questions that we have to answer is how we manage that juggling of caring responsibilities, how we ensure that women and men are able to make choices that enable them to balance work, their family lives and looking after friends and relatives and how the state can intervene to help.

Irene Oldfather: It seems to me that one of the defining social indicators in Denmark is the high-quality child care that is available to women. Do the witnesses feel that that might have an impact?

The STUC submission suggests that it would like more social indicators in the Lisbon process. I make no bones about the fact that I am very much in favour of a strong European social model, but I wonder how we can get the right indicators. Social factors are notoriously difficult to measure. It is hard to get consistency, uniformity and continuity across member states. We tend to concentrate on indicators such as GDP, unemployment and so on because those measures are uniform across the member states. We should encourage people to collect statistics on social indicators, but planning for that must be done years ahead, as there is a long lead-in time. Is there any movement with the European Trade Union Confederation to ensure

that we start to talk now about the indicators that we should build into the process? For example, is child care the kind of issue that we should be considering?

Philippa Bonella made the important point that the issue is not only about child care; it is about women and men nowadays having increasing responsibility for older parents.

Stephen Boyd: The issue is interesting, but unfortunately there are no easy answers. Everyone is currently grappling with the range of available indicators and considering how they can be built on. A number of programmes have been taken forward in relation to the human development index and so on, which seek to build on GDP. The programmes go so far, but we tend to come back to GDP growth because it is a necessary, if not sufficient, condition for a better society. Our stance is that we very much look forward to working with others on developing such indicators. It is important that there is broad ownership of the indicators and that people have bought into the agenda.

Irene Oldfather's suggestion that child care could be one indicator is fair. Other indicators that could be used include lifelong learning in the workforce and wage levels rather than just the rate of employment. A range of factors could be taken into account. We do not have a specific position on the issue, but we are considering it closely.

Linda Boyes: The use of social indicators is a great idea. Too often, we concentrate on figures that mean nothing. It is necessary to get underneath the figures and establish what they mean in reality. An employment rate of 70, 80 or 90 per cent is fine, but what does that mean in relation to the jobs that people have, the quality of their working life and the quality of their life outside work? It would be terrific to get underneath some of the targets and put in something meaningful.

On child care in Denmark, I was surprised to learn that more than 80 per cent of women in Denmark work full time. Very few women work part time. Having affordable and appropriate child care available for all was part and parcel of the programme to get more women into employment.

At the other end of the scale, it also surprised me that in Denmark care for the elderly is a state concern rather than a family concern. The state has most of the responsibility for elder care, whereas we see it as a family responsibility—or at least, responsibility is split between families and the state. Denmark is now trying to shift the responsibility between state and family in elder care. That will be a big issue.

Carers Scotland and other organisations are doing a lot to consider how we can address workplace flexibility to help carers manage child

care, elder care and their working lives more generally. However, more must be done faster before we can see a return on such initiatives.

Dave Moxham: I will suggest an indicator that could be finessed. The committee will be aware that Scotland sits quite well on the current indicator for employment activity. However, there are a number of ways in which the position can improve without necessarily proving that supply-side measures are working. For example, a large number of those in the cohort who took up incapacity benefit in the 1980s are due to come off it because of their age. While that will help, it will not necessarily prove that supply-side policies are working.

The STUC thinks that we need to look closely at how the people who re-enter the workplace after having been on incapacity benefit are retained and at what they do next. It is widely agreed that better tracking of those people will be needed, to give us a clearer idea about which elements of supply-side labour policy are working.

15:30

Philippa Bonella: Linda Boyes touched on this. Big, global figures are often unhelpful. The number of people in employment in Scotland is great, but there seems to be a disconnect between women, who largely work part time and are doing so in increasing numbers, and men, who are working longer and longer hours to earn the extra money that the women are not earning because they are choosing to work part time. It is obvious that choice about how to organise one's family life is important and that it is not for public policy to intervene in such matters. However, something is going wrong if the vast majority of men work long hours and the vast majority of women work part time. How the state intervenes in that regard will make a big difference to the quality of jobs as well as to how we attract more women into the labour market and keep people in the workplace for longer.

The Convener: When we took evidence at our meeting two weeks ago, I suggested to the panel that private businesses in our country are reluctant to spend a sufficient proportion of their income on research and development. The STUC makes the same point in its submission. Why is there insufficient investment in R and D? After witnesses from the STUC have responded, perhaps David Silbergh will talk about how other countries deal with R and D.

Stephen Boyd: I read the evidence that Scottish Enterprise gave to the committee a few weeks ago. The discussion was valuable and I agreed with much of what the witnesses said. Much of the disparity in R and D spend is to do

with the industrial structure, but we cannot overlook the fact that much is also to do with the unfortunate fact that short-termism is endemic in industry. Financial backers look for quick returns from their investments. In other countries, industry is financed in ways that allow companies to grow with the long term in mind, but in the UK the short term is very much at the forefront of the approach. Short-termism militates against R and D expenditure, which is a long-term investment.

The problem is difficult to overcome. The TUC has been considering legislative approaches that might change corporate behaviour, but although legislation might help around the margins, we need a fundamental culture change. We must all consider how we can bring about such a culture change.

At that committee meeting, Charlie Woods and Janet Brown from Scottish Enterprise were keen to talk about not just R and D but innovation in general. We have been promoting such an approach for some time. For example, we are keen to promote innovative employment practices. Some of Scotland's successful companies—particularly manufacturing companies—have managed to invest in a global environment that seems to work against big investments in manufacturing in Scotland. Companies such as Rolls-Royce and Diageo have taken a wide view of innovation and have addressed their working practices in that context. They have been particularly innovative in the field of organisational change. Both companies are unionised and work closely with staff through the unions, to secure staff buy-in.

R and D is an issue, and endemic short-termism militates against high-level spend, but we need to open up the agenda and consider innovation in its wider sense.

Phil Gallie: Gerry Edwards said that businesses are keen to invest and to work with universities, but universities do not seem to want to go down that line. Is that a factor?

Stephen Boyd: That is not an area in which I have a great deal of expertise. From my dealings with university staff over the past two or three years, I have found that there is a great willingness among many researchers to work with business. Both parties have a lot more to do in that regard, but the issue is of marginal significance to increasing our levels of research and development spend. The quick returns that investors seek from their investments are the key issue.

The Convener: Last week I spoke to a representative of an international manufacturing company that has a factory in Scotland, who told me with great pride that the company invested

more than 10 per cent in R and D. However, it turned out that that was all spent at parent company level in Austria. Is that an issue?

David Silbergh: A variety of things are going on. Investment in research is good in the public sector in Scotland—I believe that it amounts to around £700 million per annum. About five sevenths of that comes through the universities and the rest through other forms of public research institution. The private R and D spend is about £500 million. In other words, the majority of research investment in this country comes from the public sector.

It is difficult to say why that is. I have no express expertise in that area, although the fact that I work in a university setting means that I can comment on matters from that perspective. I was interested that the most recent set of smart, successful Scotland progress indicators suggested that, per million of population, Scotland is among the best countries in the world for academic spin-outs. Its performance is far better than that of the UK as a whole and that of Canada and far, far better than that of the United States. That would tend to suggest that the universities might not be doing quite as badly as some people claim. Indeed, the Scottish Further and Higher Education Funding Council is pushing a strong knowledge-transfer agenda and, from where I sit, the funding council and the universities appear to be taking the issue fairly seriously.

Scottish Enterprise and the business sector are also pushing a knowledge-transfer agenda, but I do not feel competent to comment on that because most of my knowledge-transfer work is undertaken with public bodies as a consequence of my academic interest. There has certainly been a considerable growth in such activity in recent years, especially over the past five to 10 years.

Bruce Crawford: I have a follow-up to the convener's point about R and D spend being confined to a company's Austrian headquarters. If my stats are right, 15 years ago Scotland had more than 100 headquartered companies, but it now has only about 19. It is my understanding that there is a strong link between having headquartered companies in Scotland and R and D spend here. Do you share that view? If such a link exists, what can we do to encourage more companies to set up their headquarters in Scotland and thereby ensure that business R and D spend is increased?

Stephen Boyd: It has been demonstrated that there is empirical evidence of such a link. I do not have the research to hand, but the link between having headquartered companies in Scotland and R and D spend is clear, for reasons that are quite apparent.

What can we do to attract more Scotland-headquartered companies? In general, the public policy framework that we have at the moment is correct, but it must be implemented with a great deal more vigour than has been the case to date. The road that is set out in "A Smart, Successful Scotland" is essentially correct. Our problem is not necessarily about attracting more companies in; it is about retaining the ones that we have, as the Scottish Power situation shows. The simple fact of the matter is that it is far easier for foreign-owned companies to buy UK companies than vice versa. Because of all the hoops that Scottish Power had to jump through, it took it about five years to buy its American subsidiary. I am being careful not to promote a protectionist agenda. We must react to globalisation, but a more level playing field for corporate buy-outs is now required.

Bruce Crawford: Globalisation is obviously something that we all need to tackle.

As Phil Gallie mentioned, a reduction in corporation tax is being argued for in Northern Ireland. The question is whether such a measure would help to encourage companies to have headquarters in Scotland. Does the UK need to take a more flexible approach to corporation tax? Would it help us to retain what we have and build for the future? Perhaps David Silbergh or others who are interested would like to comment on that.

Stephen Boyd: I will comment first. What is happening in Ireland is interesting. Phil Gallie's earlier question implied that Ireland's recent economic success is founded on its low rates of corporation tax but I do not accept that representation of what has happened there. I believe that Ireland's economic success stems from the 1987 social partnership that brought together unions, employers and Government and created a national consensus in pursuit of growth that would be shared equitably among the population. The partnership allowed everyone to buy into that agenda. The country then benefited from prodigious amounts of EU spending. There was good old-fashioned demand-side stimulus and Ireland also had a massive pool of highly educated labour. Those were the most important factors. There is an argument to be had about the rate of corporation tax and whether it has helped businesses in Ireland to embed, but I do not believe that it was the stimulus for Ireland's recent success.

Given the nature of the rather strange border between Northern Ireland and the south, it is easy to understand why companies on the north side of the border want their rates of corporation tax to be equal to those in the south. That argument does not necessarily transfer directly to Scotland, which is in a far more complex situation. Companies invest for a range of reasons. The current key

factor for Scotland is the macroeconomic stability from which it benefits. The labour market and the good supply of skills that we have are also crucial. The regulatory and fiscal environment is another factor that counts, but it is one among many.

The Convener: I am aware of the time, so I shall bring in Jim Wallace to ask the final question of the panel, then ask David Silbergh to answer both points that have been made before I give everyone else a chance to wind up.

Mr Wallace: I am conscious that the STUC's evidence refers to regional inequalities in Scotland. The global totals for Scotland sometimes show that we are performing quite competitively in respect of employment. Will the witnesses say something about the extent to which the Lisbon agenda does not pick that up and about what might be done about it? Philippa Bonella in particular might want to say something about that and about whether gender disparities are noticeable in different parts of Scotland.

The Convener: We will start with David Silbergh, who will answer Bruce Crawford's and Jim Wallace's questions, then we will move along the panel for final comments.

Dr Silbergh: Flexible corporation tax is an interesting idea, but it might also run into trouble with the European Commission.

The Convener: Bruce Crawford is muttering again; what are you saying, Bruce? Please say it out loud.

Bruce Crawford: It already happens in other parts of Europe.

Dr Silbergh: Yes, it does, and there is always scope for derogations such as with the fresh talent initiative, immigration policy and so on. I suspect that flexible corporation tax might help Scotland in the short term, but I do not know whether it would in its own right sustain advantage in the longer term. Perhaps it will be more important to focus on skills levels, particularly the amount of low-skilled individuals.

That brings me to Jim Wallace's question. I agree completely that our biggest problem, which Denmark does not have to the same extent, is polarisation in the labour market. A range of factors act synergistically; inequality can be due to geography, income, gender, age, and educational attainment.

Recent figures from Ivan Turok at the University of Glasgow make for fascinating reading. They show regional patterns of employment in Scotland, and it is interesting to see that they are associated with how many low-skilled individuals live in a community or region, but are not particularly well connected to the number of university graduates. Glasgow has huge numbers of university

graduates but also has huge unemployment because of its large number of low-skilled people. On the other hand, although Dumfries and Galloway and the Borders have very low numbers of university graduates when compared with Glasgow or Edinburgh, they have already reached the UK's 80 per cent employment target. That suggests that the way to go is to follow the work that is being done in the likes of Denmark with people with lower skills. I propose that that is what we should do.

15:45

Linda Boyes: I was at a meeting last week at which someone asked one of Scotland's leading entrepreneurs about corporation tax. His answer was, "If all you're worrying about is 1p or 2p here or there in corporation tax, you've taken your eye off the ball." I thought that was an interesting answer.

We are talking about regional inequalities and earlier we talked about indicators and targets. We have to get beneath the global targets and strategies. In real terms, Scotland is doing well on many of the Lisbon agenda targets and on many targets that have been set elsewhere, but beneath that we find strong regional inequalities.

Glasgow, Edinburgh and Dundee are the key drivers of Scotland's economy at the moment, but on the peripheries of those cities drastic things are happening in health, education and employment. We have to raise the game throughout Scotland. We have talked about the Lisbon treaty and about raising attainment levels, but such inequalities have direct and indirect impacts on towns and cities across the country.

We have also talked about Scotland's aging population. Many places will have a very high proportion of older people, but many will not. To try to impose policies using a one-size-fits-all approach is a mistake. Each area has its own special requirements; to be effective in the long term, we have to tailor our policies. We have to consider all the indicators and try to raise the levels in some of our poorer areas. That would pay bigger dividends than work on some of the broader targets.

Dave Moxham: Workforce plus—the Scottish Executive's employability strategy—and the UK Government's cities strategy go some way towards acknowledging the need to deal with regional inequalities. It may not be on the public record yet, but it is open knowledge that the consortia that were set up to drive the strategies in the cities are very interested in the potential of public procurement. They are watching with interest the development of guidelines on the social potential of the procurement directives. We

will be encouraging them to keep their eyes on that.

Stephen Boyd: I want to go back to corporation tax. I have here *The Economist* from last week, which contains a fascinating table on the overall tax burdens on business in Organisation for Economic Co-operation and Development countries. Of the 25 countries that are listed, Ireland is second top—that is, it has the second-lowest tax burden. The UK is fifth. Unless you think that the currently marginal difference in the business rate poundage between Scotland and England makes a huge difference, the UK is competing well in terms of the overall tax burden. Austria has been mentioned; it is something like 20th in the table with almost double the tax burden of the UK. If companies are moving their headquarters from Scotland or elsewhere in the UK to Austria, other factors are obviously coming into play.

The centre for public policy for regions is currently working on what it calls old industrial areas in Europe. It has considered how Scotland's old industrial areas are competing against similar areas in Europe in terms of employment in manufacturing. It has found that, whereas Scotland's areas are competing very well in terms of gross domestic product, they are competing very poorly in terms of the number of jobs that are being created. In terms of the number of manufacturing jobs that have been lost, we are probably at the bottom of the pile. More research is being done to try to explain the disconnection between employment and GDP, but we are not doing well at creating jobs.

Other work is going on in the UK on employment in manufacturing. We can look at the Eurostat database to see whether the current orthodoxy that Europe has lost manufacturing jobs to China and India is necessarily correct. If we do so, we find that the UK has lost massive amounts of manufacturing jobs, but that a number of our competitor countries in western Europe have actually increased their manufacturing jobs. Those that have lost manufacturing jobs have done so at nothing like the rate that the UK has lost them.

The Convener: I must have a look at that table in *The Economist*. Before we move on to Philippa Bonella's comments, can you tell me whether the table also covers the effect of indirect taxation on regions in meeting markets, or is it purely about direct taxation?

Stephen Boyd: The table covers total tax burdens for business. The other factor that it includes is the time that is required for small companies to meet their tax obligations, which is also interesting. The current orthodoxy is that changes to the UK tax regime have left a huge burden on small businesses, but complying with

tax obligations takes some UK businesses less than a third of the time it takes similar businesses in the United States, which runs against the grain of that current orthodoxy.

Philippa Bonella: I would like to move from the regional to the local. We have done some research into local labour markets and the extent to which local culture makes a difference to who is employed, and to where and how. It is interesting to look at Scotland from that perspective. We found huge disparities in the size of the pay gap between men and women—for example, Aberdeen is much worse than other places. We also found some obvious results, such as the fact that it is much harder for women to find paid employment in rural areas. We found out a lot about culture. We have done some work on where minority ethnic women are employed in Scotland, and there are huge disparities among Glasgow, Edinburgh and Dundee about who works where, so it would be interesting to know why. It is suggested that hard quantitative targets that are driven by the centre will miss much of the complexity and make it harder to find solutions that work.

We are particularly concerned that hard targets often skew public funds. The employability strategies and other Executive projects are often focused on people who are closest to the labour market and on those whom we think are typical workers who should receive public money to get them back into the labour market. Women are often substantially disadvantaged by that—minority ethnic women in particular and disabled women even more so. Consideration is needed of how we ensure that our public funds are disbursed equitably to the people who can benefit from them.

The Convener: I thank the witnesses for appearing; it has been an extremely interesting meeting. We will continue to take evidence at our next meeting.

I suspend the meeting for a couple of minutes to allow the witnesses to leave.

15:53

Meeting suspended.

15:56

On resuming—

European Parliamentary Networks

The Convener: We now come to agenda item 2.

Phil Gallie: Can I make a point about this? During the suspension, we were discussing the fact that, although it is almost 4 o'clock, we have not got round to any real committee work other than the report. I suggest that, somewhere along the line, we find more time for the issues that the committee has registered concerns about in the past.

The Convener: I see your point, but the alternative is much longer or extra meetings, because we are up against deadlines. That choice is the committee's. If you feel that we require longer or extra meetings, let me know and it will be up for discussion.

Phil Gallie: I suggest reversing the agenda next time.

The Convener: When we are taking evidence, we have to give witnesses time to cover all the areas. If we keep meetings the same length and reverse the agenda, we might end up not taking the quality and quantity of evidence that is required.

Phil Gallie: I would not mind lengthening meetings, but I do not know whether that would be universally popular.

John Home Robertson (East Lothian) (Lab): Let us just get on with this meeting.

The Convener: Does the committee want me to put that point on the agenda for the next meeting?

John Home Robertson: No.

Irene Oldfather: No.

We are going to develop a legacy paper. Phil Gallie has a point about how we handle some agenda items, but we set ourselves a timetable on the Lisbon inquiry. If we had not had that, we would probably not be two hours into the meeting. Because of the elections next year and the Parliament going into purdah, we have set ourselves a tighter timetable than would otherwise have been necessary.

I generally agree with Phil's point—at this time of the day we do begin to flag a bit.

Mr Gordon: We need stronger coffee.

Irene Oldfather: Yes.

The Convener: I suggest that we move on. Two hours is not a terribly long time to expect people to sit at a meeting, so I suggest, if it came to it, that an extra hour would not be out of the way. Let us move on.

Our second agenda item is a paper, which the committee requested to go on the agenda, that details the various parliamentary and governmental networks in which the Scottish Parliament and Executive are involved. Its purpose is to update members on the variety of networks that exist and to gauge views on our engagement with them. The legacy paper has been mentioned. This paper will help to inform it. Do members have any comments?

Phil Gallie: At the risk of extending the meeting, I suggest that the value of each group is worthy of debate. To that extent, the paper is worthy of further consideration, but I am not sure how we do that. We should discuss every one of the bodies and assess its value.

John Home Robertson: Including the one of which you are a substitute member?

Phil Gallie: Including that one.

The Convener: That is right, Phil. One reason for bringing the issue up is our feeling that the committee is not as aware as it should be of the links that the Parliament and Executive have with Europe and the rest of the world. The paper is intended to inform our legacy paper on how the committee should proceed next session. It is valuable for that. I suspect that the next committee will want to ensure that it is kept aware of what is happening externally.

16:00

Bruce Crawford: Your point is entirely valid, convener. It is great that the paper has been produced. It notes what the organisations are, what they do and who their representatives are, but the outputs and outcomes of the discussions that are going on are missing. I do not want to make our legacy paper any bigger, but as this issue will form part of it in any case, I feel that we should suggest that the members who are attending to the matter—Irene Oldfather has done that constructively for us previously on the European Committee of the Regions—provide a written brief on where things are at on each of the activities. That way, we will understand a lot more about developments and where things are going, and there will be a mechanism for reporting back and for scrutiny of what happens in terms of members' interactivity, which will help to strengthen the whole process.

The Convener: That is fair enough. It is what we have agreed to do with the European members

information and liaison exchange network—EMILE—before the next meeting. It is an on-going issue, but the benefit of what we are doing now may not, unfortunately, be seen by members of this committee. It is something for the future.

Irene Oldfather: It is helpful for committee members to see this in writing and to note the contents of the paper. Parallel to that, we have had work programme discussions on how we monitor the bilateral agreements that exist between the Scottish Executive, the Scottish Parliament and some of the regions with which we have co-operation agreements. For example, the Scottish Executive has co-operation agreements with Tuscany, and we have had agreements with Sachsen-Anhalt through the network of regional parliamentary European committees. At some point, we have to examine the criteria that we use to set up those co-operation agreements and how we monitor any outputs from them. I really do not know what is going on with some of the co-operation agreements that the committee discussed about two years ago. That is something else that can go into the legacy paper.

In relation to the paper that is before us today, it is the Executive, not the Parliament, that is a member of some of the organisations named—for example, the Regleg group of regions with legislative power. The Conference of Peripheral Maritime Regions of Europe is an excellent organisation, but it is the Executive, not the Parliament, that is a member of that organisation. There is an annual fee, and the Parliament has never joined, although I get a lot of information about the CPMR through various other routes. The Parliament's membership of those organisations is something that perhaps the committee should consider.

I agree with what Bruce Crawford has said about an audit and report back. Some of that would have to be done by ministers coming to the committee so that we can interrogate them.

I would also like to make a point about paragraph 13 of the paper. The last sentence states:

"There is currently no member acting as the Scottish Parliament's alternate member."

It used to be Richard Lochhead.

Bruce Crawford: It is about to be Maureen Watt.

Irene Oldfather: I had not realised that there has been a resignation and a new appointment.

Phil Gallie: I would like to respond to Bruce Crawford's point about reporting back. I am a member of the Congress of Local and Regional Authorities of the Council of Europe, as can be seen from the paper. I have tried in the past to

make contact with ministers who are full members, but I have never got any feedback from them about whether they intend to go to meetings. I have found it useful to strike up a liaison with the local authority group in England that seems to control who attends and to decide when the alternates attend, and I have attended several meetings. I am not quite sure about the value of those meetings, but I have always submitted a report to the clerks of this committee and to the external liaison unit. I have never had any feedback on those reports; they are simply lying there.

I also raised the issue of reporting back when Jack McConnell was president of Regleg. I tried time and time again to get a report back from him about what happened at Regleg under his presidency, but we never got a report back from him, in the chamber or elsewhere.

The Convener: Everything that has been said reinforces the point that the committee is right to express its concern about these matters and its hope that a successor committee will take them up. You cannot hold people to account unless you have the right information. We will leave a good legacy if we raise that issue in our legacy paper. I hope that it will be taken up by our successor committee. I am sure that some current members will be members of our successor committee—as we discussed earlier, three are leaving the Parliament.

Mr Wallace: We are going to become plumbers.

The Convener: Can I book you now?

John Home Robertson: You could not afford it.

The Convener: I am so excited at the idea of getting a plumber that I have lost my train of thought.

We have no further points to make on the item, except that we feel that we were right to decide that the issue should be included in our legacy paper.

Irene Oldfather: Can we have a list of the bilateral agreements that exist? I have lost track of them. Jim Wallace will recall that we used to have an agreement on co-operation with the Czech Republic.

Mr Wallace: The agreement with the Czech Republic was a specific piece of work relating to structural funds in the run-up to Czech accession. We have had agreements with Catalonia, Tuscany and North Rhine-Westphalia.

Irene Oldfather: I believe that the Executive also supports a work experience programme for Polish civil servants.

The Convener: The discussion is getting more and more interesting. It reinforces the point that

we must know exactly what is going on. We have put on record our view that a list of agreements would be useful and should be kept up to date.

European Commission Work Programme 2006

16:06

The Convener: Item 3 on our agenda is consideration of the European Commission's work programme for 2006. We have a paper that tracks issues that the committee has previously identified. I take on board Phil Gallie's point about the lack of time that we give to those issues. Perhaps we should consider scheduling next month's meeting to finish at 5 rather than 4.

Irene Oldfather: I understand that this part of the agenda is prepared by the Scottish Parliament's European officer. Perhaps instead of dealing with the item at every meeting we should consider it at a business meeting. We could invite the European officer along to that meeting for questioning, which would allow us to pick up some of the points more directly and to give more time to them.

The Convener: The committee agreed to consider that possibility some time ago.

Irene Oldfather: Yes, but we have not done it.

The Convener: It is being actively encouraged. Members will recall that we tasked the European officer with devising a specific tracking mechanism that would allow us to track issues more easily. That piece of work is on-going.

Irene Oldfather: We recommended that the office be set up in 2003 and it is now 2006. If the work is still on-going, it would be good if we could get it up and running.

The Convener: It will be up and running. The committee has discussed the matter before. A timetable was laid out and the head of the committee office, Elizabeth Watson, put it to us that the system could not be up and running until the turn of the year.

Irene Oldfather: I do not recall that.

Jim Johnston (Clerk): I will update the committee on what is happening. As agreed, the European officer is carrying out an analysis of the Commission's work programme for 2007. The committee has agreed to consult on that programme. The European officer will provide an analysis of the key issues that the committee has identified, which will form the basis of the tracker for the period from January 2007 onwards. The information will be available to members and subject committees. It is an on-going process and we are looking to develop the structure of the committee's work.

Phil Gallie: I go along with what Irene Oldfather has said, but I would like to change the subject.

The Convener: Do any issues arise from the Commission's work programme?

Phil Gallie: The directive on the internal market for postal services gives someone who is sceptical about Europe cause for scepticism.

It appears that the UK has complied entirely with the objectives for the internal market for postal services, but that others have not—and that the Commission has failed to ask them to. UK involvement is likely to result in our losing even more services. This is all that is bad about Europe and it is something that we should perhaps try to do something about. I am not sure whether it is within the remit of the committee or whether it is a Westminster issue, but I am sure that even Irene Oldfather will feel extremely frustrated when she reads the section on the internal market for postal services, especially the last sentence:

"They also say the commission has done too little to ensure that national regulators are fully independent, and strong enough to enforce the new rules."

We have done it in the UK, but it has not been done elsewhere in Europe.

The Convener: Would anyone like to respond to what Mr Gallie has said?

John Home Robertson: I share his anxieties, but probably from a diametrically opposed perspective. There is a list of EU member states that are not fully compliant. Belgium is on it, for goodness' sake. If liberalisation of postal services means that the universal postal service in a small, densely populated country such as Belgium is going to be threatened, how on earth are we going to maintain it in Scotland? I agree with what Phil Gallie says, although I approach the matter from the opposite perspective.

Mr Wallace: I am not entirely sure what the second paragraph of the section means. It begins:

"The UK has been fully compliant with the strictures of the proposed Directive since 1 January 2006 (and will therefore be unaffected by the Directive itself)."

Does that mean that we have got full liberalisation and that, therefore, it does not matter that the others are arguing about it? Is that what that means?

The Convener: Yes. That is exactly what it means.

John Home Robertson: We are ahead of the game—or behind it, depending on how you look at it.

Bruce Crawford: We are ahead of the game, and it is putting us behind.

Phil Gallie: We are ahead of the game in a way that is detrimental to the UK.

John Home Robertson: It is detrimental to Scotland in particular.

The Convener: Yes. That was one of our issues—I think John Home Robertson raised it first—when we expressed concern about rural postal services. It was one of the reasons we wanted to ensure we got in at the beginning of things instead of at the end, when we would not have any real influence. We thought that if we were aware of its introduction right at the start, we might be able to influence the liberalisation process. That was one of the things the committee agreed on.

Irene Oldfather: I cannot take full credit for it, but the committee considered the matter some four or five years ago, when the directive was first proposed and there were issues about weights, sizes and so on. Along with other campaigners, we made submissions on the basis of which the Commission softened its approach in some ways. Members will notice that the details of the process have been left to member states. There was an argument about the weight of packages that postal services would carry, for example. The Commission took on board a lot of the comments that were made by groups in the United Kingdom, including the submission from the committee.

We were on the case about four years ago and gained some concessions that we felt would enable the UK to go forward with liberalisation as we recommended. Scottish and UK members of the European Parliament were active in the process at that time and gained several concessions. The problem is that there have been many changes to the membership of the committee. This is not a new issue.

John Home Robertson: No. This has been in the pipeline for a long time.

Phil Gallie: That might be the case, but the fact remains that the liberalisation has turned out badly for Scotland and the UK. Irrespective of the history of the process, what can we do now to overcome that? How can we ensure that there is balance? Are we totally ineffective? Is the UK totally ineffective?

Bruce Crawford: I understand that this has nothing to do with what the European Union has been doing. The European Union has been coat-tailing on what the UK Parliament has done. The UK has driven the liberalisation of the postal market in Europe, as it was there first. The existing competition directives have had to be followed, but the UK was there first.

The Convener: As the briefing paper states, the UK will be unaffected by the directive because it is

already compliant. So, in answer to Phil Gallie's question, there is nothing we can do.

Phil Gallie: Can we not get the Commission to enforce what has been agreed in Europe?

16:15

The Convener: With whom would there be enforcement?

Phil Gallie: I am talking about enforcing regulations to free up the market in nations in Europe that are obviously not compliant. It does not matter whether we initiate—

The Convener: The matter is reserved. The committee is telling me that we are taking too much time considering certain issues, but you want to sit here for half an hour and debate reserved matters that have been dealt with.

Phil Gallie: You are the ones who want a debate.

The Convener: One thing I adore about you, Phil, is your complete honesty. It is marvellous.

Mr Wallace: I hear what Phil Gallie is saying, but my understanding is that the United Kingdom is complying with a proposed directive. We are not talking about European law. The European Union cannot be blamed for imposing something on us that has already been done off our Westminster parliamentary bat. I am not sure why the Commission should be chastised for doing something that it has not done.

The Convener: Does Phil Gallie want to impose the directive on everyone else?

Phil Gallie: My impression was that the directive had already been implemented.

The Convener: I suggest that we move on. We could go all round the post offices with the matter for as long as members want to do so and have no influence whatsoever. Do members agree that we should move on?

Members indicated agreement.

The Convener: No member wants to raise any other issue under the agenda item. Good.

Pre and Post-council Scrutiny

16:16

The Convener: Agenda item 4 is our regular scrutiny of agendas and reports of Council of the European Union meetings. Do members have any issues to raise or comments to make on paper EU/S2/06/16/4?

Phil Gallie: We could spend from now until midnight on this paper, too. It is full of directives and regulations, although I acknowledge that deregulation is also involved. I would like to discuss virtually every topic in the paper, but I would not be too popular with my colleagues if I did so.

Mr Gordon: Hear, hear.

The Convener: You have the agreement of Charles Gordon.

Phil Gallie: I will make a couple of easy points. First, on employment and social policy, the paper mentions the proposed regulation of the European Parliament and of the Council establishing the European globalisation adjustment fund. Page 6 states that

"There are no peculiarly Scottish aspects"

to the matter. At our previous meeting, Irene Oldfather made an excellent presentation on the globalisation adjustment fund. Scotland would certainly be affected by proposals relating to that. Who said that

"There are no peculiarly Scottish aspects"?

Irene Oldfather: I noted that as well, Phil. For once, we agree.

Phil Gallie: There is unanimity between the two of us.

The Convener: Everyone supported Irene Oldfather's stance on the matter. We agreed to write to the UK Government about our concern that the proposals that she and her colleagues in the Committee of the Regions have made are not being taken up. I invite Irene Oldfather to respond to Phil Gallie.

Irene Oldfather: The European Parliament discussed the proposed regulation last week; I think that it agreed to around 50 amendments to it. Its thoughts are in line with ours.

I agree with Phil Gallie. The fund could have a major impact if we get the right threshold. It has been proposed that €15,000 will be available to individual workers in Scotland for upskilling and retraining. That money would have been quite a bonus in a number of areas over the past four or five years in particular. The fund is therefore important to Scotland. I underlined the phrase that

Phil Gallie quoted, but I suppose that the official who wrote the paper thought that the proposed regulation is important to the whole of the UK.

Phil Gallie: With the greatest respect to Irene Oldfather, she talked in that meeting about the relative sizes of businesses in the UK and in eastern Europe, which is significant. The disadvantages of what has been proposed have been pointed out.

The Convener: We have written to express our concern.

John Home Robertson: Under the same heading, item 5 is:

"Amended proposal for a Directive of the European Parliament and the Council on working conditions for temporary workers".

I am not sure how "temporary workers" is defined. Does it include seasonal workers? Again, the paragraph concludes:

"There are no specific Scottish aspects."

To be frank, however, there damned well are.

The Convener: I suggest that we get our European officer to check that and provide clarification.

John Home Robertson: The Scottish Agricultural Wages Board has a role in regulating the employment of seasonal workers and casual workers, but that is not being done well at the moment. It needs to be done better.

The Convener: Emma Berry has pointed out to me that the statement

"There are no specific Scottish aspects"

means that there is nothing that specifically affects Scotland as opposed to the UK. However, there is an opinion that there may well be specific Scottish aspects. We should find out about the definition of temporary workers.

Are there any further points?

Phil Gallie: I refer to page 7. I will do a wrap up—

John Home Robertson: I wish you would. Sorry.

Phil Gallie: We are here to discuss and analyse these things; I am afraid that I cannot let them pass.

I refer to the three proposals that are covered in items 8 to 10 on page 7. One of them might simplify things with respect to the working time directive, but the three proposals involve social services, pension rights and social security schemes. Who is checking what comes out of Europe on those things? Who is controlling them?

Why is Europe involved in such things, which to my mind are UK competencies?

The Convener: As they are UK matters—some would say unfortunately—the UK Government will certainly check them. I hope that, if there is anything specific to Scotland, our seven MEPs from the various parties will check them, too. The proposals do not come to us with no checks and balances. I am certain that other people are monitoring them.

Phil Gallie: I admire your confidence.

The Convener: If you do not have confidence in your colleagues—

Mr Wallace: If the matters are wholly reserved, I honestly do not think that they are matters for the Scottish Executive. The Scottish Parliament is free to discuss and take a view on anything it chooses, but we serve the people of Scotland better by dealing with European directives on matters for which we have responsibility rather than by agonising over directives on matters for which we have no responsibility. We have 59 members of the Westminster Parliament and 7 MEPs to deal with those directives and agonise over them on our behalf.

The Convener: And the European Scrutiny Committee, which sits at Westminster.

We are all getting narky now, so can we move on?

Phil Gallie: No. We have just been talking about the Lisbon agenda, to which we accepted we have an input. The Lisbon agenda talks about economic and social policies, and the proposals in items 8, 9 and 10 have a direct impact on the Lisbon agenda. Perhaps Jim Wallace is right, but perhaps we should not waste time talking about the Lisbon agenda if we do not have any input on social issues.

The Convener: We have input on social issues through other means. One of the proposals that you mention is about amending and simplifying things. Given our earlier conversation, we surely cannot have a problem with that.

John Home Robertson: Item 5 on page 11 is on fireworks. I think that the Scottish Executive is minded to improve controls over the sale of fireworks in Scotland, but the paper refers to

“guaranteeing their free circulation within the EU”.

The Convener: The Executive has already considered the matter and it is further examining it.

John Home Robertson: Yes. If there is to be a regulation that guarantees the free circulation of fireworks within the EU, perhaps we should be worried.

The Convener: Again, the paper states:

“There are no peculiarly Scottish aspects.”

However, for ease of mind we should write to the Executive and ask for its view. Do members agree?

Members indicated agreement.

Sift

Are members happy to refer the papers to the committees indicated?

Members *indicated agreement.*

Meeting closed at 16:25.

16:24

The Convener: Agenda item 5 is the sift of EC and EU documents and draft legislation. The sift document for today's meeting is quite small. Do members have any comments?

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