

# **EUROPEAN AND EXTERNAL RELATIONS COMMITTEE**

Tuesday 19 December 2006

Session 2

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## EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

18<sup>th</sup> 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

Derek Brownlee (South of Scotland) (Con)  
Marilyn Livingstone (Kirkcaldy) (Lab)  
Richard Lochhead (Moray) (SNP)  
Nora Radcliffe (Gordon) (LD)

\*attended

### THE FOLLOWING GAVE EVIDENCE:

Marion Dewar (European Commission Secretariat-General)  
Graeme Dickson (Scottish Executive Enterprise, Transport and Lifelong Learning Department)  
Ian Howie (Scottish Executive Enterprise, Transport and Lifelong Learning Department)  
John Ireland (Scottish Executive Enterprise, Transport and Lifelong Learning Department)  
Neil Mitchison (European Commission Office in Scotland)  
Nicol Stephen (Deputy First Minister and Minister for Enterprise and Lifelong Learning)

### CLERK TO THE COMMITTEE

Jim Johnston

### ASSISTANT CLERK

Emma Berry

### LOCATION

Committee Room 1



## Scottish Parliament

### European and External Relations Committee

*Tuesday 19 December 2006*

[THE CONVENER *opened the meeting at 14:01*]

### Items in Private

**The Convener (Linda Fabiani):** Good afternoon everyone and welcome to the 18<sup>th</sup> and final meeting this year of the European and External Relations Committee.

I have received apologies from Charlie Gordon, who has to attend the Edinburgh Airport Rail Link Bill Committee. I have also received apologies from Dennis Canavan and Gordon Jackson. John Home Robertson needs to attend the first 20 minutes or so of the Justice 2 Committee, but he will join us later. Irene Oldfather, unfortunately, is running late. That is why we are a very select small band this afternoon.

Item 1 is to consider whether to take items 7 and 8 in private. Under item 7, we will discuss which issues that have arisen during our inquiry into the strategy for growth and jobs should be included in our report. Under item 8, we will consider a paper from the clerk on our work programme. Are members agreed to take items 7 and 8 in private?

**Members** *indicated agreement.*

## European Commission Growth and Jobs Strategy Inquiry

14:02

**The Convener:** Item 2 is our inquiry into the European Commission's strategy for growth and jobs. In this final evidence session on the European Commission's strategy, we will hear from the Commission on the overall Lisbon process and the role of devolved regional authorities. Following that, we will have an opportunity to question the Deputy First Minister and Minister for Enterprise and Lifelong Learning on the issues raised in this and earlier sessions.

I welcome Marion Dewar, who works in the Lisbon unit at the Commission, and Neil Mitchison, who is the head of representation for the Commission in Scotland. Marion Dewar appears before us today just one week after putting together the Commission's annual progress report, which I am sure she will be asked about during the course of our questioning. I ask Marion to give us an outline of how that process has gone and perhaps say a few words about the report.

**Marion Dewar (European Commission Secretariat-General):** Let me start by saying how pleased and honoured I am to be here today. On a personal note, it is very special for me to appear in this Parliament, with which my dad was so closely associated, to talk about my work on the Lisbon strategy. This is a very nice occasion that brings a lot of things together for me.

Let me also say that everyone who works in the Lisbon team in the Commission is pleased that the Scottish Parliament is taking the Lisbon strategy seriously and conducting this inquiry. Parliaments are important to the strategy, both in their traditional role of holding Governments such as the Scottish Executive to account for their performance against Lisbon targets and, more generally, in raising awareness of the strategy among key stakeholders—if I can use that terrible phrase to describe all the important players, including consumer organisations, trade unions and employers. As a result, I am very pleased to be here today.

Given that the Commission adopted the report only last week, I thought that I would say something about what it contains. I understand that the committee wants to discuss the involvement of Scotland and other devolved regions in the process, but perhaps I could take questions on that after I have said something about the strategy.

The tone of this year's report is optimistic and confident. As you might know, the Lisbon strategy

was relaunched last year. Before that, there was a plethora of targets, processes and objectives. In 2005, the strategy was streamlined and refocused on jobs and growth and the number of targets was greatly reduced. Perhaps the most important innovation was the establishment of a new partnership between member states and the Commission, with a clear division of responsibilities between the two. For example, as you will know, member states now draw up three-year national reform programmes. This October, they produced the first progress reports on the implementation of the programmes that they drew up last year.

The Commission's perception is that the new structures and processes are bedding down and working well and that the various players are more or less fulfilling their roles. National co-ordinators have been appointed, many of them at a political level. Indeed, 17 member states have appointed Lisbon co-ordinators. Those are the so-called Mr or Mrs Lisbons who are in charge of driving the strategy forward and being a focal point in Government. I understand that you will hear from Scotland's Lisbon co-ordinator in the next evidence-taking session.

As I said, the general feeling is that the partnership is bedding down well and beginning to yield results. Europe's economy is experiencing an upturn; the growth figures are robust and, despite the expected downturn in the US economy, we expect growth to continue at or around trend over the next couple of years. The Commission believes that the reforms that have already been implemented under Lisbon are one factor—although not the only one—to explain the current upswing. In fact, some of the evidence that is emerging from the Commission's modelling illustrates that existing reforms are having an effect and that continuing reform would yield even greater results.

Less positively, the pace, commitment and intensity of reforms clearly differ among the member states. That is bad news, because any member state—or group of member states—that lags behind acts as a drag on the other states. Conversely, if a member state becomes increasingly prosperous, that is good for the other member states that are its major trading partners. Of course, the economies in the euro zone are even more closely connected and the cross-border spillovers are even greater.

Given that it is not good that some member states are reforming more slowly than others, the Commission is for the first time issuing what we call country-specific recommendations. I should correct myself: we are not issuing recommendations; we are proposing them. Under articles 99 and 128, I think, of the Treaty

Establishing the European Community, the Commission proposes recommendations and the Council of Ministers has to endorse them before they become valid. The Commission has chosen to propose country-specific recommendations to a number of member states this year.

There is greater progress in some policy areas than in others. We have seen good progress in budgetary sustainability, which remains a big challenge for most member states in view of the demographic changes that they all face, and there has been some very good work on improving the quality of the regulatory framework in a number of member states. There has also been some progress towards meeting research and development spending targets and in initial education and training.

The weakest area is competition, particularly in network industries, financial services and energy. Barriers to competition and market entry remain in those sectors in the member states, so that is the area in which we have spotted the greatest weaknesses. There is also a worryingly low level of adult participation in lifelong learning. Training is still focused too much on younger people and there is little participation in training among over-45s.

As we see it, the challenge now is to achieve a consistent pace of implementation across all the different policy areas that make up the Lisbon strategy. In theory at least, the way in which the strategy is now structured allows for synergies to be developed between the Community level and the national and sub-national levels, as well as between the different dimensions of economic policy—macroeconomic, microeconomic and employment policy. Because the Lisbon strategy encompasses all that, it provides in theory the perfect framework for encouraging synergies and minimising trade-offs.

That is happening to some extent but, if the pace of implementation were more even across all the different policy areas, synergies would be more likely to materialise. For example, if a member state increases its spending on research and development, it will get more for its money if its markets are functioning well, its workforce is well trained and its regulatory framework is appropriate because that will help the results of research and development to be translated into desirable products and services and will help the passage of those products and services to the marketplace. Reforms in one area strengthen and reinforce reforms in another and, for the full effect to occur, we need to ensure that policies are being implemented at roughly the same speed and the same intensity.

Those are the main points. We have the main communication, which is a political document, and

the individual country chapters, as they are known. The country chapters are drawn up on the basis of the progress reports that the member states provide to chart their progress on implementing their national reform programmes. The Commission also undertakes missions to the member states and quite a lot of detailed work goes on in compiling the country chapters and arriving at the country-specific recommendations, which are based on objective analysis and are not intended as reprimands. The Commission is not sitting there like a schoolmaster, separating the pupils into the good ones and the bad ones. The aim is to provide extra political impetus to reform by allowing the member states in the Council to decide together what an individual member state has to focus on. That is the purpose of the recommendations.

I will stop there, but I am very willing to answer questions about either the content of the strategy or the processes. I know that the committee is interested in Scotland's role in the strategy and I am happy to comment on that as well.

14:15

**The Convener:** Thank you, Marion. That was extremely interesting and it gave us a good outline of what has been happening.

**Mr Jim Wallace (Orkney) (LD):** It is a great pleasure to have Marion Dewar before us. I think that I speak on behalf of everyone here when I say that we appreciate the personal significance of today's meeting for her and our welcome to her is very warm indeed.

The annual progress report states:

"Devolved administrations in Scotland, Wales and Northern Ireland have ... been involved in preparing the Implementation Report ... The Implementation Report, like last year's NRP, shows a strong degree of internal coherence."

To what extent do you consider the sub-national level of input? Are you able to do that? Do you deliberately try to tease it out? Given your vantage point of being able to look at the reports that are supplied by other countries that have strong devolved Administrations, can you share with us anything that we can learn from their practices?

**Marion Dewar:** I have spoken already about the process of drawing up the country chapters. The United Kingdom has its own national reform programme and I understand that the devolved Administrations were consulted on that. This year, the UK provided its first progress report. A meeting was held in Brussels in September at which representatives of the devolved Administrations came together. I was not at that meeting, but I understand that it focused largely on how the UK's progress report could better reflect the different

realities in the different parts of the UK. The Treasury has always been willing to involve the devolved Administrations and they were more involved this year than they were last year.

As for other countries, the situation in Germany, as I understand it, is that representatives of the Bundesländer—I think that representatives of two of the Länder represent all of them—are involved in drafting the implementation report. Then, of course, the whole report is submitted to the Bundesrat. Of course, the constitutional arrangements in Germany are different from those in the UK, but I am just reporting to you that that is what they do in Germany.

In its national reform programme, the Spanish Government showed awareness of the need to involve the autonomous communities in Spain. It even called on them to appoint their own co-ordinators and draw up their own programmes, but I do not think that they have taken up the invitation.

The other relevant country is Belgium. Although I am based there, I am afraid that I do not know how the Belgians handle the matter.

The Commission's line is simple. We want the Lisbon strategy to work. That is the bottom line. That is our only interest. We recognise that, for that to happen, Scotland and other devolved—for want of a better word—regions have to be involved. In the case of the UK, if you look at the Lisbon strategy areas, you find a patchwork: some are devolved and others are not. I have been using terrible buzzwords such as complementarities, synergies and so on, but it is important that there is co-ordination between the Scottish Executive and the departments in London if the policies are to be joined up and to deliver their full effects.

It is also important that the implementation reports that the UK supplies reflect as far as possible what is going on in the different parts of the UK. Improvements could probably be made—the Commission will say that at any given opportunity—but that is an internal UK matter. It is up to the UK to decide how to organise itself and present its report, and I suppose that it is up to Scotland to make its voice heard, achieve the appropriate degree of prominence and ensure that the reports reflect what is going on.

**Mr Wallace:** There is a specific area that I want to follow up, but other members may want to come in on the generality.

**The Convener:** I know that Irene Oldfather has a short supplementary question on how other member states deal with their regions.

**Irene Oldfather (Cunninghame South) (Lab):** Last week, we took some evidence about the

Lisbon network. Professor Drew Scott of the Europa institute told us about the principle of cross-pollinating best practice at regional level. A number of regions are involved in that, including the west midlands in England. Marion, has that come across your desk? Are you aware of some of the examples of best practice?

**Marion Dewar:** Yes. In fact, you have hit on something that is extremely important in the framework of the Lisbon strategy. I did not mention it in my initial presentation, but I probably should have.

The Lisbon strategy encompasses a large number of policy areas. There is Community competence and legislation in some—the internal market, financial services and energy, for example—but in many areas there is not. In those areas, the Commission has two roles: a formal role, in which we propose guidelines at Community level to guide policies at national and sub-national level; and an equally important role as a broker and facilitator of the exchange of good practice and experience. That aspect is a major success of the Lisbon strategy. The exchange has picked up in the past couple of years and is happening in a more structured way than it did before Lisbon.

A few months ago, the Commission organised a seminar in Lisbon to bring together practitioners, civil servants and politicians from different parts of Europe to talk in practical terms. There is another seminar in Copenhagen in March. I did not go to the Lisbon seminar, but I know that many people were excited about a Dutch scheme of innovation vouchers. The vouchers are issued by the Dutch Government to small and medium-sized enterprises, which can present them to universities, research institutes or even larger companies and exchange them for knowledge or research. It is a way in which small businesses can commission pieces of research that they believe they can turn to commercial use. It is apparently a tremendously successful scheme in the Netherlands, and a cross-border element has been introduced with Germany and Flanders, so that Dutch businesses can cross the border with their vouchers.

At the conference in Lisbon, many member states expressed interest in the scheme. The French have been successful with what they call their “pôles de compétitivité”—essentially, they are clusters—and many member states are trying to learn from the French. The feedback from participants was pretty good. There is a strong demand for more such events. As I said, the Danes will host another conference in March.

Also, the regions for economic change initiative has just been launched by Mrs Hübner, who may have mentioned it when she was in Scotland

recently. It is the successor to the Interreg programme, with which you may be familiar. Essentially, it is about the establishment of networks of regions that have similar problems. The idea is to assist the regions to talk to one another and develop solutions together. The difference this time round is that the Commission will take more of a driving role; it will take the initiative and invite regions to take part. This is not official as yet, but I know that there is a lot of interest in Brussels in the UHI Millennium Institute, which is seen as an example of best practice. When Mrs Hübner came to Scotland, I understand that she said, “Look, you have an example of best practice here. You should be shouting about it. Indeed, you have an obligation to share your good ideas with others.” The Highlands and Islands may be one of the regions that the Commission has in its sights for this networking activity, along with a number of other regions. There are similar schemes in Cornwall and, I think, in northern Sweden. A lot of that activity is going on. It offers a clear and practical way for Scotland to increase its involvement in Lisbon. That is very much the way in which the committee should be thinking about it.

**Irene Oldfather:** There are some good ideas there.

**Phil Gallie (South of Scotland) (Con):** I welcome some of the optimistic comments that you made about Lisbon. However, Lisbon is all about ensuring that Europe advances on the global scale and that it does so in a way that is economically effective. From all that I have read, I do not believe that that is happening. You talk about economic growth across Europe being good at the moment. I suspect that growth in the new entrant countries is good but that the UK and the other older countries of Europe—the major blocs—are not sustaining a level of growth that all of us want to see. Will you comment on economic growth across the board?

**Marion Dewar:** I do not have the figures in front of me, but you are absolutely right to say that growth rates in the countries that joined the European Union in 2004 are very high, although it has to be said that they started from a lower baseline. The growth performance this year in the European Union has been stronger than it has been for many years. That is also true for the EU 15. As I said earlier, we are experiencing above-trend growth this year. We expect to experience growth at around trend for the next couple of years, even though—

**Phil Gallie:** Around trend? What does that mean when compared to the international scene?

**Marion Dewar:** Again, I do not have the figures in front of me, but I am pretty sure that we have grown more strongly than the States has done this year. That is the position this year. Of course, if we



compared growth in Europe and America over a longer period of time, we would see that Europe's growth has lagged behind America's for some time. However, we have now turned the corner. We performed strongly this year and expect that we will continue to perform fairly strongly over the next couple of years. That is not growth per capita; our per capita growth rates are still below those of the US.

14:30

**Phil Gallie:** I would think that one of the means of improving our place in the global economy is to ensure that private sector earning, principally, is doing well. Do you have any feel for the levels of public sector employment compared with those of private sector employment? In the UK, we could claim to be doing very well in employment or unemployment terms—but then, we have very high levels of public employment. What is the scene across Europe as a whole?

**Irene Oldfather:** I do not think that they are as good as us, Phil.

**The Convener:** You are sitting on this side of the table, Irene.

**Marion Dewar:** I do not have the figures with me, but I could easily reply to you in writing on that. Some member states have very large public sectors. The nordic countries are known to have very large public sectors. In terms of the percentage of gross domestic product, the nordic countries have bigger public sectors than we do, and they are among the strongest-performing economies in Europe, interestingly. I am sure that their public sectors employ a higher percentage of the working-age population than the public sector here does, for example.

There is no incompatibility between having a large public sector and having a strongly performing economy. Having said that, you are quite right to say that the private sector is the key. Private sector dynamism is the key to sustained growth. A large part of the Lisbon strategy is about creating the right kind of environment for businesses. One of our key targets under the Lisbon strategy is that each member state should set up a network of one-stop shops for business start-ups.

**Phil Gallie:** I have heard that before—a long time ago.

**Marion Dewar:** All member states that did not have such a scheme are now establishing one. That is one of the major achievements of the Lisbon strategy. Another Lisbon target is to reduce the number of days that it takes to set up a business and to lower the costs involved, as well as reducing the complexity of the procedures associated with hiring the first employees.

There are a series of targets under the Lisbon agenda that are about promoting precisely the kind of entrepreneurial culture that you are talking about. Those are among the Lisbon targets that have been taken pretty seriously by member states. I am not saying that countries are going to hit them all the time—they will not—but those targets are being taken seriously, and I think that that is one of the plus points of the Lisbon agenda.

**Phil Gallie:** We have discussed with various bodies the issues surrounding research and the amount of cash that goes into that, which I believe is a very important matter for Europe, particularly in relation to the UK. One of the benefits that could come from Europe is a core donation to research activity, with a drive towards networking, so that various countries could work together towards achievements in specific areas. As part of its Lisbon strategy, does the Commission have in mind a co-ordination role in research? Would that be of benefit?

**Marion Dewar:** The seventh framework programme for research and development was adopted just weeks ago. There will be a huge increase in the funding that is available compared with what was available under the sixth framework programme. An underlying principle of the framework programme is that it encourages collaboration between different parts of Europe so that we avoid duplicating effort and bring about cross-fertilisation of ideas.

I do not really understand the concept of "core nation role", if that is what was said. Networking and working together are of course principles that underline the framework programme. It is very important that we take that approach. We know that our competitors in other parts of the world are collaborating with one another. Even countries such as South Korea, Japan and China, which, historically, have been enemies, have overcome their old enmities and collaborated on various technologies to ensure that they develop their global leadership. It is clear that Europe needs a similar strategic approach. The framework programme, which comes under the Lisbon agenda umbrella, aims to meet that need.

An informal European Council meeting recently took place in Lahti in Finland. The Finns' innovation performance is world class—indeed, it is better than that of the US. The Finnish economy is one of the European economies that are performing strongly in research and innovation. Finland put innovation and research at the top of the political agenda for its presidency of the European Union, and the informal meeting in Lahti, which brought together heads of state and heads of Government, focused on those matters. At the meeting, it was agreed that a number of joint technology initiatives—public-private

partnerships at the pan-Europe level—in key strategic areas for the future, such as nanoelectronics and innovative medicines, should be launched. The importance of working together in Europe is slowly but surely being taken seriously at the highest political level.

**Neil Mitchison (European Commission Office in Scotland):** Marion Dewar has discussed the seventh framework programme, but was Mr Gallie referring to the co-ordination of research that the Commission funds or partly funds, or was he asking whether the Commission is trying to co-ordinate other research in which it has no direct input? I am not aware of anything that is being done in that respect.

**Phil Gallie:** I was looking right across the spectrum. Obviously, funding from Europe is important, but it seems to me that people in an association—for example, the European Union—can benefit from central direction and assistance that develop co-ordination in areas that are not necessarily funded by the association. I would like to think that efforts are being made in that respect.

**Neil Mitchison:** The proposed European institute of technology is intended to do a certain amount of co-ordination of initiatives that will not necessarily be funded by the Commission. In addition, for a long time an objective of the Commission's joint research centre, where I used to work, has been to co-ordinate and federate research, much of which is not funded by the Commission. However, it is fair to say that nobody in the European research world sees the role of the Commission as being to co-ordinate all the research in Europe. Research is not like that.

**Phil Gallie:** No, but the Commission can bring people together and tie them together.

**The Convener:** Jim Wallace and Bruce Crawford want to discuss research and development. I invite both to put their questions to Marion Dewar and Neil Mitchison.

**Mr Wallace:** In one of our evidence sessions, the National Endowment for Science, Technology and the Arts—NESTA—highlighted a recent report on hidden innovation. Basically, the contention was that traditional R and D measures do not reflect the reality of the UK economy and that insufficient account is taken of innovation and research in fields such as the city financial services sector, the retail sector, oil and gas exploration and other areas that are of considerable importance not only to the UK economy but to the Scottish economy. Is the Commission engaging in that debate? If an R and D target is set and we fail to hit it because the structure of our economy is different from that of other economies, we could miss out on what could have been achieved, although we might still have

done worthwhile things. Another danger is that we could skew our activities to try to raise activity levels in areas that count, which might not be an appropriate approach for the domestic economy.

**Bruce Crawford (Mid Scotland and Fife) (SNP):** I warmly welcome Marion Dewar. The context that she set makes it even more interesting that she is here today. As Jim Wallace said, we are pleased that she is here to give evidence to the committee.

I will focus on research and development as well. Marion Dewar has said some interesting things about the need for us in Scotland to ensure that, whatever the United Kingdom decides, we reflect better our own needs and aspirations as—for the purposes of this conversation, anyway—a sub-state. Last week, we heard evidence from individuals who thought that there should be no bar to there being a different process at sub-state level. In fact, they said that it was necessary to have a much clearer and much more accountable way of allowing that discussion to happen and that different approaches should be allowed to exist.

Research and development is a policy area on which that approach might be needed. The Lisbon strategy target is to increase spending on research and development to 3 per cent of GDP by 2010, but, of course, the UK target of increasing it to 2.5 per cent by 2014 gets nowhere near the Lisbon agenda target. Setting aside all the health warnings that Jim Wallace rightly issued, Scotland is pretty badly placed in relation to research and development; we spend only 1.53 per cent of GDP on it at the moment. We have a Lisbon target and a UK Government that does not even aspire to reach that target at this stage. If Scotland wants to be much better at research and development, how can it better reflect its own needs, and how can the Commission help that process?

**Marion Dewar:** That was quite a range of interesting observations.

I will answer Jim Wallace first. He is absolutely right that there is a danger that we focus the debate solely on technological research and development and forget that innovation is much broader than that. It is possible to have what is called soft innovation, such as new business models, new distribution systems or innovation in financial services or management. In my job, I could innovate every day, if I was so inclined.

**The Convener:** If you had the time.

**Marion Dewar:** Yes. It is possible to innovate in any area, and we must not narrow down the innovation debate to technological R and D. Apart from anything else, it is not just about R and D, but about the results of that work finding their way to the market.

I think that there is a growing awareness of that. It is important to set a target for research and development spending, but that is not enough. We need to ensure that the right framework conditions are in place to make that R and D pay off. That means competitive markets with no barriers to entry, a high-quality regulatory framework, a qualified workforce and good links between universities and industry. There is a whole set of framework conditions that need to exist for a country's R and D to pay off and to promote innovation in the wider sense.

The point that Jim Wallace made is interesting. We all know that target setting can have a perverse effect on policy making if we are not careful. Perhaps it is right that the UK economy, which is services dominated, will not have the same intensity of R and D, in a narrow technological sense, that a country with a higher percentage of manufacturing industry might have, but I still think that the R and D target is useful. The Commission is happy that all member states have now set R and D targets. The Lisbon target was for spending on research and development to reach the equivalent of 3 per cent of GDP by 2010 but, as Bruce Crawford said, the UK has set a target of 2.5 per cent by 2014. In fact, the UK is not the only member state to have a target that is below 3 per cent. Some have a higher target—I think that Finland already spends about 4.5 per cent of GDP and wants to raise that to 5 per cent; Finland is the strongest performer.

14:45

If all the member states in the Union met their targets, the Union as a whole would hit 2.6 per cent of GDP by 2010, which is some way short of the 3 per cent target but would still be a big increase on the current figure of 1.9 per cent of GDP. However, that would be the case only if all member states hit their targets, and they are not all on track to do so.

Scotland's problem is the same as that of many member states or other parts of the Union—it does not have enough private sector investment in research and development. It was interesting to read the back-up document for the inquiry in which Scotland's performance was compared with that of Denmark, Finland, Catalonia and Tuscany. The comparison showed that, in Denmark and Finland, 70 per cent of spending on R and D comes from the private sector, whereas that figure is only 40 per cent in Scotland. That statistic is quite striking.

There is no silver bullet. The right framework conditions and all the elements that I have mentioned need to be in place, such as the right regulation, markets that function in the right way, links between industry and universities, all the support services, broadband, e-government,

access to capital and possibly the right tax framework to promote private sector R and D, although tax is not a devolved matter. The issue is complex and perhaps Scotland could learn from other parts of the Union that are having more success with it. It is certainly one of Scotland's major weaknesses on Lisbon matters.

Whether Scotland could have a separate target is a good question. The autonomous communities in Spain have their own R and D targets. I am not a great expert on Spain and I do not really know how things work there—I would have to answer in more detail in writing. However, I understand that a problem exists with aligning the autonomous communities' targets with the Spanish national target—they are a bit out of sync.

How the different parts of the UK want to organise themselves—whether there is a national target or whether different targets are set for the different parts of the country—is an internal UK affair; in a sense, it is not for the Commission to become involved in that. Our interest is that R and D spending increases throughout Europe and that that R and D spending yields results because the framework conditions are right. That is what we want. In a way, we in the Commission have no view about how that happens, as long as it happens. We just hope that member states will organise themselves in the way that is most likely to lead to the right results.

**Phil Gallie:** You referred to the high private sector input into research in Finland. However, when we consider GDP, we note that Finland has a relatively small population and a couple of highly advanced high-tech industries that exist only because they are constantly ahead of technology. Is that why Finland has high private sector investment?

**Marion Dewar:** Because of his background, Neil Mitchison probably has quite a bit to add. He just pointed out to me that a large part of Finnish private sector investment comes from Nokia.

**Phil Gallie:** That is the point that I was trying to make.

**Marion Dewar:** Nokia is a very big part of the Finnish success story. Apparently, mobile telephony and internet use took off in Finland because it is sparsely populated. Mobile telephony revolutionised Finnish people's lives.

**Neil Mitchison:** To answer Mr Gallie's point first, of course he is right. The investment by one good, innovative industry represents a substantial part of overall investment in Finland. I have heard that 40 per cent of Finnish R and D spend comes from Nokia, but there is nothing wrong with that.

**Phil Gallie:** Absolutely not; I am not criticising.

**Neil Mitchison:** The other point that I want to make is about the framework programme. I

distinguish between hidden innovation and soft innovation. Mr Wallace is probably right that hidden innovation does not turn up in the figures. However, I have run projects under the sixth framework programme that were about soft innovation in business processes, so the Commission's action on R and D does not exclude soft innovation.

To reinforce the point that my colleague made, an examination of the overall figures for research in Scotland will show that a preponderance of the research is by the public sector. It has been true of Scottish participation in the R and D programmes up to the sixth programme that the performance of Scottish public institutions, research institutes and universities has been highly satisfactory, but that that of private companies has been somewhat disappointing, given the context of the encouragement that has been given to many universities to spin off and produce private companies. The role of my office is to help, and I hope that we can improve the situation in the seventh framework programme.

**The Convener:** I am aware that the minister will arrive at any minute, but I have a quick point of clarification and I know that there is an issue that Irene Oldfather would like to raise. Marion, you spoke about innovation and the importance of having a qualified workforce. During your opening statement, you said that there was general disappointment in the Commission about the take-up of adult learning. Do you have a feel for whether that relates to retraining following job loss or to the long-term employed, or whether there is such a breakdown?

**Marion Dewar:** Again, I could provide a detailed answer in writing. For us, lifelong learning means people who have become unemployed following structural adjustments in the economy and people who are unemployed in the long term, but also people who are in work. It is about encouraging employers to invest in their people. That requires some imaginative thinking because in today's economy people are highly mobile and do not necessarily stay with the same employer all their lives. Employers might very well ask, "Why should I invest in someone who will not necessarily stay with me?" We need to put in place the incentives to make it worth their while.

There is also an issue to do with the initial education system and how children are trained and educated so that they are able to learn throughout their lives. They must have the ability to learn—it is not simply a question of what they learn at school, but whether they learn to learn, if you see what I mean. The subject is complicated. I know that Scotland has a lifelong learning strategy and I think that it is useful to have such a strategy. Some parts of Europe have what is, in effect, a lifelong learning strategy, in that there are different

measures all over the place, but it is good to group them together in a single document that acts as a focus for consultation and for action. The fact that Scotland has done that is a very good start.

Generally, in the context of an aging population, the Lisbon strategy places the emphasis on the over-45s and making best use of that part of the labour force and on keeping people in the labour force for as long as possible.

**The Convener:** Irene Oldfather has a more specific question about the labour market.

**Irene Oldfather:** It is about the use of information gathering and statistical indicators to address the employment prospects of the most disadvantaged. I notice that in paragraph 5 of the assessment of the national reform programme for the UK, child care is mentioned as an area on which we should try to make more progress. How easy is it to collect information on barriers to employment prospects for disadvantaged people throughout the EU?

Also, when we took evidence from the Equal Opportunities Commission, it said that these days good child care is not the only issue and that there is a need for flexible care of the elderly. That is important for women who, increasingly, are older when they try to get back into the workforce. Are you able to compare or to gather information on the position on that in different member states?

**Marion Dewar:** I cannot answer that question accurately, but I am sure that my colleagues in the directorate-general for employment, social affairs and equal opportunities could. I suspect that there are fairly accurate and comparable statistics on child care. It is quite possible that there are also statistics for long-term care for the elderly, and you are absolutely right to say that that is becoming as big a problem as child care is when it comes to increasing female participation in the workforce.

One of the points about the Lisbon agreement is that we do not assume that a rising tide will lift all boats, as it were. We do not assume that the benefits of boosting employment, competitiveness and growth will simply be spread equally to all parts of the population. We know that there are some groups of people who are far away from the labour market and who need targeted assistance to get them back into that market. There is also a group of people who genuinely cannot work and need to be provided for. That is very much part of the Lisbon strategy. It is called an open method of co-ordination, which is a real insider's term.

**The Convener:** Could you tell us what that means, please, as you are an insider?

**Marion Dewar:** It is a network that deals with social protection, run by DG employment. It brings together ministers and civil servants, who talk and

produce a report every year, which is adopted jointly by the Commission and the Council and which is, in fact, part of the Lisbon process, so it is all part and parcel of what we do. The network has focused on child care and on the hard-to-reach groups, if I can describe them in that way.

It has also focused on child poverty, which is interesting. Last year, the European Council said quite explicitly that making a real impact on child poverty was a Lisbon priority, and all member states have taken up that challenge and are taking it seriously. They are all struggling to reduce child poverty, and they are all doing it in different ways—they do not all have targets, as the UK Government does—but child poverty, unfortunately, remains a significant challenge. There is a long way to go on that, and we still need to deepen our understanding of how to approach the issue and eliminate child poverty. It is quite clear that, in the modern, vibrant European Union that we are trying to create, there is no place for child poverty. There is general agreement on that, and there is a lot of room for sharing experiences and finding solutions.

Care, for the elderly and for children, is an interesting problem. We want to boost the employment rate. Faced with an aging population and a shrinking working-age population, we have to ensure that a higher percentage of that working-age population is working, and working for longer. Part of that will involve female participation, and child care and care for the elderly will prove an interesting and difficult problem. There is a market failure on both the demand side and the supply side. On the demand side, the services are often too expensive for people to afford, and on the supply side, people often do not want to work in those sectors, which are poorly paid and perceived as low status. It is a tricky problem, and I am sure that the approaches that are being used across Europe are very different; the level of provision is certainly different.

**Irene Oldfather:** Scandinavian countries rank high on that.

**Marion Dewar:** Yes. I am afraid that that is another of their admirable achievements. However, there is enormous scope for learning from one another. The problems of an aging population and the increasing participation of women in the labour market—not that that is a problem—are common themes everywhere in Europe. There is a richness of experience, but having said that I do not think that anybody has found the perfect solution. I will let you know if they do.

15:00

**The Convener:** Jim Wallace wants to make a quick comment. Perhaps he has the solution.

**Mr Wallace:** No. I will raise another issue that has been mentioned in the evidence that we have received. Much has been said in this evidence session about the size of the public sector. Given the size of the sector, some of the evidence that we have received has stressed the importance of public sector procurement in stimulating the small business sector. We sometimes hear complaints—justified or not—that European Union procurement rules often make it difficult for public sector procurement to do that. I would welcome your observations.

**Marion Dewar:** I am not a procurement expert. Of course, improving the access that small to medium-sized enterprises have to procurement contracts is an explicit aim of European policy. I do not know whether there are accurate statistics that would enable us to determine how successful we are, but I suspect that we are not as successful as we could be. In theory, European Union procurement law is simply about best value for money for the taxpayer; it is not about using procurement to further other goals. Nevertheless, there has recently been quite a lot of discussion about how it can be used to promote innovative approaches, innovative industries, eco-technologies and the involvement of small businesses in those sectors. I do not know a lot about the matter and I wonder how much statistical information is available about the participation of small enterprises. If you would like me to do so, I could supply information on the issue from our procurement colleagues.

**The Convener:** That would be extremely useful, because we have discussed the issue with various other witnesses.

I thank you both—

**Phil Gallie:** Can I make an additional comment?

**The Convener:** Provided that you are brief.

**Phil Gallie:** I will be. The services directive, which might have some effect on procurement, has just come out. Perhaps you can also consider that.

**Marion Dewar:** Procurement law should, in theory, improve access for small businesses because it makes contracts more transparent as there is an obligation to publish, although it is of course only contracts above a certain threshold that must be published. I imagine that small companies often find their way in by working with larger companies, perhaps as suppliers to larger companies or as part of a bigger bid involving a larger company, but I am not an expert.

**Neil Mitchison:** Nor am I.

**The Convener:** Neil is not professing to be an expert either.

I thank you both very much for coming. It is much appreciated. I hope that it was a comfortable experience for Marion; it was very good to have you here.

**Marion Dewar:** Absolutely. I enjoyed it. Thank you very much.

**The Convener:** I suspend the meeting for a few minutes to allow for the changeover of witnesses.

15:03

*Meeting suspended.*

15:07

*On resuming—*

**The Convener:** I welcome the Deputy First Minister and Minister for Enterprise and Lifelong Learning. The minister has corresponded with our committee and is the Lisbon co-ordinator. Nicol, we were told by Marion Dewar that you and your equivalents in other member states are known as Mr or Mrs Lisbon, and we wondered whether that is how you see yourself.

**The Deputy First Minister and Minister for Enterprise and Lifelong Learning (Nicol Stephen):** Not always.

**The Convener:** I do not think that there is any need for initial statements, because we have corresponded and we are at the end of a fairly long inquiry.

**Irene Oldfather:** I would like to ask a general question. Nicol, will you say a bit about your role as Lisbon co-ordinator and the Scottish Executive's involvement both in the UK and with the European Commission in working towards the Lisbon targets, in particular those for which we have devolved responsibility? That should keep you talking for 15 minutes or so.

**Nicol Stephen:** I am happy to do that. I am tempted to use my introductory speaking note, but I will skip that and speak from the heart.

As you know, there are some weighty documents. "Lisbon Strategy for Jobs and Growth: UK National Reform Programme" was published in 2005, and the update on progress was published in October 2006. The officials here from the Scottish Executive Enterprise, Transport and Lifelong Learning Department—John Ireland, Graeme Dickson and Ian Howie—work with the UK Government, and the Department of Trade and Industry in particular, on those documents.

They are member state documents, and it is fair to say—on behalf of not just Scotland but probably the devolved Administrations in Wales and Northern Ireland—that it would be good to have greater involvement and mention in the

documents. We would value and appreciate that. I know that other countries have more formal mechanisms, but we need perhaps just a more concerted approach between the UK Government and the Scottish Executive and other organisations involved to ensure that the documents more fully reflect all the regions of the UK. I can probably also speak on behalf of the regions of England, which would value more detailed and direct involvement.

As the champion of the Lisbon agenda in Scotland, I think that it is important that we bring some high-level strategic objectives down not only to member state level but to local community level. Different approaches to some of the issues on the Lisbon agenda are required in different parts of Scotland. The Highlands and Islands and the south-west are quite different from the Edinburgh area, which has gone roaring ahead on employment. Most of the research and development money in Scotland is spent in larger companies in the central belt. We must find ways of transforming the situation, to get a much more entrepreneurial, research-focused approach in our small and medium-sized companies in all parts of Scotland.

It is good that as Minister for Enterprise and Lifelong Learning I have direct responsibility for Scottish Enterprise, Highlands and Islands Enterprise, the Scottish Further and Higher Education Funding Council, colleges, universities and all forms of lifelong learning and work-based training. That means that I have most direct ministerial responsibility for delivering on the Lisbon agenda and the two current targets, which relate to employment and research and development. Most of that work falls within my ministerial portfolio, but a cross-cutting approach is needed. Employment involves many of the departments of the Scottish Executive, so it is important that I take on a co-ordinating function.

I have given members an outline of what we are doing. I am most anxious to see progress on the research and development front, especially on business research and development. The recommendations of the Enterprise and Culture Committee in its report on its business growth inquiry focused on the need not just to raise but to transform our performance in business research and development. We have about one quarter of what is needed if we are to meet the 2010 target.

Interesting things have been happening in relation to employment. I refer to the launch of the not in education, employment or training strategy and to other important initiatives that were launched earlier this year. Employment in Scotland is currently 72 per cent according to the Lisbon measure and 75 per cent according to the measure that we more commonly use. Those are

good statistics, but I am happy to speak about areas in which we could do more. "Workforce Plus: an Employability Framework for Scotland" was launched in June this year. We believe that we can go further, although we have broadly met our targets under the Lisbon agenda.

**Irene Oldfather:** There are many questions that I want to ask, so I will have to restrict myself. The first point that you made was that the Executive should have more detailed, direct involvement and a higher profile at UK level. We took evidence from the Local Government International Bureau and Local Government Association, which explained to us that they have a member liaison group that has been very effective. It meets ministers several times a year and examines what the Lisbon agenda is about and how local authorities can be involved, participate and can have their views reflected in the UK strategy. Are we connecting up enough in Scotland? How do you see the more detailed, direct involvement that you would like working in practice?

**Nicol Stephen:** In a moment, I will ask Graeme Dickson to speak about the relationship that exists and the nature of the discussions that take place at official level. As the Minister for Enterprise and Lifelong Learning, I would like to do more in both directions. I refer both to my contacts with ministerial colleagues in the DTI on the national reform programme—a lot more could be done in that area—and to the relationship that the Enterprise, Transport and Lifelong Learning Department and I have with local authorities and local economic partnerships.

15:15

More could be done in Scotland to ensure that the Lisbon agenda is discussed fully and that there is a greater drive to implement it among the local economic forums. If that was one of the recommendations that arose from the committee's work over the past couple of months, I would favour it. We have not done enough in that area. I am not saying that we would transform R and D performance in business in Scotland, because the actions that I am talking about are pretty public sector focused. Ensuring that there is greater contact with my ministerial colleagues in the DTI and with local economic forums, of which the majority of members tend to be from the public sector, will not tackle the fundamental problem that we have with business R and D; we need to do other things to tackle the historically poor performance in that area.

**Irene Oldfather:** Do you see a working group emerging, or do you think that appropriate structures are in place in the areas in which we have responsibility? The evidence that we have taken suggests that not many people know exactly

what the Lisbon co-ordinator does or how to have input in the process. Do you think that there needs to be more visibility around the process? If so, how would we achieve that?

**Nicol Stephen:** Yes, that could be done locally, through the local economic forums. That would be a useful role to give them and it would involve a broader membership than an individual local authority or its economic development department; it would involve local enterprise companies and a range of private sector individuals. That would be a good way to help revitalise the local economic forums in some areas; and in areas where they are working well, I am sure they would welcome the responsibility.

**Graeme Dickson (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** We already have good local buy-in through the local enterprise companies. The "A Smart Successful Scotland" strategy is aligned with Lisbon. Some might argue that the UK was ahead of Europe in going for such a strategy. The LECs have bought into the strategy, but, as the minister said, we need to bring in other partners. We have better partnership working in our use of European structural funds, which you have considered recently. In the programme that is beginning next year, at least in the south of Scotland, about 75 per cent of the funding will go towards meeting Lisbon objectives through good local partnership working with a range of players.

**Irene Oldfather:** At our previous meeting the Local Government Association said:

"The appointment of a Lisbon co-ordinator for the UK never really happened, which was a disappointment".—[*Official Report, European and External Relations Committee*, 5 December 2006; c 2246.]

Do you think that there is some truth in that?

**Nicol Stephen:** The important challenge is to do more now and in the future. Rather than reflect on what has happened over the past few years—it is six years since the Lisbon summit—we should consider what we need to do over the next four years to meet the 2010 targets. It is not all about how the Government behaves and co-ordinates how different parts of the public sector interact. A huge focus is on business and on developing a greater entrepreneurial attitude. Scotland needs to be part of that. It is important that we are as dynamic as we can be. We have been good on the jobs front. The quality and value of jobs is important to Scottish Enterprise, Scottish Development International and the Executive. We increasingly consider the quality, rather than the quantity, of jobs.

I am determined to see far more significant action on business research and development. It might seem strange for a minister to say that we

can help—surely we should sit back and wait for the private sector to realise how much more needs to be done—but we should consider the countries that have the best statistics for business research and development: Sweden, Finland and, to a lesser extent, Denmark, although Denmark is still spectacularly better than Scotland.

In Finland and Sweden, there is close co-operation between the Government, the public sector and private enterprise. The relationship with Nokia is a good example of that. Despite being a huge organisation, Nokia gets significant state resources to help with research and development projects, which involve universities and small and medium-sized enterprises. I believe that the Scottish Executive can help to kick-start that approach in Scotland.

**The Convener:** Marion Dewar talked about the Commission's proposal for country-specific recommendations. It struck me that, within a member state that has regions that are independent nations—

Sorry, I did not mean independent nations. That was wishful thinking. I meant nations that work independently in certain sectors. Do you see a benefit in putting together region-specific recommendations? If so, what data do you collect that would allow us to set our own targets and put together such recommendations?

**Nicol Stephen:** I see no harm in that. In fact, I would encourage region-specific actions and sub-region actions. As I said, we need to take different actions in different parts of Scotland. There are different structural funds programmes and we operate different enterprise companies and organisations. There are significant differences between rural Scotland and the central belt.

The gathering of up-to-date information is one of the challenges. A lot of the data that we work with are based on 2003 and 2004, although we might now have the 2005 data on business research and development. We are trying to drive forward progress, so it is frustrating that the data are in arrears by a number of years. The more up-to-date the information and the better the data we have at regional or community levels—the local authority and local enterprise company levels—the more we can set targets, respond to the challenges and see that we are making progress.

**The Convener:** So you are starting to collect specific data on R and D?

**Nicol Stephen:** John Ireland is the expert on the statistical data issues, so I ask him to comment.

**John Ireland (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** Each year, as part of our monitoring of "A Smart, Successful Scotland", we produce a measurement

report that contains the latest available Scottish data and compares them with those for the Organisation for Economic Co-operation and Development and, often, the UK regions. We have collected and published the data for a number of years. They are particularly relevant to the Lisbon agenda.

As the minister said, there is a degree of lag in some of the data, particularly on R and D. We rely on the Office for National Statistics for the data and it has had a bit of a hitch in the past year or so, but we hope to have much more timely data in future years.

**Nicol Stephen:** I am anxious to see a focus on Scotland in the ONS data. We should get better, more timely data on issues of importance to Scotland. A good example is the data on business research and development. We have the data for 2004, which give the figure as £494 million. I think that the data for 2005 have just become available. Is that right, John?

**John Ireland:** Yes.

**Nicol Stephen:** The 2005 data give the figure as £584 million, so there has been an increase, but the most up-to-date data on gross expenditure on research and development, which includes both business expenditure and public sector expenditure, is from 2003. In my view, that is not good enough. It is important to find ways of tackling that for the future.

**Bruce Crawford:** It is useful to hear that that work is going on. Although stats and data can give us a picture, they cannot give us the full picture. The minister has rightly recognised that, regardless of what the stats say, we are not doing very well in business R and D. I welcome the minister's strong commitment in that area.

I was interested in what you said about meeting the 2010 target, set by the Lisbon strategy, of spending 3 per cent of GDP on R and D. The UK target is 2.5 per cent by 2014. Are you committing the Scottish Executive to attempting to meet the Lisbon target or are we still working within the less ambitious UK framework? I hope that you are going for the Lisbon target, because it will help us to push on towards more business investment in R and D in particular.

You spoke about the potential for using different solutions for Scotland. Given the small size of our private sector, I would like to hear more about what you think those solutions might be and how we might grow the sector. I will not get into an argument with Phil Gallie about the public sector being too small or too big; the size of the private sector is probably more of an issue. One of the solutions that we heard about in earlier evidence was how to use public procurement to encourage innovation and provide lead markets for new



technologies. If I recall correctly, Professor Geoffrey Boulton described to us how we might use the American model to achieve that. If there are other tools in the basket that the minister thinks we could employ, it would be useful to hear about them.

We heard from Marion Dewar immediately before you, minister. She talked about the Spanish sub-states—Catalunya, I assume, and perhaps Galicia—setting rates and targets for R and D that differ from those of the Spanish Government. If they are doing that, are we heading in the same direction—to meet the 2010 Lisbon targets—rather than towards the less ambitious UK target of 2.5 per cent by 2014? I realise that the UK economy is different, but it is useful to put my question in that context.

**Nicol Stephen:** There is no more important issue for the Scottish economy than transforming the level of business research and development in Scotland. It is one thing to set targets, but we have to look at current performance. To meet the Lisbon target, we have to stay about where we are now in public sector and university research and development—but we have to quadruple the level of research and development in the private sector. Doing that over a short period is very challenging.

John Ireland might want to speak briefly about some of the changes that are being made to the way we gather information about business research and development in Scotland. It seems, for example, that one significant omission is the financial services sector—our banks. There might also be issues in the energy sector. Although improvement in those sectors would help quite a lot, to meet the target we need to at least double our level of business research and development.

I am ambitious for Scotland. I would like us to meet the target and aim high—but to do that we need a stronger focus on business R and D. In the past, we have provided proof of concept funding and run a number of other schemes, such as the small firms merit award for research and technology, the SME collaborative research programme, the Scottish Executive enterprise, knowledge and information transfer programme, R and D plus and a long list of other acronyms.

We have provided some venture capital support and, recently, we started the Scottish co-investment fund for small-scale venture capital, which has been hugely successful in a short time. We have just launched the Scottish venture fund for larger-scale venture capital investments of £2 million to £10 million. That is beginning to operate successfully, too. We have invested in the intermediary technology institutes—significant new funding is coming through there—and there is Scottish Enterprise.

Things are being done, but we need to give greater concentration to that effort. We need to shift business research and development in Scotland up by several notches. That means encouraging large, often multinational, companies to spend even more on R and D in Scotland. It also means having more projects that involve partnership between business and our universities.

We will have to do far more to encourage our small and medium-sized businesses to invest more in research and development; if there is one area in which there is a big gap, it is among our small and medium-sized businesses. Almost all business research and development in Scotland comes from large companies—often companies whose headquarters are outside Scotland.

We will need big changes in all those areas. From considering other parts of Europe and the rest of the world where there has been success, I believe that a strong partnership between the public and private sectors is needed. I am sure that the political parties will give the topic prominence in their manifestos for May next year. They should, because the topic is vital for Scotland's economic future.

15:30

**Bruce Crawford:** I want to ask a little more about how we can use procurement to help drive the SME sector. Is there scope for lead innovation markets, and for helping SMEs not with grants and loans, but in the way we buy products from them?

**Nicol Stephen:** That is an important question. We do a lot of work on the supply side, but public sector demand can make a big difference—I am thinking of procurement by local authorities, by the Executive itself, and by health boards.

With the Minister for Health and Community Care, I recently met representatives of the life sciences sector to look for ways of ensuring that health boards, for example, give greater opportunities to small and medium-sized companies that seek to sell their products and services to that sector for the first time. A lot of evidence suggests that the Scottish public sector is sluggish in that respect, or is risk averse. It is easy for people to give their contract to a world-famous leading-brand organisation; they can be more reticent about giving it to a new Scottish company, no matter how good its products or services are. Shifting attitudes is very important. The McClelland report on public sector procurement was important in that respect.

Under European Union law, we are not allowed to show bias or favouritism towards local small and medium-sized companies, but we can monitor the situation and keep a sharp eye on the

statistics, so that we know what percentage of our contracts go to small and medium-sized companies based in Scotland and what percentage go to large companies. We can track such information over time and monitor the trends. That sort of approach has been strongly welcomed by the Federation of Small Businesses and other business organisations.

I hope that we can tackle this problem urgently and start to transform the public sector's attitude towards procurement, perhaps by giving small and medium-sized companies a one-door portal so that they do not have to get approval to tender for contracts from 32 different local authorities, each health board, the Executive and all the Government agencies. There should be a much more integrated approach. In such a system, once people submitted their data to one, they would be through the door and working with anyone.

An approach such as that will pay dividends over the coming months, but a lot of work needs to be done. I have the impression—although I do not have the data to back this up—that Scotland is behind other countries in this area. If small and medium-sized businesses could see a reward for their investment, they would be greatly encouraged to invest in research and development. We have to shift the public sector attitude towards small and medium-sized Scotland-based businesses.

**Graeme Dickson:** What the minister said about a single door reminded me of something that was missed from the list of interventions—an initiative called Interface, which was launched in April. Given the difficulty SMEs have engaging with universities, we now have one front door for them to go through—Interface—which is based here in Edinburgh and which will take them into any university in Scotland. If an SME has a problem, Interface will direct them to whoever in Scotland can help them with their business. As Interface becomes better known among the SME community, we hope that more people will use it.

**Bruce Crawford:** I spoke to the University of Stirling about the programme on Monday. It values the programme and can see where it is going, but it is a bit concerned about the scale of what is available to enable the step changes that require to be made in the timescales that we are talking about. It thinks that more resources might be required. It recognises that it has a big job to do to sell itself a lot more successfully to SMEs. Your comments have been very useful. Thanks very much.

**The Convener:** Does the programme come under Scottish Enterprise, or is it completely separate?

**Graeme Dickson:** Initially, it was funded through the European Commission's innovative

actions programme, which was a pilot. I think that the mainstream funding has now been taken over by the Scottish funding council.

**Phil Gallie:** Minister, you referred to private sector financing of research in Finland and said that it is difficult to reach the targets that you would like to reach in Scotland. One of the reasons for that is perhaps the fact that we have few major industries that operate in the area. One of the successful ones is the pharmaceutical industry, in which there is quite a bit of investment in research, but I suspect that the design and research for companies such as British Aerospace now comes from mainland Europe. One industry in which we were world leaders, in the past, is the nuclear industry, but we seem to have stepped back there as well.

You emphasised the importance of trying to get smaller businesses—of which we have many in Scotland—involved in research. Did you hear Marion Dewar's comments about a Dutch scheme in which vouchers are provided to small companies to give them entry to universities and other centres of excellence in research and in which those companies provide additional cash to the research institutions?

**Nicol Stephen:** No, I did not hear those comments. The UK Government can be influential in encouraging greater private sector research and development. Businesses often talk to me about the UK tax credit scheme for research and development. There are frustrations with the implementation of the scheme through the Inland Revenue. It is not an area on which I should comment directly, as it is UK policy, but it is an area of which the committee should be aware.

I am reminded that I said that John Ireland might comment on how financial services and energy R and D may be scored in the future, which might lead to an increase in Scotland's level of R and D. It might be useful to have those comments at the end of my remarks.

I would welcome any scheme of the kind that Phil Gallie is talking about, which could raise our levels of investment in business R and D in Scotland. If there are schemes such as that which Marion Dewar described that could be within the competence of the devolved Government in Scotland, I would be interested to hear about any and all of them, to see which we might best be able to implement in Scotland.

**Phil Gallie:** Is that a commitment to make contact and take the matter forward?

**Nicol Stephen:** It is exactly that. I would like to do that. If we could do things differently in Scotland, that would be appropriate. The current position is stark. The latest figures that I have, which make cross-country comparisons, are that

Scotland's business research and development is 0.53 per cent of gross domestic product, whereas the UK average is 1.09 per cent of GDP. The figure for Ireland is also not very good—it is 0.77 per cent. Denmark's is far better: 1.69 per cent. The figure for Finland is 2.46 per cent and the figure for Sweden is 2.96 per cent. The difference between those figures and ours is dramatic.

Someone from an American pharmaceutical company told me that, at meetings that he attends in America, he is always asked what percentage of the company's total turnover is spent on research and development—and he proudly responds that it is between 15 and 20 per cent each year. He also told me that he encounters a different culture and attitude when he comes to the United Kingdom: first, many companies do not know how much they are spending on research and development; secondly, they are often under pressure from their funders to put a red line through their expenditure on research and development. They say, "You have developed your product: why do you want to continue to invest in further research and development?"

David Milne, from Wolfson Microelectronics, emphasised the point when he spoke at the business in the Parliament conference. He is in the electronics sector, which is a global industry. If he does not continue to invest in new products, he will lose his competitive edge and his company will go backwards, yet he has been under pressure from his funders to pull back from the high level of investment in research and development that has been key to the success of the business.

Our business and financial cultures must change, quite dramatically in my view, if we are going to tackle the problem. Can I bring in John Ireland at this point?

**The Convener:** Yes.

**Nicol Stephen:** It is useful to inform the committee about the changes that are being considered.

**John Ireland:** Traditionally, the business R and D statistics have not involved the financial sector. The Office for National Statistics does not send out its pre-survey form to that sector. One of the reasons for that is that there is little statistical evidence that much R and D has gone on in the financial sector. However, because of a change in the international banking regulations, we have strong evidence that the financial sector is investing in business R and D. For example, the Royal Bank of Scotland has a global R and D figure of about £300 million.

We have been putting pressure on the ONS over the past few months to survey the financial sector. From January 2007, when the forms go out for business R and D expenditure in 2006, the

financial sector will be surveyed. Although we do not know exactly how much of the Royal Bank of Scotland's global expenditure is made in Scotland and would therefore add to our figure, we can be reasonably confident that the business R and D figure will go up and that it will be a better reflection of expenditure.

**Phil Gallie:** That is tremendous, but the fact is that the situation is as it is now. We are talking about the Lisbon agenda and improving our overall economic performance. Therefore, if we are already achieving on R and D and we are simply chasing the statistics, although that makes us look better it does not achieve the overall objective.

**Nicol Stephen:** I am sure that the minister when the new statistics come out—whoever that person may be—will be anxious to emphasise the improvement.

**Phil Gallie:** I am sure that they will, but once again it will be smoke and mirrors.

**Nicol Stephen:** It is a little while off. As I said, even if those improvements take place, we will still have to double our performance to get up to the level that is required by the Lisbon agenda, so even if we score those investments, a dramatic step change is still required.

It is important that we emphasise the strength of our financial services sector. Obviously, in Finland, whose strength is in telecommunications because of Nokia, it is far more straightforward to say that credit should be given to the R and D work that is done, but the Royal Bank of Scotland is a good example of a major global organisation that invests a lot in R and D. Much of that investment is in Scotland and none of it is scored in our current statistics.

**Phil Gallie:** I do not disagree with that.

Irene Oldfather referred to the country-specific agendas that will be foisted on you by the European Union. Given that the Lisbon agenda is, to my mind, filled with admirable objectives that any politician elected into government would want to achieve as a matter of course, why should a centrally prepared set of proposals help the Scottish Executive or the UK Government to achieve the targets that so obviously need to be met?

**Nicol Stephen:** I often reflect on that issue when I go to Brussels. I guess that Irene Oldfather, too, would have some sympathy with the point, given her attendance at the Committee of the Regions. I attend councils of EU ministers and I see the way in which the EU system works. When the Lisbon agenda was set, the ambition that this group of countries would become the most dynamic, the most entrepreneurial, the most

fleet of foot and the fastest acting on the planet seemed to me to be admirable but hardly a reflection of the way in which the organisation that set the targets operates. There is a challenge, especially with the expansion of the EU and all that that brings. Everyone round the table gets to make a set-piece speech and even if they speak for only two or three minutes, it probably takes up the best part of an hour. However, it is extremely rare that the politicians limit their remarks to two or three minutes. At times, the process can be lengthy and quite turgid, which is the opposite of what was intended in the Lisbon agenda. All of us see that in our dealings with the EU.

15:45

Nevertheless, when we pull together as a grouping of nations, we have huge power, professionalism and competence and it is evident that change is being delivered. Since the Lisbon agenda was set in 2000, there has been improvement. If the 2010 targets on employment and investment in R and D can be met or if we can get close to them, that will serve as a powerful counter to the strength of the North American economy, the growing Indian and Chinese economies and the resurgent Japanese economy. We want Europe to be dynamic and economically successful and to provide employment—

**Phil Gallie:** You have drifted off what I asked about, which might have been my fault, because of the way in which I asked my question. Why do we need a country-specific agenda that has been passed to us by the European Commission? Why cannot the Executive deliver such an agenda?

**Nicol Stephen:** For the reason that I have just explained. We do not want to maintain nebulous strategic targets. We want to focus on areas in which we must deliver change if we are to be competitive with other global economies. I believe that Europe can be far stronger as a grouping of nations with a powerful and strengthening economy, increasing employment levels and growing investment in R and D, but I believe that we can best deliver that through different solutions at local level, whether that is at country level or at regional or sub-regional level. We must be highly dynamic, fast acting and focused in our approach. In Europe, we are not always as fast acting or as dynamic as we should be.

One way to give greater meaning to, and to bring to life in three dimensions, strategic documents such as the Lisbon agenda so that they start to crackle and we can make progress on them is by delivering a set of local priorities that, collectively, will allow us to hit, or get close to, the 2010 targets. I believe that the worst way for Europe to implement the Lisbon agenda and to make progress on the issues that it raises is by

sticking with the fuzzy, soft, broad, strategic, aspirational words that one often finds in EU documents.

**The Convener:** Mr Gallie, I will not ask whether you are satisfied, but have you finished?

**Phil Gallie:** Yes.

**Mr Wallace:** Minister, in your opening remarks, you spoke about the importance of business R and D—which has obviously been picked up on in the discussion—and the work that was done on that by the Enterprise and Culture Committee. When we embarked on our inquiry, we were conscious that there was a degree of overlap with the inquiry that that committee conducted. Will you assist us by telling us what was new in the Enterprise and Culture Committee's recommendations that you have picked up on and which you think it might be worth our while focusing on and perhaps developing?

**Nicol Stephen:** Helpfully, I have just been passed a note on those recommendations. Perhaps the recommendation with which I agree most strongly concerns the need for some form of national consensus on the issues. The countries that are most successful economically have broad cross-party support on the issues and strong working relationships between business and the politicians and between business and the academic sector. In all those areas, we could be stronger, even though we already have significant strengths. We have some outstanding, world-beating businesses—I have mentioned the Royal Bank of Scotland—and some outstanding, world-class universities and colleges, but when it comes to partnership and having a national consensus, we are not as strong as we could and should be.

Much of that criticism can be directed at politicians and political parties. We must try harder than ever to set our differences aside and work together on the issue on behalf of Scotland. Scottish Enterprise established the international advisory board and organised the recent globalscot conference, which is a great example of what is needed. During the week of the conference, hundreds of senior Scottish businesspeople from around the globe were in Edinburgh and there was strong cross-party commitment to the event. Such commitment can make a big difference and we should not underestimate its power.

Another action point in the Enterprise and Culture Committee's report is:

**"Promote an investment-led business growth strategy".**

However, a business growth strategy that required far more significant investment from the private sector would also involve substantial additional investment from the public sector—I think that £1 billion has been mentioned.

The list of action points continues:

**"Create an effective and focussed decision-making process** that improves the quality of expenditure within the Executive budget and has clear objectives based on outcomes ... **Improve the functioning of the labour market** by getting more people off welfare benefits and into meaningful employment, addressing skills shortages and preparedness-for-work issues, tackling the number of 16-to 19-year-olds not in employment, education or training ... **Enhance Scotland's international outreach** by taking maximum advantage of the support offered by the European Union, linking up with competent partners in the EU and beyond and marketing Scotland internationally"

and

**"Foster stakeholder collaboration** by addressing delivery issues, encouraging collaboration between business, academia and the public sector and improving the dialogue between government departments, other public bodies and key stakeholders."

I am finishing where I started, because the final action point has much in common with action point 1, on the need to agree a national consensus.

I guess that for the European and External Relations Committee the important issues are links to the EU and how we strengthen Scotland's international outreach and create opportunities for greater collaboration. A number of projects have involved significant EU investment in research and development, and collaboration with other EU nations at state, university or business level is vital. However, many of our businesses step back from such collaboration because they find that the process of filling in application forms and seeking advice and support is too complex, unwieldy and costly. We need to do more—

**The Convener:** May I interrupt to ask whether you think that language is a problem in that regard? That is a hobby-horse for Irene Oldfather and me.

**Nicol Stephen:** Yes, language is a problem, but it is also an opportunity, because we know how good people's language skills are in other European nations and how many people speak English. When I go to Norway or Finland I see how willing other nations are to work with the UK and Scotland.

Language is not the only issue. There needs to be the willingness to get out there, visit other nations and be dynamic and entrepreneurial in the way that many Scots have been over the centuries. Scots have been outward looking and dynamic, but I do not see enough of that attitude—we need more of it. There must also be the ambition to get involved in projects and make them happen. Many projects in Scotland could benefit from some of the €50 billion or so that I have been told about—Ian Howie can tell me whether that is the right figure.

**Ian Howie (Scottish Executive Enterprise, Transport and Lifelong Learning Department):**

Yes, it is. FP7, the new framework programme for the EU from 2007, will make available around €50 billion to member states for R and D. Access to such funding for larger collaborative projects could be a big part of the way forward.

**Nicol Stephen:** Some of that funding went into the Talisman Energy UK and Scottish and Southern Energy Beatrice offshore wind farm demonstrator project, which the European energy commissioner came to see. Let us have more such projects, which create global interest. Not enough such projects come to Scotland. We need projects in which Scottish businesses seek EU partners; the Executive can support projects and make a difference.

**Mr Wallace:** What is being done within Scotland to ensure that there is awareness of FP7 and that we maximise the opportunities that arise from it? What initiatives are under way? John Ireland's point about innovation in R and D in the financial services sector reflects the evidence that we received from NESTA about hidden innovation. Another sector that it identified is oil and gas exploration. Can the work that you are doing with the financial services sector also be done with the oil and gas sector, or with other sectors?

NESTA made the point that the structure of the UK economy—and, for that matter, the Scottish economy—is such that a considerable amount of innovation in R and D is simply not picked up. Will the figures be accepted by the European Commission in relation to the targets?

**Nicol Stephen:** I will ask Ian Howie to comment on current plans. On FP7, given Scotland's poor performance on accessing the funds in previous rounds, more needs to be done to promote the programme to business and to partners who could make use of the funds.

**The Convener:** I read recently that, per capita, Scotland did quite well out of FP6 compared with the UK as a whole. Is that the case, or is that perhaps true only in a specific sector?

**Nicol Stephen:** Perhaps Ian Howie can comment on that as well.

**Ian Howie:** I cannot quote the precise figures, but our universities did relatively well out of FP6 and the previous framework programmes. However, our business base did poorly out of FP6 and FP5 before it.

**Nicol Stephen:** We see the same problem with the overall R and D figures.

**Ian Howie:** Given the scale of the funding that is available under FP7, we recognise that we need to raise our game in accessing it. We are working closely with Scottish Enterprise and the innovation

relay centre—which is the one-stop shop for access to European funding—to increase our promotion. We are also looking to provide small-scale funding to help small firms through the bureaucracy that is, unfortunately, invariably associated with European Union schemes. That will ensure that small firms' lack of capacity does not prevent them from accessing the funding.

We are also looking for better ways of working with our universities to allow them to collaborate more often to access funding from the programme. For example, they can use the pooling arrangement in relation to research as a stepping-stone to access the funding that is available in key scientific sectors.

**The Convener:** Is there also an issue about bringing together businesses—particularly SMEs—and university research departments? At the moment, it is a case of never the twain shall meet.

**Ian Howie:** That is absolutely right. Recently, we introduced SCORE and SEEKIT, which aim to improve the way in which small firms work with the academic base. That work is a stepping-stone to their working together on international collaborative ventures as well. It is part of a process towards that end.

**The Convener:** I am sorry. I interrupted Jim Wallace because I am particularly interested in the matter. Is there something else that you wanted to say?

**Mr Wallace:** No. I think that my first question has been answered.

**Nicol Stephen:** We covered the first part of the question, but I ask John Ireland to respond to the question on the oil and gas sector.

**John Ireland:** I am much more confident than I was six months ago that we are getting reasonable data on business R and D in the energy sector. The ONS has put a lot of effort into providing that data, including talking to the companies that do the investment. The data are now much better.

Mr Wallace asked whether the Commission will accept the data that the ONS is pulling together for us. It certainly will, because the data are based on the narrow Frascati definition, which states that R and D contributes to pushing forward the boundaries of human knowledge.

**Mr Wallace:** Does that imply that there is a wider definition that is perhaps more relevant?

**John Ireland:** Yes. As Marion Dewar said, innovation is a much wider concept and it is perhaps more relevant to economic performance. Again, the statistics have been patchy, but there is now a commitment to carry out a UK survey of

innovation every two years with a much bigger sample. The results of that were published a couple of months ago. The comparison with the rest of the UK has been pretty good. The survey was Europe-wide so, in due course, we will be able to compare our performance with that of other regions in the EU.

16:00

**The Convener:** Minister, I am aware that we have already kept you for more than the allotted time. Do you have another 10 minutes, or do you have to dash away somewhere?

**Nicol Stephen:** I have a little more time.

**The Convener:** Thank you.

**Bruce Crawford:** I want to continue the discussion on the issue of FP7. You mentioned Talisman Energy and the Beatrice field, the three demonstrators and the huge potential that is there. Could we open up other avenues in the North sea? Is there potential for a North sea grid connection through an undersea cable, which would allow us to tap into the energy successfully? There is also the potential for sequestration of CO<sub>2</sub> in the North sea oil fields. That must be one of the technologies that would attract activity and give us a chance to lever stuff in there.

You talked about the need for a national consensus, which nobody would dispute. What role would the trade union movement play in that, given the successes in Norway and Ireland through social partnership? How do you intend to take that work forward?

**Nicol Stephen:** All the social partners have a vital role to play. When I attend EU meetings, I see how normal it is for the trade unions to be a strong part of the partnership. They promote their countries and go out of their way to approach and support businesses that might be interested in locating or expanding in their country. That should be the normal role, which Scottish trade unions should be comfortable about taking on.

On the opportunities for European involvement in the North sea, the sea knows no national boundaries. There are boundaries for oil and gas exploration—one moves from one area of national influence to another. However, on the sustainability of the sea and the environmental challenges, the developments in oil and gas, innovation in renewables and initiatives such as hydrogen schemes are significant for Europe and the planet and could be funded further through FP7. Our nearest neighbour, Norway, is not a member of the EU, but I emphasise that there are also opportunities to collaborate with it. Perhaps an offshore grid would be a good thing on which to collaborate with the Norwegian sector. It would be

good for the renewables industry in Shetland and Orkney, good for the environment and good for meeting our targets on renewables for 2010, 2020 and beyond. The projects should not be seen—as some companies have tended to see them in the past—as ways of distributing EU funding to help a particular region of Europe or to encourage collaboration for collaboration's sake, such as getting universities in different countries to work together just because partnership in itself is a good idea. The investments through FP7 can make a dramatic difference to the advancement of technology and ideas, which can have a big impact on the environment of the whole of Europe and the whole world.

**Irene Oldfather:** You have given us an insight into some of the challenges that we face in relation to R and D and SMEs. Some of your ideas and suggestions are very welcome; thank you for putting them on the record.

You mentioned the European trade union sector. You are no doubt aware that we have taken evidence from the Scottish Trades Union Congress and the Equal Opportunities Commission. What emphasis do you, as Lisbon co-ordinator, place on ensuring that in the drive for competitiveness, we do not lose sight of the more social indicators in relation to addressing inclusion and improving employability for the most disadvantaged?

**Nicol Stephen:** Those matters are vital. The best organisations have corporate social responsibility at their heart—CSR should not be seen as an add-on. In the same way that companies have now brought health and safety into the core and foundations of the organisation, the same has to be true of corporate social responsibility. The very best companies around the globe—those that are most profitable and for which customers have the greatest respect—get CSR right. They have the best inclusion policies.

**Irene Oldfather:** Certain barriers have been brought to our attention including those for women, such as problems with child care and, for older women, who are a group that we are targeting to get back into the workforce, the need for flexibility in care for the elderly, which is increasingly an issue for older women who want to return to work. Will you look at those areas in the future?

**Nicol Stephen:** Some of those issues will be addressed by the political parties in their manifesto policies over the next few months. Child care might well be a big priority for the parties in the next Administration beyond 2007.

There is often debate about the scale of the public sector and I do not intend to set that debate alight in the final seconds of my remarks.

**The Convener:** Please do not.

**Nicol Stephen:** Although I am not saying that there is direct correlation between us and those countries—Sweden, Finland and Denmark—that have the greatest success and achieve a very strong level in business research and development, I note that those countries also have substantial public sectors and good social protection and child care policies. That is the sort of model that I would like us to use for Scotland's future. Although I would like us to do great things in business research and development, I would also like us to maintain that social dimension of providing excellent child care and other facilities that support very good jobs for as many people as possible in Scotland who want to participate. I hope that we can encourage even higher levels of participation than the 72 per cent or 75 per cent that we have at the moment.

**The Convener:** That is a very positive note on which to end. I thank Ian Howie, Graeme Dickson, John Ireland and the minister for coming. It was an extremely interesting and much appreciated session.

Members will note that we will discuss our report in private at the end of today's meeting. Meanwhile, I suspend the meeting for a few minutes to let people leave.

16:07

*Meeting suspended.*

16:11

*On resuming—*

## Transposition and Implementation of European Directives Inquiry

**The Convener:** Our third item concerns the Scottish Executive's regular report to the committee on the transposition and implementation of EU directives in devolved areas.

The paper recommends that we write to the Scottish Executive with a number of questions that arise from an analysis of the report, and that we progress some of the more general questions relating to the transposition process in the context of evidence that we will take at meetings in January and February, which follow on from Jim Wallace's inquiry. Do members have any comments?

**Mr Wallace:** The recommendations are welcome. It is also important that we give the Executive some advance notice, because we might otherwise be frustrated. If we give notice, the Executive can look into the matter.

We might also want to ask about the extent to which Scottish ministers have signed explanatory memoranda that have gone to House of Commons or House of Lords committees that deal with EU legislation, and whether those memoranda have been made formally available to the Scottish Parliament.

**The Convener:** With the addition of that recommendation, are members happy to agree to the recommendations in the paper?

**Phil Gallie:** I do not want to comment on the detail of the matter. It seems to me that we are doing well overall, but I would like to know how we compare to other countries in Europe. Is there any way we can get those figures?

**Mr Wallace:** There is a table—

**Phil Gallie:** Is there? I would like to see the most recent table. Would it be possible to obtain that?

**The Convener:** Yes, we can do that. Does everyone agree to the recommendations in the paper and to Jim Wallace's further recommendation?

**Members indicated agreement.**

## European Commission Work Programme 2006

16:15

**The Convener:** Our next agenda item concerns the regular tracking paper on the Commission's work programme. Do members have any comments? It is a short paper this month.

**John Home Robertson (East Lothian) (Lab):** Commendably so.

**Phil Gallie:** Irene Oldfather made some comments about parameters and I think that Bruce Crawford added that the levels of payment excluded the kind of companies that we have in Scotland. What was the final version of the situation? How does it impact on business in Scotland?

**Irene Oldfather:** I have not seen the European Parliament's debate on the matter, which took place last week, on 13 December. The position that I outlined was the one that the Committee of the Regions agreed to put to the European Commission. My understanding is that the European Parliament has produced a slightly less favourable version, but I am happy to look into that and report back to the committee. I do not believe that the European Parliament set the threshold at the same level as the Committee of the Regions had done.

At the end of the day, it is up to the European Council and the Commission to decide. They will have reports from the Committee of the Regions and from the European Parliament. I presume that the Commission will put the measure in place early in the new year. I do not think that the European Parliament was as generous as the Committee of the Regions was. That is another good reason for having Committee of the Regions reports, because we are the tier of government that is closest to the people and we can see directly the implications of some of the proposals in Scotland. As I said, I have yet to find out, but I think that the European Parliament was not as generous as the Committee of the Regions was.

**The Convener:** Can I interrupt for a moment? Nobody has actually said what we are talking about, which is the European globalisation adjustment fund.

**Phil Gallie:** I apologise—thanks very much for that, convener.

It is a bit unfair on Irene Oldfather to expect her to report on that matter. Perhaps we should ask the clerks to get feedback on the final threshold.

**Irene Oldfather:** I do not want this to be taken as gospel, but I believe that a threshold of 500



workers was agreed on, which is significant for Scotland. One suggestion that I mentioned in the presentation that I gave on the issue at a previous committee meeting was on the doubling of the available funds which, in essence, have been made up of money that is not used—they are the underspend within structural funding. I do not think that the European Parliament agreed to that, but I am not sure.

**The Convener:** The clerk has just reminded me that we have written to the Scottish Executive on the specific question that arose during the previous meeting. We await a response.

**Phil Gallie:** Did we write on the services directive, which has now gone through and which has been warmly welcomed in some quarters? I would like to know what the directive means for Scotland and what the Executive sees as the opportunities and shortcomings in it.

**Jim Johnston (Clerk):** The committee could certainly write to the Executive asking for its view. As the paper says, the directive is expected to be published in January or February 2007. I understand that it will take about three years for it to be brought in.

**Phil Gallie:** The European Parliament has approved the directive, so now is the time to act. We keep saying that we should get in early and find out what measures mean and what the opportunities are. We should make progress on that basis and ensure that the Executive also does so.

**Bruce Crawford:** I agree fully with Phil Gallie on the services directive. We should also ask the Scottish Parliament information centre for its view on what the directive will mean. I am sure that the Executive will point out what it thinks will be the benefits or disbenefits of the directive, but a wider view might be useful. I have heard the directive discussed recently in relation to the employment of disabled people through organisations such as Remploy. It was suggested that the directive might give a procurement advantage and help industry in that way. We heard today about small and medium-sized enterprises; the directive might be able to help by bending some of the spend to allow innovation and projects to come through from SMEs. It would be useful to know what avenues we could open up in relation to the directive.

**The Convener:** I am sure that Iain McIver of SPICe will be delighted to get on to that immediately.

**Irene Oldfather:** We should not forget our European officer, who could, I am sure, update us on some of the issues.

**The Convener:** We will have a joint effort. I am sure that it will be wonderful.

## Pre and Post-Council Scrutiny

16:19

**The Convener:** Agenda item 5 is pre and post-council scrutiny. Do members have any comments on the paper for this item?

**Phil Gallie:** Thank you very much for prompting me, convener.

I have a comment on page 5, which is on the draft budget for 2007. The issue is not really for the Scottish Parliament, but I recall that when that budget was set the Prime Minister agreed to budget payments that were dependent on further renegotiation on the common agricultural policy. I see no mention of that in the paper, although I am sure that that is not a mistake.

**The Convener:** Is that just a comment that you want to put on the record?

**Phil Gallie:** I want to put on the record the fact that what was promised has failed to materialise. Once again, we have paid more than we should have done: money has gone into the great black hole of Europe and promises have not been fulfilled.

**Irene Oldfather:** Mr Gallie cannot have read this week's Open Europe press summary, in which the *Financial Times* is reported as saying that Mr Cameron went to Brussels to take on the Commission on common agricultural policy, but came away backing

"the 'Europe of results' approach of José Barroso."

We all have problems.

**The Convener:** She has been waiting the whole meeting to tell you that, Phil.

**Phil Gallie:** I will not compromise my position. I was talking about the Prime Minister and the pledges that he made, which are as yet unfulfilled.

**The Convener:** That is not like the Prime Minister.

**Irene Oldfather:** I am tempted to remind Mr Gallie that the Conservatives took us into the common agricultural policy.

**Phil Gallie:** That was under Ted Heath. I take no responsibility for the things that he did.

**Irene Oldfather:** Or Mr Cameron?

**The Convener:** The discussion is now ended, children.

**Mr Wallace:** There has been no mention as yet of Margaret Thatcher and the single market.

**The Convener:** Mr Wallace, we do not need you stirring things up.

## Sift

16:21

**The Convener:** Item 6 is our regular scrutiny of European Community and EU documents and draft legislation. Do members have any comments on the sift document?

**Phil Gallie:** Even though we do not spend much time on the item these days, the sift is still a useful paper for demonstrating the amount of stuff that goes through the process. On that basis, I congratulate the clerks on putting together the paper. They know why I made that statement.

**The Convener:** We all know why you made that statement. We will discuss it later.

Do members agree to refer the papers that the document highlights to the committees that are suggested?

**Members** indicated agreement.

16:22

*Meeting continued in private until 16:55.*

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