

# **EUROPEAN AND EXTERNAL RELATIONS COMMITTEE**

Tuesday 24 June 2008

Session 3

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# CONTENTS

Tuesday 24 June 2008

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DECISION ON TAKING BUSINESS IN PRIVATE.....	755
EUROPEAN UNION BUDGET REVIEW .....	756
TRANSPPOSITION OF EUROPEAN UNION DIRECTIVES INQUIRY .....	774
SCOTTISH GOVERNMENT TRANSPPOSITION REPORT .....	775
“BRUSSELS BULLETIN” .....	776

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## EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

13<sup>th</sup> Meeting 2008, Session 3

### CONVENER

\*Malcolm Chisholm (Edinburgh North and Leith) (Lab)

### DEPUTY CONVENER

\*Alex Neil (Central Scotland) (SNP)

### COMMITTEE MEMBERS

\*Ted Brocklebank (Mid Scotland and Fife) (Con)

\*Patricia Ferguson (Glasgow Maryhill) (Lab)

\*Alasdair Morgan (South of Scotland) (SNP)

\*Irene Oldfather (Cunninghame South) (Lab)

\*Gil Paterson (West of Scotland) (SNP)

\*Iain Smith (North East Fife) (LD)

### COMMITTEE SUBSTITUTES

Jackie Baillie (Dumbarton) (Lab)

Keith Brown (Ochil) (SNP)

Jackson Carlaw (West of Scotland) (Con)

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

\*attended

### THE FOLLOWING GAVE EVIDENCE:

Gary Titley MEP (Lab)

### CLERK TO THE COMMITTEE

Dr Jim Johnston

### ASSISTANT CLERKS

Ian Cox

Lucy Scharbert

### LOCATION

Committee Room 1



## Scottish Parliament

### European and External Relations Committee

*Tuesday 24 June 2008*

[THE CONVENER *opened the meeting at 11:00*]

### Decision on Taking Business in Private

**The Convener (Malcolm Chisholm):** Good morning, everyone. Welcome to the 13<sup>th</sup> meeting in 2008 of the European and External Relations Committee. Agenda item 1 is consideration of whether to take items 6 and 7 in private. Is that agreed?

**Members** *indicated agreement.*

## European Union Budget Review

11:00

**The Convener:** Under item 2, we return to the European Union budget review. Today, we will take evidence by videoconference from Gary Titley MEP, who is a member of the European Parliament's Committee on Budgets.

Welcome, Gary. Thank you for taking the time to speak to the Scottish Parliament's European and External Relations Committee. I invite you to give your opening statement.

**Gary Titley MEP (Lab):** Good afternoon, as it is here in Brussels, and thank you for the invitation to speak, convener. I begin with a health warning. The real expert on the European Union budget is my former colleague Terry Wynn, who chaired the Committee on Budgets for many years, and who retired from the European Parliament a couple of years ago. As leader of my delegation, it was my job to fill the vacancy. I will do my best, but if you want a real expert, you should invite Terry Wynn along to a future meeting.

As you know, the European Commission said that it wants a review with no preconceptions. In other words, it wants to encourage some blue-sky thinking. Let me say straight away that my experience of the budget process is that we will not get any blue-sky thinking. What we will get, in the end, is a debate on the familiar territory of the UK rebate and the UK position that we should get rid of the common agricultural policy altogether. Basically, 26 member states will say, "We want to get rid of the rebate" and the UK will say, "We want to get rid of the CAP." That will be the essence of the discussion.

Neither of those things will happen. I make it clear at the outset that the current agreement states that the UK rebate will continue after 2013. It is also clear that the CAP will not be abolished, although it might be further reformed. However, you also need to bear in mind an important factor that has come into play. By 2013, countries such as Poland will be full members of the CAP. The French Government has woken up to the fact that that means that France will have to make a hefty contribution to Poland's farmers. In his statements, President Sarkozy inevitably tries to face in two directions at the same time, but he nevertheless gives a much more positive view than we have previously heard from the French about CAP reform.

I also stress that I do not envisage that there will be any increase whatsoever in the EU budget. At the moment, the maximum member state contribution is 1.24 per cent of gross national income. In reality, most budgets, including the

current one, come in at less than 1 per cent of GNI. There is no enthusiasm in national capitals—and even less enthusiasm now, given the economic climate—for increasing the EU budget. I do not anticipate that contributions will be raised to more than 1.24 per cent of GNI and, in reality, they will be about 1 per cent.

However, the purpose of the review is to talk about strategy. It is not to talk about money. The Commission said, “Let’s talk about where the budget is going to go. Then, in the lead-up to 2013, we will talk about money.” It is clear that the European Parliament will begin to talk about financial perspectives after 2009. It is not doing that at the moment. The review is about strategic thinking.

Because the big issue for us, inevitably, is the UK rebate, we need to understand how it came about and why we needed it. The simple answer is that expenditure on the CAP was running out of control. As a net importer of food, the UK found that it had to spend much more than any other member state in contributing to the budget, and that was at a time when we were the least rich of the then nine member states. In 1965, the CAP represented about 35 per cent of the budget. By 1985, when we in the UK started to become uncomfortable about the situation, the CAP represented some 71 per cent of the budget. That shows how far expenditure had run out of control.

I stress that we are going through serious CAP reform. The British National Farmers Union tells me that the reform is the most radical thing to happen to farming since 1945. By 2013, reform will bring agricultural spending down to 32 per cent of the budget. I do not want people to think that there is no reform of the CAP. It is going through, although we need to control expenditure much more.

We must also examine the income side. The EU’s income is complicated, but essentially it comes from three sources. Traditional own resources are basically customs duties that are levied when goods enter the customs union, which is what the European Union is. They represent about 15 per cent of total revenue. Originally, the idea was that the European Community should be funded only from traditional own resources, but because expenditure went out of control, a VAT base was added, which represents about 15 per cent of total revenue. It represented more than that, but it has been cut down because the VAT base is digressive, so poorer member states end up paying more than they would normally be due to pay. The bulk of the EU’s income is now based on gross national income, which represents about 69 per cent of the total.

There are two problems with the EU’s income. First, relying on gross national income means that

member states pay money directly into the budget. That encourages not just the UK but other member states to say, “It’s our money. We want to make sure we get it back.” In a sense, the contribution becomes a cash-register purchase, and member states note how much goes out and how much comes back in. That makes the negotiations difficult.

In my fantasy world—I stress that it is a fantasy, because the UK Government certainly does not agree with me—it would be better if the EU had its own source of income. That need not be in the obvious form of an EU tax. It has been suggested as part of the climate change agenda that the revamped emissions trading scheme will involve the auctioning of allowances to emit carbon. That will bring in a lot of money and it has been suggested that the money should go to the European Union to fund its activities. Under that approach, there would be a clear European dimension to the budget, which would no longer be simply a matter for member states. That is my favourite fantasy, but the British Government opposes anything that could remotely be called a European tax, as do some other member states.

Secondly, it is not just the UK that has a budget rebate. Technically, it is a correction mechanism, but we now have correction mechanisms of correction mechanisms. Germany, the Netherlands, Austria and Sweden have special reductions of the amount that they have to pay to the British rebate. It seems to me that, if we have ever-more-complicated correction mechanisms, the system is wrong. That is why I reject the European Commission’s suggestion that we should have a generalised correction mechanism. We cannot have a generalised correction mechanism; we must change the system. So, we need to consider the income side as well as the expenditure side.

Another important proposal relating to the Lisbon treaty is that we must try to get the timetable for the budget more in synch with political developments. At the moment, we have a seven-year financial perspective that bears no relation to the election of a new Commission, which serves for five years, or the election of a new European Parliament, which serves for five years. The Lisbon treaty foresees the reduction of the financial perspective to five years. If we do that, there will be a much closer correlation between the politics and the finances.

For example, a new Parliament would be elected in June, a new Commission would be in operation by the following January and the financial perspective for the next five years would then be fixed in the first year of the new Parliament. That would give the budget process a much clearer sense of political priorities. One of the problems at the moment is the fact that the

budget process is remote from political priorities. It is certainly remote from the political reality in the European Parliament. We can return to those issues in a moment.

We need to decide principles on which to base the EU budget and I argue for simple ones. First, the European Union should do only what member states cannot do or could not do as well as the EU could do it. There must be a sense of European public goods—what the EU budget is for. For example, we have trans-European networks, which are infrastructure projects that open up the internal infrastructure of the European Union. Those are big projects that are often well beyond the capabilities of an individual member state, but which benefit the European Union as a whole. Perhaps such projects should be funded more from the European purse—and not just from the budget, but from the European Investment Bank as well.

Secondly, any EU action must be proportionate to the job in hand and must be flexible. We should not always assume that we need spending to deliver a policy objective, as we can do that by other means.

Thirdly, there should be a high level of financial management and administration.

Fourthly—this is a very important point, which comes from my experience of the European Parliament—there should be a sufficiency of resources for external actions. The Council of Ministers is good at promising to reconstruct Kosovo or Bosnia without saying where the money will come from. We need a much greater sense that, if member states want to do something, they must come up with the money and be clear about where it is coming from.

Those are the basic principles. On the policies, we must ask ourselves how the European Union has changed since 1956 or 1957. It is now much more diverse with more diverse demands, many of which are external. The European Union tends to focus on internal matters such as the completion of the single market and the creation of the euro, but many of the pressures that we face are external. Climate change, migration, terrorism and crime are the big challenges of the day. We must ask ourselves whether the budget matches those pressures—whether we are doing sufficient about those things. That is the key to the discussion that we are having.

I will address some specific policy areas. Most studies suggest that the CAP is not a good use of money. There is not a clear enough identification of objectives, nor a clear enough assessment of how those objectives are set. Under the CAP, we should look for more specific payments than simply the giving of money to farmers. We should

move the spending much more from pillar 1, which is direct support for farmers, into pillar 2, which is about environmental and rural projects. The European Union needs a more sophisticated rural development policy, involving not just agriculture, but various other aspects of rural policy.

11:15

We must also invest in measures to combat climate change. The current budget shows a big increase in the amount of money that is being invested in such measures, but the question is whether that is enough or whether we need to invest much more to combat climate change.

The position is similar on energy policy—energy security is a big issue. Most of the measures that are taken under energy policy, such as the liberalisation of the market, do not need EU expenditure. Nonetheless, we need investment, most importantly in research and development. To deal with climate change we need—as somebody said—the equivalent of President Kennedy saying that we would have a man on the moon within 10 years. There must be a dramatic leap forward in our technology, and we must get to a carbon-free economy much faster than is being projected. Should we not establish close European research and development to modernise our economy?

Another principle of the Lisbon agenda that we want to follow is that of developing a more competitive economy. Most of that is to do with policy instruments other than budgetary instruments; however, we need to be sure that the budget is pursuing those objectives.

I referred to external relations. The EU has a big responsibility in terms of its neighbourhood policy to ensure that we have stability on our borders. Traditionally, EU policy has been about engagement and economic assistance to provide stability. We now face serious issues with failing states just beyond our borders. Do we have enough resources to pursue our ambition there?

I mentioned migration. We are investing a lot of money in a frontier agency called Frontex, which works with existing countries' border controls. Given the scale of migration and illegal migration, any budget must emphasise how we deal with migration—illegal migration, in particular—and how we ensure that we have common policies on combating terrorism and crime. The budget must focus on whether we are putting enough resources into that work at a European level.

I turn finally—I have left this until last because I suspect that it is an area of particular concern to the Scottish Parliament—to regional funding. Do we need a better strategy for regional funding? At the moment, we are concerned mainly about the regions' ability to absorb the funds. In my view, not

enough attention is focused on the quality of execution and the quality of outcomes. We need a more rigorous approach. We also need the policies that are pursued through regional funds to be aligned more closely with the Lisbon agenda.

The big issue that you will need to address is the position that is taken by the United Kingdom, along with some of the other net payers to the European Union, that regional and cohesion funds should go only to the poorest countries—not, for example, to parts of the United Kingdom that are already wealthy—and that it would be better for wealthy countries to spend their own money on their own regional policies. When MEPs had constituencies, I represented Greater Manchester West, which included Salford. In the days of the previous Government, the only money that Salford received for capital expenditure came from the European Union, not from the Treasury. You must form a judgment on whether, if you want a national regional policy, you trust the Treasury to deliver. The situation in Scotland is, obviously, slightly different; nevertheless, that is a factor to take into account.

I apologise for going on rather longer than I intended, convener. I am happy to take questions.

**The Convener:** Thanks very much. That was extremely useful on both income and expenditure. I will kick off the questioning on the expenditure side. I ask my colleagues to introduce themselves when they ask a question. I should set an example. I am Malcolm Chisholm, the convener, as you know.

I have a fairly general question that you have covered, to some extent. You have indicated several areas in which you think that there needs to be increased expenditure. At the moment, between 30 and 35 per cent of the EU budget in each case goes on the CAP and cohesion funds. You have indicated that you would like CAP funding to be reduced. To what extent do you want money to be freed up from CAP expenditure and from cohesion funds? Alternatively, could measures against climate change, for example, be promoted through those funding streams?

**Gary Titley:** I would like more money to be released from the CAP because, according to any analysis, it is not delivering on our objectives. We need to adopt a much more intelligent approach that acknowledges the difficulties that are encountered with certain types of farming, such as hill farming, but which leaves most farmers to produce in the market without any restrictions or quotas. We should put the money into environmental projects and rural development, as I said.

Ideally, we favour a zero-based reform, which would involve every budget line starting at zero.

Expenditure under each budget line would have to be justified. Budget lines grow in any institution, not just in the European Union, and not enough emphasis is placed on asking why we continue with a particular approach instead of rejecting it.

The second question that needs to be asked is about value for money and whether action at a European level provides greater value for money than leaving it to member states to take action. That is a judgment for member states to make. There are certain areas in which value is achieved at European level—I mentioned the example of trans-European networks—and there is no doubt that cohesion funds help to increase the wealth of the poorest areas, which allows them to spend money in the richest areas; there is a European dimension to that.

A lot of money that goes out of the UK comes back into the country in the form of regional fund money. Would it not be better for that money to stay in the UK? We must be quite ruthless in identifying where value is added. In my view, value is added in research and development, European co-ordination and European research projects. The biggest area in which research is required is carbon capture and storage, which is still in its infancy. A small project has begun in Norway, but huge amounts of money are needed. That is an ideal area in which a project could be driven at European level, which, by bringing together the EU's best scientists, would allow us to move much more quickly than we are doing at the moment. We need to develop proper technology in carbon capture and storage as soon as possible. That is an example of the sort of project that I envisage us having at European level.

**The Convener:** You said that, in principle, you were against correction mechanisms. Will it be possible to get rid of them while significant CAP payments continue? Surely that is a problem for the UK. How would you get round that problem?

**Gary Titley:** If we want to reform the CAP by further reducing the provision of direct support to farmers, we must also examine the income side—I stress that that is my personal view. If a member state Treasury pays money over, it will be concerned about how much it gets back in, but with expenditure at European level, the concern about how much is got back in is not directly related to the budget. The issue must be approached from both sides. The UK has just produced a paper on the EU's budget that considers expenditure but not income. The income side is the elephant in the room that we do not want to talk about. We should be much more imaginative in examining the income side.

**The Convener:** That was helpful.

Irene Oldfather will follow up on the CAP.



**Irene Oldfather (Cunninghame South) (Lab):**  
Good morning, Gary. How are you?

**Gary Titley:** Fine. Good morning.

**Irene Oldfather:** I want to pursue the issue of decoupling, which makes a lot of sense and has a certain resonance with Europe's citizens. On issues such as tobacco subsidies, there does not seem to be a great deal of sense in continuing with the present method of payment. However, given the political difficulties that have been experienced in the past, do you think that the Mediterranean countries will support its continuation?

You mentioned the idea of moving to a five-year budget cycle as a way of bringing it into sync with the political agenda, but is it not the case that that could bring problems? Is the CAP an example of an area in which problems and political difficulties would be created, or would they exist regardless of the cycle?

**Gary Titley:** You said that the adoption of a five-year budget cycle could bring problems, but it would bring politics. One of the problems that we have in the European Parliament is that consideration of the budget is not sufficiently politicised. We ought to debate how the money will be raised and how it will be spent prior to a European election. I would welcome that; it would be a big plus as regards increasing the turnout.

You are right about tobacco subsidies. Every year we have a tremendous debate in which people who would normally be in favour of good financial administration lose their heads because they feel that they must protect tobacco and olive oil producers. It is an issue on which divisions arise among members of the socialist group. In my view, there is absolutely no justification for us to subsidise tobacco production, particularly as we spend only a small proportion of the money that we spend on such subsidies telling people not to consume tobacco.

The consistency of EU policies is a dimension that we have not yet addressed but which we need to consider. For example, we spend money on helping developing countries but, rather than do that, we would be better to cut out all export subsidies. There are areas in which our policies are contradictory. We try to make people healthier but we subsidise tobacco production. EU policies must have greater internal coherence.

Frankly, the idea of providing subsidies for production is dying if not dead. The danger is that we are providing farmers with income support on a historical basis rather than on the basis of what is happening or what will happen. If we are to continue to provide such income support, it should be much more closely related to what is

happening on a farm now than to what has happened on it over the past 20 years.

A third question that we need to ask is why we give money to big farmers who are already profitable. The Government has always resisted change on that front because Britain has many big farmers, but we should be consistent in our approach to the CAP. We should say that any support should be given only to those farmers who need it because they are pursuing policy objectives that we as a community support, as is the case with hill farming, for example. I do not know whether that answers your question.

**Irene Oldfather:** Yes, it does. I have another question, which is about the income side of things.

**The Convener:** Alasdair Morgan has another question on the CAP.

**Alasdair Morgan (South of Scotland) (SNP):** Leaving aside the obvious nonsense of the tobacco subsidy, do you have a vision of what agriculture might look like in the future? Many farmers who are not necessarily marginal farmers depend substantially on the subsidy mechanism. It strikes me that, regardless of how that mechanism is reformed, if the total cost of it is reduced the income of farmers who gain from it will be smaller. It seems that no one wants to consider what the state of agriculture in the UK might be in such circumstances if, at the same time, tariff barriers on agriculture are taken away. Given that the world as a whole faces food shortages, it is ironic that we almost seem to be prepared to see our agriculture sector go to the wall.

**Gary Titley:** I do not think that it would go to the wall and nor does the National Farmers Union—that has certainly been the view of its representatives when I have met them.

You raise a number of interesting points. The starting point is to ask why we should subsidise farmers when we are not prepared to subsidise coal and steel workers, for example. The same principle applies. Farming should be practised on the basis of the market. If someone can grow a crop or develop a product that can sell, they should be allowed to do that without any hindrance in the form of, for example, artificial quotas. That encourages people to develop new ideas and to innovate, which, in turn, guarantees the quality of our farm production. One of the issues that we have had with both BSE and foot-and-mouth disease is that a mass production process in farming has inherent dangers. In the UK, the farming sector is increasing diversification of breeds, for example, which is a specialist market.

11:30

On getting rid of export subsidies, if the world price is rising, we do not need those subsidies as

much. I understand that wheat production is at a record high world wide, because the market is responding to the demand for more food. You could argue that food shortages are the result of our trying to control agricultural production in the past, rather than allowing farmers to respond properly to the market.

The NFU believes that the sooner we go down this road the better, because British farmers want to be able to innovate and to be free to take opportunities that develop in the market. The one area of concern is that, under the CAP, there is a big requirement for cross-compliance, which means that we have to meet environmental standards and standards on animal welfare. Can a farm in the UK that breeds chickens according to free-range principles compete with farms in Asia that export mass-produced chickens? Money may well be sent to farms that encourage improvements in animal welfare so that they can deal with what we might say is unfair competition from farms in areas where there is poor animal welfare.

I am still convinced that farming, just like anything else, will benefit from being open to the market, which will allow farmers to innovate and develop their own ideas. The farmers to whom I have spoken—admittedly, I have not spoken to hundreds of farmers—believe in that. They want to be able to sell their own produce in their own way.

**Gil Paterson (West of Scotland) (SNP):** How would we square leaving the vagaries of agriculture to the marketplace with the policy to try to retain population in certain parts of the countryside?

**Gary Titley:** One of the problems with the CAP is that it has confused the different policy objectives of growing food and finding ways to keep people in the countryside. That is why we need a much more imaginative rural policy that involves not just farming but the development of small businesses and infrastructure in rural areas. Given that we are moving towards an information society, it is less important for people to be in the big cities. We should move away from the idea that farming is for farmers to the idea of farming according to the markets. Rural communities need special treatment and help at national level with such things as transport, but we should separate out the policy objectives. It is a mistake to try to use one policy instrument to achieve more than one policy objective.

**Gil Paterson:** Is that not a contradiction in terms? How would you retain a population in an area where hill farming, for instance, is the only game in town? You cannot just give everyone computers and expect them to start doing business with the city.

**Gary Titley:** As I said in my introductory remarks, given that there is a clear environmental and societal benefit to certain types of farming—such as hill farming—you might well want to retain support for those specific types. However, that policy would not apply to all farming. You have to be clear what your policy objective is.

**Iain Smith (North East Fife) (LD):** I want to explore issues around the reform of the budget process that was envisaged in the Lisbon treaty and the implications of the current situation with the Irish referendum. I agree that it would make more sense for the budget to be aligned to the political processes of the election of the European Commission and the European Parliament. Under the present system, the European Parliament that will be elected next year will have virtually no influence on the budget that will run for most of its term. I strongly support the principles behind the Lisbon treaty whereby the European Parliament would have much greater influence in the overall budget process. Given the current situation, what do you think is likely to happen? How will the European Parliament's influence be increased? What steps can be taken to get the budget period and the electoral cycles better aligned?

**Gary Titley:** The Lisbon treaty is not coming into effect on 1 January next year, so the work that has been done will have to be put into deep storage, at least until someone is clear about where we go from here.

The European Parliament already has considerable budgetary powers and, over the years, it has exercised a remarkable ability to use them. We work on the principle that if we have people by their euros, their hearts and minds will usually follow. I am not particularly concerned about the effect of the delay in the Lisbon treaty on the European Parliament's budget procedure.

It is important to bear in mind that, for the European Parliament, the big change is the abolition of the distinction between compulsory and non-compulsory expenditure. For simplicity, let us say that compulsory expenditure is expenditure on agriculture and non-compulsory expenditure is expenditure on everything else. The European Parliament has the final say on non-compulsory expenditure and the Council of the European Union has the final say on compulsory expenditure. That has meant that there has been something of the dialogue of the deaf during the budget process. The great thing about the Lisbon treaty is that it would abolish that distinction—we have been asking for that for a long time. It would reduce the budget procedure to one reading and allow the European Parliament to keep the power to reject the budget.

At the moment, the financial perspectives are decided by Governments. The Commission

produces a report and the European Parliament has an opinion on it—nothing more. The Governments argue it out at 4 o'clock in the morning until they eventually reach agreement. Technically speaking, the Parliament can reject the perspectives, but there is huge pressure on it not to do so. As you will recall, the current financial perspectives were agreed under the British presidency at a late hour, but they have been delayed at least 12 months. New member states said that they desperately needed the money to get on with their projects and our regions said that they desperately needed the money and asked us not to hold up the budget any longer. Although we got some important concessions from the Council on certain lines of expenditure, the Parliament was never really going to reject the perspectives.

I would like the European Parliament to have a legal power to comment on the Commission's initial proposals on the new financial perspectives so that what goes to the council is a joint Commission-Parliament text. That means that the council would have to have much more regard to the Parliament's position. That is missing from the Lisbon treaty. There is no doubt that the Lisbon treaty would streamline the procedure so that it would be easier to understand, or that it would give the Parliament a co-decision power over compulsory expenditure. I regret that that is not going to happen but, as I said, the Parliament is good at using its existing powers to achieve similar objectives.

**Alex Neil (Central Scotland) (SNP):** You said that 1.24 per cent of European gross domestic product is the limitation on the EU budget. I think that everyone would accept that there is a lot of waste. For example, there is the sheer waste of money that results from the fiasco of keeping the Parliament building in Strasbourg alive to suit the French, and there is the fact that some of the EU's programmes are totally redundant because they simply displace the activities of nation-state members. Would not it be better to begin by reducing the cap to, say, 1 per cent and then to decide, within that 1 per cent, where the EU could make the greatest impact through its spending? That is my first question.

Given the shortage of time, I will put my second question—[*Interruption.*]

**The Convener:** Oh, dear! You have frightened him off. The link has gone down.

**Alex Neil:** Mr Tittley has gone the same way as the Lisbon treaty.

**The Convener:** He had just given a good argument in favour of the Lisbon treaty.

**Alex Neil:** I think that we have lost him.

**Irene Oldfather:** That is the impact that you have on people.

**The Convener:** I suspend the meeting while we try to recover the link.

11:40

*Meeting suspended.*

11:41

*On resuming—*

**The Convener:** We are back.

**Alex Neil:** Can you hear me, Gary?

**Gary Tittley:** Yes, perfectly.

**Alex Neil:** Did you hear my question?

**Gary Tittley:** You had got as far as mentioning EU waste and suggesting a cap of 1 per cent.

**Alex Neil:** Once such a cap had been set, a decision could be made on the spending priorities that would allow the EU as an institution to make the greatest impact without displacing the existing activities of nation-state members.

For the sake of time, and in case we lose contact with you again, I will ask my second question. Does a carbon trading scheme not have the same problem as a carbon tax, in that if it achieves its objective, the revenue from it will decline rather than increase in the medium to long term?

**Gary Tittley:** It is important to bear in mind that although the ceiling is 1.24 per cent of GNI, the present budget comes in at significantly less than 1 per cent of GNI. Basically, the institutions are working informally to a cap of 1 per cent. If your suggestion were adopted, I do not think that it would change anything.

Waste can be identified in all organisations. Alex Neil identified an important source of waste—the fact that the European Parliament continues to meet in Strasbourg for part of the time. I would dearly love us to put an end to that nonsense, and I hope that in the future other member states will show a bit more courage in taking on the French on that issue.

Alex Neil is right that we should consider the impact of policy—that is what I said we should do. We must assess which of our policies have a genuinely European dimension, but we cannot really do that at the moment. Now that we have a financial perspective and the multi-annual financing has been agreed, the European Parliament is able to alter that amount only at the margins—if I remember rightly, the figure is about 5 per cent, although I could be wrong. It is difficult to adopt such an approach within the framework of the existing financial perspective, but it could be done in the lead-up to the production of the new

financial perspective. The question that we should be asking in the budget review is this: What expenditure will have a genuinely European dimension? We should focus on that.

Although the revenue from a carbon trading scheme would gradually reduce in the longer term, in the short term we would look to put a big price on carbon—the existing emissions trading scheme did not put a big enough price on carbon—in order for the scheme to have any effect. Such a scheme could be a source of income in the short term, although I stress again that that is my personal fantasy rather than anyone's official policy. It is also my view that if we say—I know that the Treasury hates the thought of this—"The money from this environmental policy will go towards projects to do with climate change," the prospect of having to pay the bills becomes much more acceptable to people.

**The Convener:** In the short term, what percentage—in your fantasy—of the budget could the carbon trading scheme raise?

11:45

**Gary Titley:** Carbon credits will be auctioned, so we do not know exactly how much the scheme will raise. My colleague Eluned Morgan has done some work on the issue and believes that the scheme could make a substantial contribution to the EU budget, which is currently about £80 billion.

**Irene Oldfather:** I should have thanked you at the beginning of the meeting for your helpful written submission, which answered many of our questions. Alex Neil raised one or two issues on the income side. In your submission, you describe the present system, which is based on traditional own resources, value added tax and GNI. You mention that the UK is in favour of a GNI-based system. However, in negotiations a few years ago the UK did not want the EU budget limit to be set even as low as 1.2 per cent of GNI. Is it the UK's position that the figure for any future EU budget should continue to be based on GNI and that the overall budget should be reduced? Is there merit in doing away with the traditional own resources and VAT elements of the system? In your submission, you mention the complexities of collecting that income.

**Gary Titley:** The British Government wants the EU budget to be as small as possible and to keep it at well under 1 per cent of GNI. Other net contributors such as the Netherlands take the same view. Of course, the countries that receive the money have a different view—that is part of the policy debate. What was the second part of your question?

**Irene Oldfather:** In your submission, you mention the difficulties of collecting value added

tax. Your fantasy is that there should be an EU tax—I would have to give artificial resuscitation to some of my colleagues if such a tax were proposed. Given the opposition to an EU tax that exists in a number of member states and the political difficulties that it presents, it is probably a much longer-term proposition. In the present EU review, could we do away with income from VAT? Would there be much to gain from that, given the complexities and difficulties that are associated with collecting the tax that you identify?

**Gary Titley:** Yes. I will not go into the complexities of the VAT system, as I am not entirely sure that I have mastered them. One difficulty with VAT is that it is seen to discriminate against poorer countries, because VAT is a larger percentage of revenue in such countries than it is in richer countries. It also discriminates against countries that have bigger service economies because VAT is paid on services.

Putting to one side my fantasy position, we must try to find a system that does not rely totally on GNI. The problem with GNI is that it involves countries saying, in essence, that they want back the same as they pay in. Because every member state says that, we end up with unholy rows until 5 o'clock in the morning. There needs to be a more logical way of saying that certain income streams are dedicated to the European Union. We have that with traditional own resources, but the proportion of that revenue that is kept by the EU has been reduced by 50 per cent—member states keep the rest. The original principle was sound; income from the customs union went towards paying for the Union's budget, which gets rid of the notion that countries should get back the money that they have paid in. One of the key elements of the European Union is solidarity—it is about helping one another out. Late-night squabbles about who owns the money do not enhance the image of an organisation that is about working together. I want to see a different way of raising revenue.

**Irene Oldfather:** Thank you. We are picking your brain because you are clearly a bit of an expert. If the traditional own resources system worked in that way—I think you are saying that it would have a pan-European communautaire feel to it—why would it have been cut? Why would it have been changed in previous budget reviews?

**Gary Titley:** Governments say that the customs duties that they collect are really theirs because the goods are coming into their country—the British Government is very good at that. The fact that goods might have come into one country on their way to the European market is sometimes conveniently ignored. Pressure came from Governments to reduce the amount that they had to hand over to the EU and to increase the amount

that they were keeping. That is why we went on to VAT. That was not enough, so we went on to GNI.

There is no doubt that controlling expenditure is a key factor, but I would like to see a different approach to raising revenue, and I would like to go back to greater use of traditional own resources. The problem with traditional own resources is that a country through which a lot of goods travel gets a lot of that money and pays it over to the European Union, and it will want to have some of it for itself. A lot of goods go through Amsterdam because it is a port, so the Dutch wanted to keep a lot of that money for themselves and to see that it was distributed fairly. That is one of the difficulties with any own-resources system, or with trying to make a coherent system that is based on income. I recognise the difficulties with traditional own resources, but we are missing an opportunity if we cannot devise a system that gets us away from countries saying, "It's our money and we want it back."

**Ted Brocklebank (Mid Scotland and Fife)**  
(Con): Good morning. I must say that, to my surprise, although you are a Labour MEP, I find myself in agreement with a great deal of what you have said.

Is there really an appetite for tackling the anomalies that you were talking about earlier? You talked about tobacco and support for tobacco farmers when money is going into advising people about the evils of tobacco at the same time. A more interesting situation is the fact that the EU has an international development fund at the same time as we are subsidising exports. Why should the EU be into international development funding in the first place?

**Gary Titley:** First, we have an agreement with the Afro-Caribbean and Pacific countries that are, in essence, former colonies of EU member states. Part of the conditions of the establishment of the EU with France and the United Kingdom was the agreement to have for those countries special arrangements that would replicate the special arrangements that they had with member states. However, most people believe that the EU, which is a major economic power, has a responsibility for the rest of the world and that it can help other countries to develop their economies and strengthen their positions. At the end of the day, the more wealth those countries have, the more they will buy from us. It is simple enlightened self-interest to have a development policy.

However, we need consistency. It is no good giving money with one hand and taking it away with the other—that is not an effective development policy—which is why I would like there to be much greater internal coherence in our policy making.

Ted Brocklebank asked whether there is an appetite for taking on those anomalies. At the moment, we can see every day that the EU is going through one of the bouts of nationalistic self-centredness that it goes through from time to time, during which each country looks after itself. We have seen that to a degree with the Irish referendum and with the debates in France and the Netherlands on the previous constitutional treaty. At the moment, there is no desire to take these things on, because we seem to lack the imagination and vision of Chancellor Kohl, François Mitterand and the creators of the European Union.

That is part of the ebb and flow of the EU, but come 2013, when countries such as Poland become full members of the CAP, there will be immense implications for countries such as the United Kingdom, Germany and France. At that point, there will be a greater focus on how we will move forward. The fact that President Sarkozy has, in some of his announcements, shown willingness to completely overturn the French establishment on the structure of French defence is a sign that he recognises the need for France to modernise its approach, although—of course—that does not relate directly to the European Union. As we get closer to 2013, there will be a much greater appetite to take these things on.

One cannot justify to the public a budget in which there are not sufficiently clear objectives and in which it is not clear that the outputs are related to the objectives. That is the situation with the CAP and, to a degree, with regional funds. How can you justify spending money on having the European Parliament decamp to Strasbourg one week in every month when ordinary households are having to restrict their expenditure? There has to be much more realism and a much greater focus.

Germany is no longer prepared to be the unquestioning paymaster of the European Union. I was at an Anglo-German seminar in Germany at the weekend, at which my German counterparts told me that more and more people in Germany are asking why we are spending so much money on certain things and are saying that there needs to be much greater accountability.

An opportunity exists, but we must focus on it. The difficulty is that we are all good at saying what we do not want other countries to have, but not so good at sacrificing what we want. We all want continuing regional funding—we find it difficult to say that we do not want regional funding any more and that it should go only to the likes of Lithuania. We require a much greater sense of enlightened self-interest if we are to find our way through the difficult situation that we face at the moment.

**The Convener:** That was extremely useful. Thank you for taking the time to give us the benefit of your extensive knowledge and your opinions, which are always interesting.

11:58

*Meeting suspended.*

12:02

*On resuming—*

## **Transposition of European Union Directives Inquiry**

**The Convener:** Agenda item 3 is the Scottish Government's response to the committee's report on its inquiry into the transposition of European Union directives. Members have received the papers. Are there any comments?

**Iain Smith:** I agree with the clerks' recommendations, but the response is a little obtuse in places. It might just as well have said, "We'll think about these things when we publish our draft document." Basically, that is all it says. I was especially confused by the response to our suggestion on having a single point of contact. The response seems to be, "This is impractical—but we have a single point of contact." That was a bit strange.

**The Convener:** Is that point additional to what the clerks have said?

**Iain Smith:** Not really—it is just a comment. I am sure that the Government will pick it up from the *Official Report* of this meeting. It just seems strange that there seems to be a single point of contact in the European division, but the Government is saying that it could not provide a single point of contact for transposition issues.

**The Convener:** The response that I found most interesting—the clerks have flagged it up—is that the Government

"will consider introducing a requirement internally to provide"

a transposition plan. The idea of a transposition plan was fairly central to our recommendations, so I was not quite clear whether the Government was saying that the plan would be for internal purposes. The response is a bit ambiguous, because it could mean something else.

**Alex Neil:** I want to return to the issue of the single point of contact. The point is that there will not be another central point of contact for implementation, because there is already a central point of contact that covers all aspects of European policy. That is the point, although it might have been better worded.

**Iain Smith:** Yes, it might have been.

**The Convener:** It may be that some of the issues that we raise will come down to wording. If so, they will perhaps be clarified.

**Irene Oldfather:** The clerks have picked up on the key areas on which we need clarification. I therefore agree with the recommendations.

**The Convener:** Okay, thank you.

## Scottish Government Transposition Report

12:04

**The Convener:** Continuing with the transposition theme, we have the Scottish Government's regular report on the transposition of directives that are in the pipeline. If members are happy with the report, do we agree to note it?

**Members** *indicated agreement.*

## "Brussels Bulletin"

12:05

**The Convener:** We have our regular item on the *Brussels Bulletin*. Do members have any comments?

**Alex Neil:** There is a bit more this week about the EU social agenda, which includes

"proposals on cross-border health, modernising education systems, improving workers' rights and anti-discrimination."

I wonder whether we should draw any of those issues to the attention of other committees.

**The Convener:** I think that the Health and Sport Committee is taking an interest in cross-border health care.

**Irene Oldfather:** I suggested previously that that should be referred to the committee.

**The Convener:** It has been.

**Alex Neil:** There is a reference to multilingualism. Perhaps we should draw the attention of the Education, Lifelong Learning and Culture Committee to that, given its interest in languages.

**The Convener:** Absolutely.

**Alex Neil:** A key part of the education debate in Scotland is the curriculum for excellence. Multilingualism is relevant to that.

**The Convener:** Indeed. I note that there will be a briefing on the package once it has been launched on 2 July. Members may wish to wait until the launch. The other committees should perhaps be notified that there will be a further detailed briefing at the beginning of July. Do members have any other points on the bulletin?

**Ted Brocklebank:** It is worth noting in the fuel subsidy item that there is a meeting today at which draft measures to give help to fishermen who are in difficulties will be rolled out. There is a list of the items that might be available.

**The Convener:** Thank you for drawing that to our attention. There is an interesting contribution from David Martin MEP, which takes us back to our international development report. I thank Ian Duncan once again for his work on that.

12:07

*Meeting continued in private until 12:31.*





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