

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Tuesday 27 January 2009

Session 3

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

2nd Meeting 2009, Session 3

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DEPUTY CONVENER

*Alex Neil (Central Scotland) (SNP)

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

*Keith Brown (Ochil) (SNP)

*Patricia Ferguson (Glasgow Maryhill) (Lab)

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*Jamie Hepburn (Central Scotland) (SNP)

*Jim Hume (South of Scotland) (LD)

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Gil Paterson (West of Scotland) (SNP)

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*attended

THE FOLLOWING GAVE EVIDENCE:

◇Dr Sara Hagemann (European Policy Centre)

◇Dr Fabian Zuleeg (European Policy Centre)

◇by video link

CLERKS TO THE COMMITTEE

Lynn Tullis

Simon Watkins

ASSISTANT CLERKS

Lewis McNaughton

Lucy Scharbert

LOCATION

Committee Room 1

Scottish Parliament

European and External Relations Committee

Tuesday 27 January 2009

[THE CONVENER *opened the meeting at 10:31*]

Decisions on Taking Business in Private

The Convener (Irene Oldfather): Good morning, colleagues. I welcome everyone to the second meeting in 2009 of the European and External Relations Committee.

Agenda item 1 is to agree to take a few moments in private at the end of each meeting on our European Union budget review inquiry to consider the key themes. Is that agreed?

Members indicated agreement.

The Convener: We move to agenda item 2. Next week, we hope to consider the first draft of our report on our China plan inquiry. The normal practice is to consider such reports in private. Do members agree to do that?

Members indicated agreement.

European Union Budget Review Inquiry

10:31

The Convener: Agenda item 3 is oral evidence for our EU budget review inquiry. I am pleased to welcome Dr Fabian Zuleeg, who is a senior policy analyst, and Dr Sara Hagemann, who is a policy analyst, both of whom are from the European Policy Centre in Brussels, who have joined us by videoconference.

Good morning, colleagues. On behalf of the committee, I thank you for your written submission, which we have had an opportunity to read. We have a number of questions to put to you, but I understand that you want to make a short opening statement.

Dr Fabian Zuleeg (European Policy Centre): Good morning. Let me first give a bit of background on the European Policy Centre. The EPC is a Brussels-based think-tank with more than 400 member organisations. We are committed to making EU integration work—that is our mission—but we are not directly connected to the EU institutions. We are completely independent and impartial.

The joint work that Sara Hagemann and I have provided on the budget review emphasises the need for a change in governance. Without a change in governance, it will be impossible to get the policy-driven budget that the budget review aims for.

In this short introductory statement, I will focus on the challenges that the EU faces over the next few decades. That is quite a broad remit, so I will not be able to cover everything, therefore I will just run through what is a fairly long list of challenges. I start with the social, environmental and economic challenges and the sustainable development challenge. We are facing a financial and economic crisis. We also face climate change. We face issues associated with globalisation. We face competition for resources and talent across the world. The demographic situation in most of Europe is such that the sustainability of Europe's social model is challenged. In addition, we have changing societies because of changing family structures and integration issues, especially due to migration. Finally, we have income disparity within and among countries. That is a wide range of quite substantial social development challenges.

We also face political challenges. I will not focus on those in this presentation, but we can return to them. The political challenges that the EU faces include global conflict, terrorism, international development and, increasingly, global diseases

and emergencies. There is also the issue of EU integration and the link to citizens, given Ireland's no vote on the Lisbon treaty, and the European elections that are coming up in June. I will not be able to cover all the political challenges, but we can return to them in the question-and-answer session.

Some common themes run through the challenges that I have outlined, many of which present opportunities as well as threats. For example, with climate change, there is the opportunity to benefit from eco-innovation. Many of the challenges are interrelated, such as the links between globalisation, migration and integration within societies. Many of the trends that we are considering are inevitable and cannot be changed immediately, but their impact can be mitigated by policy. Many of them will produce winners and losers. There is a great deal of uncertainty and risk, and many of the challenges imply radical change.

I will focus on two or three of the challenges. The financial and economic crisis has resulted in a need to supply liquidity to financial markets. Governments across Europe and the world are taking over banks' assets and liabilities. The crisis has now spread from the financial economy to the real economy, which is experiencing a structural change. We are not talking about a cyclical downturn as such; we are talking about a significant structural change to our economies that will affect us for at least a number of years to come. In particular, deficit and debt levels will soar. How we deal with that in the long term is a big issue.

On climate change, although the climate change package was agreed at European Union level, the challenge is still highly significant. The shift to a low-carbon economy will be extremely difficult to achieve. Progress will have to be made in local negotiations as well as in those at European level.

Demographic changes are often not discussed because they involve such long-term trends, but we are seeing a significant ageing of society in most European countries and some countries are shrinking in population, which means that the dependency ratio will go up. The fact that there will be more people who are not in work who will be supported by a smaller number of people who are in work will threaten the sustainability of Europe's social models, which are based on pensions, taxation, social protection and health care, and will profoundly change our labour markets and our societies.

That was a quick rundown of some of the challenges that we face. When we consider such challenges, there are a number of questions that we must always ask. Is there a role for EU policy? Is there a legal basis for EU action? Are the

member states willing to give the EU such a role? Is there a subsidiarity issue? Would EU involvement really add value? Are there issues of interdependence and cross-border effects that make it necessary to act at a European level? Another question that must often be asked is whether the objectives that the EU is given match up with the tools and instruments that are at its disposal.

For the budget review, we have been asked to look at a policy-driven budget, which for us means agreeing on what the common challenges are across Europe, defining what our objectives are and what the common interests are, and deciding whether the EU level is the best level at which to act. After that, we must determine what tools are needed to act. Only then should we decide what the budget envelope should be. However, that is not what happens currently with the EU budget, which is why we have emphasised in all our work that we think that the governance of the budget must change. With the current governance arrangements, we cannot see how it will be possible to have such a policy-driven budget in future. Budget reform is necessary, but the big question that remains is whether member states are willing to tackle that thorny issue.

The Convener: Thank you very much. You have already answered a number of our questions. Perhaps we can explore some of the issues in more detail. I know that you have written a number of papers on this subject, and you will be aware of previous reforms. The problem has always been—you refer to this in your paper—that we start off with good ideas and we agree that change has to happen, such as that we have to consider how to reform the common agricultural policy, but things begin to go wrong when the politicians get involved. There is significant agreement that there needs to be real reform. I do not think that the European Union can continue to tinker about at the edges. Looking to 2025, is there an opportunity to define policy objectives more clearly and to attach the resources to them? Would that be easier if the EU budget was raised in a different way?

Dr Sara Hagemann (European Policy Centre): There is definitely a willingness to reform the set-up. The Commission has been given a mandate to carry out a thorough reform this time, and that process is on-going. The Governments have all said that there is a need to review the process and the content. Whether that will happen in time for the next multi-annual budgetary framework is a big question. One could say that the current economic context will have some impact, but it seems that it is widely recognised that having a policy-driven budget is the way forward. That said, that is just the rhetoric at the moment. We need to see what happens.

Although Governments have given their support to a very different set-up for the next multi-annual budgetary framework, some reservations are being voiced. The Commission is frustrated about the inputs that it is getting from the Governments, which are broad ranging and place varied emphasis on different aspects of the budget. The Commission is finding it difficult to present a suggestion for the next multi-annual framework and a conclusion on the budget review, which will start all over again.

We point out in our paper that, in relation to the reforms that are expected if the Lisbon treaty comes into force and in relation to how things are done at the moment, there is a strong status quo bias. Of course, no Government is willing to take the first step in that respect. We have seen a lot of good will and a lot of acknowledgement of the proper steps forward, but what will happen remains to be seen.

The Convener: Thank you. Do you have anything to add, Dr Zuleeg?

Dr Zuleeg: Yes. You asked specifically about resources for the budget and whether we should move towards the EU having its own resource or tax. At the moment, it is extremely unlikely that we will see a move in that direction. There might be some kind of rationalisation of what is currently happening in relation to the EU raising its own resources, but a move whereby the EU genuinely raises its own resources and has the powers to borrow is not very likely, given the current member states' positions.

The Convener: Might there be such a move by 2025?

Dr Zuleeg: There could be, but the problem is that such things take a long time in the European framework. If we do not set out in the right direction, at least, in the current budget review, it is difficult to see how things will change. We are talking about seven-year, multi-annual frameworks, and we will be in the 2020s by the time we are through the current framework and into the next one. If we do not set up the right framework for the next multi-annual framework, it is hard to see how there will be significant reform.

10:45

Alex Neil (Central Scotland) (SNP): It seems to me that a fundamental requirement of radical change in the budget is a diminution in the proportion of funds that are allocated to the common agricultural policy. Unless there is a significant reduction in the proportion of funds that is allocated to the CAP—or a significant increase in the overall budget—it will be difficult to make radical changes with the balance of the budget that goes to non-CAP expenditure.

The French used the tail-end of their presidency almost to pre-empt decisions about CAP under the budget reform process. Have the French succeeded in ensuring that a huge chunk of the budget will continue to be allocated to the CAP in future, which will mean that there is extremely limited scope for further reform? Is that the bottom line?

Dr Zuleeg: It is true that at European level there is a continuing effort by certain countries, including France, to maintain the CAP. There has also been an attempt to fix a certain amount of the budget. However, the amount is not as big as it has been in the past, and it will reduce significantly before the end of the current financial framework. It will also shift significantly. Even within the current framework, we are witnessing a significant shift of funding from the old member states to the new member states.

Alex Neil: You said that the shift is significant, but I understand that there will be only a 5 per cent reduction in the funds allocated to the CAP.

Dr Zuleeg: It might come down to a 5 per cent reduction in the funds allocated to the CAP, but there are significant changes within the CAP. Much more money has been devoted to environmental and rural development issues. In that sense, the CAP has been changing from within.

There is a difficulty. It is true that as long as member states are, in essence, fixing the overall size of the budget—as they have pretty much said they intend to do—and the size of the CAP is fixed at a significant level, there will be little room for manoeuvre.

Alex Neil: My point is that although reform of the CAP is welcome, the fact that its share of the total budget will be about 5 per cent less than it was previously will have an impact on the funds that are available to meet the challenges for 2025, such as an ageing population, competitive pressures in a global economy and the need to make a significant contribution at EU level to climate change policy. Such issues will not attract significant additional funds at EU level if a huge share of the budget is retained for the CAP, albeit a reformed CAP. Is that a fair comment?

Dr Zuleeg: It is a fair comment, but many of the challenges that we are talking about do not necessarily have to be financed at EU level. It might be that a common approach is agreed at EU level but implemented at national level. However, in general, if we fix the size of the budget overall and a large percentage is fixed for the CAP, what is left for other policy areas will be quite limited.

Ted Brocklebank (Mid Scotland and Fife) (Con): You identify various red-line issues on which you say that Governments will have to make

some concessions in the spirit of good will that you talked about earlier. In relation to the CAP and the United Kingdom's rebate, is it realistic to expect that the UK will abandon the rebate unless there is some progress in the wider context of, for example, the CAP and other spending? Is it realistic to expect some countries to give up those red-line issues when other countries still seem resolutely determined to hold on to them?

Dr Zuleeg: We were not necessarily trying to assess the politics within each country. It is difficult for us to say how realistic it is to expect the UK to give up the rebate. We are saying that if we are truly considering a radical budget review—which should start from the policy priorities and work upwards, rather than start from the current financial framework that includes the rebate, the overall size and the CAP—it is necessary for countries to start talking about those issues. Without some give on the issues, there will not be significant reform of the EU budget.

Ted Brocklebank: I will press you a little further on that. You say that you are optimistic, and that Governments are talking in terms of good will. However, there are 27 member states, all of which have their own issues to bring into consideration, and all of which have a veto. I do not want to be pessimistic, but is it realistic to expect any great improvement, given that structure?

Dr Hagemann: I should point out that last time round, a strong feeling of pessimism hung over the negotiations, and it was thought that an agreement could not be reached at all. This time round, in carrying out the budget review in the run-up to the negotiation agreements, the Commission has a strong card to play. It will be able to show, following the suggestions that it will probably make at the end of 2010, that those policy-driven priorities should take over from the negotiations that have taken place and the dynamics that have existed so far. At the moment, it is difficult to say whether the Commission will be able to play a strong hand in the game, but there is an opportunity, which will perhaps be even greater, given all the challenges and the changes that will happen in Europe in the coming years.

It is realistic to ask whether one can really expect great change, given that there are 27 players with vetoes around the table. However, since the Commission has been given the support and the mandate to present a thorough analysis of policy priorities and the necessary tools to address them, there should be a window of opportunity. We cannot currently answer, from our position, whether that will play out.

Jamie Hepburn (Central Scotland) (SNP): On page 8 of your submission, you set out a number of key priorities in relation to what the future focus of the EU budget should be, in line with other EU

policy instruments. There are 13 priorities, which I will not read out, as we would be here for some time. However, I presume that you are well enough acquainted with them to explain some of your background thinking in choosing them as the key priority issues.

Dr Zuleeg: We identified those key priority issues for a range of reasons. One is that they had already been identified as priority issues at the European level. Climate change, the current crisis and globalisation had already been identified as challenges and new policy actions followed. Some of the other priority issues are long-term trends that will change the societies and economies in which we live, and they have distinctive cross-border elements that make it important for the European Union to be involved in them.

That is the rationale for the economic, social and environmental priorities. I am not a political scientist, I am an economist, so I focused on the economic issues. The political issues have been prominent in the debate at the European level.

Jamie Hepburn: As a committee and a Parliament, we must assess which of the priorities will be most important to Scotland. If you have any observations on that, you would be welcome to give them. Which of the issues do you think are the most important?

Dr Zuleeg: My personal view is that the demographic issues are the most important, partly because we are paying the least attention to them. They will have an extreme economic and social impact—we will live in very different societies in 10, 20 or 30 years' time—which means that we will have to change the way that our economies and societies work. That is probably the most profound change.

It is difficult to rank such big challenges. For example, if we are serious about addressing climate change, we need to move towards a low-carbon economy, which will also mean radical change to our societies. The combination of the challenges makes the next decades particularly difficult, and we really have no option but to address them all.

Jamie Hepburn: Do you have a view, Dr Hagemann?

Dr Hagemann: I agree with Fabian Zuleeg. Every member state will place a different emphasis on the issues. For example, the demographic changes in eastern Europe differ from those in western Europe, and the changes in southern Europe differ from those in northern Europe. However, I think that politicians will strongly emphasise the social, economic and political changes that will come about as a consequence of the demographic changes. Prioritising the issues is a political decision, but

analysis shows that the demographic changes are likely to have loud, visible consequences in Europe within very few years.

Jim Hume (South of Scotland) (LD): Good morning. I declare a farming interest in relation to the CAP.

Members have talked about the CAP as though it were separate from the other issues, whereas it could fit in with many of the priorities, especially those on climate change and energy security. How could it be reformed—not radically, because France is against that, but in a minor way—to fit in with those priorities?

Dr Hagemann: I will make one comment. It was really interesting that responses from Governments and non-governmental organisations to the Commission's consultation on the CAP last year showed that almost all countries are willing to reform it. Even countries that have a strong interest in the CAP have stated that its structures must be reconsidered. However, countries place a different emphasis on what needs to be changed in the CAP. For example, some of the new member states see direct financial support to their constituencies as an important takeaway from EU membership.

Given some of the points that have been made about the CAP, it seems that it remains a priority for Governments, although partly for different reasons. It is interesting that different set-ups and different priorities in the CAP are acknowledged. There is room for negotiation on how the CAP should be restructured, but it remains an extremely important priority.

11:00

Dr Zuleeg: It is, of course, true that other challenges can be addressed through the CAP. As I said, the emphasis on the environment and rural development is strong in the CAP, and has become stronger in recent years—we have seen a shift away from pillar 1 support to the other pillars. If, as we have discussed, we commit funds that are tight at the European level to policy priorities such as the environment or rural development, I do not want them to be earmarked for a particular sector. I agree that we should use funding to support the environment in several sectors, of which agriculture is one, but I would not earmark funding for that sector.

Jim Hume: Food security is what the Common Market started off being all about many moons ago, and it is becoming more and more of an issue in the Scottish Parliament. However, food security is not a priority in the budget review. Might it become a priority in the near future or in the medium term?

Dr Zuleeg: Our paper mentions competition for resources, which has an impact on food security. Food security will come up again, especially because food prices depend a lot on energy prices, which are likely to increase again after the current slump. I am not sure whether the common agricultural policy is designed to address food security in the world in which we live nowadays. The world is much more interdependent. We do not import our food just from other European countries; we are in a global market. It is difficult to see how the CAP can deal with that.

It is important to take into account the fact that food security and food price issues are much worse in the developing world. Whatever we do in Europe, we need to be careful not to create negative knock-on effects on other countries that are far less well equipped to deal with them.

Patricia Ferguson (Glasgow Maryhill) (Lab): I understand that, ideally, we want the way in which member states contribute to the EU to change but that producing one mechanism to which everyone could sign up would be difficult in practice. Have you thought about what that mechanism might be, even if it is a fantasy at the moment? Would flexibility have to be built into such a mechanism to recognise that situations in member states change during a budgetary cycle? I am interested to know whether those issues are being considered.

Dr Zuleeg: We have already moved towards a single source: most of the EU's funding—70 per cent and rising—comes through the gross domestic product contribution element. That has the advantage of adjusting automatically to economic developments in countries so that, for example, if there is a slump in certain countries, their contribution goes down. For me at least, that method has advantages over using VAT, for example, because it is simple and member states' contributions are based on the same factor whereas there are significant differences in VAT receipts in EU member states. I therefore believe that GDP-based contribution is the best way forward.

We have always had problems at the EU level with the expenditure side rather than the contribution side. Governments follow the *juste retour* principle, which means that they look at the net amount that they contribute. That makes it extremely difficult to do anything rational because, if the Government's negotiating position is based on the net amount that it will get from the budget, it does not matter how the contributions are calculated. We therefore need to tackle the big problem of how we can move away from the *juste retour* principle.

Dr Hagemann: We have suggested, several times, decoupling consideration of the expenditure and revenue sides from the negotiations and

having a policy-driven budget in which EU priorities are on the table. Expenditure on the priorities could be included in the negotiations, which would then have implications for how the revenue was raised. That could help to tackle the block on how to meet the priorities, which we sometimes see in negotiations.

Patricia Ferguson: Will we come to such a position eventually? It strikes me that getting all the member states to agree to one methodology will be almost impossible, given their competing interests. How realistic is it to hope that we can reach that position in the foreseeable future?

Dr Hagemann: You asked us to be a bit idealistic, so that was the idealistic version, and it is difficult to foresee it happening soon. In this context, we should note that a particular problem that Governments face is the big focus on how they perform in the budget negotiations and what they bring home. How much room for manoeuvre Governments have at EU negotiations is a big issue. In trying to find a solution to the problems that we face, we must acknowledge the processes that Governments go through at the national level, through either a committee system or the Parliament as a whole, to agree their negotiating position for Brussels.

Because of those limitations on Governments, we must think about not only the process but where political leadership in the negotiations should come from. Again, I emphasise that the Commission does not have just the role of facilitator in the negotiations; it presents the possibilities and the problems that the budget must address, and it should recognise where each Government is coming from in its negotiating position.

The Convener: Before I bring in my colleague Keith Brown, I want to follow up Patricia Ferguson's point about flexibility in budgetary cycles. Having listened to your comments, I wonder whether one solution might be to increase the resources that are allocated to funds such as the globalisation adjustment fund and the EU solidarity fund. Member states could sign up in the knowledge that, if they met certain criteria, they would benefit from those wider European pots. Do you have any thoughts on how effective those funds are? Looking ahead to future budget reviews, is there merit in the idea of setting aside moneys to tackle particular problems and react more flexibly to budgetary cycles?

Dr Zuleeg: It is extremely important to give the Commission a bit more room for manoeuvre. The fact that we prevent it from borrowing makes it difficult for it to deal with new situations. However, I point out that the biggest fund is the unspent money from previous years. In comparison with that, the globalisation adjustment fund and the

solidarity fund are relatively small. If the Commission had more flexibility to bring that unused money into play when new challenges arose and new priorities needed to be addressed, that would be a huge improvement. The Commission is being asked to pull forward funding to deal with the current crisis, but member states are dragging their feet on allowing it to use €5 billion from the unspent funds. We should try to eliminate that contradiction in policy.

The Convener: Can you put a rough figure on the percentage of moneys that are unspent across the European Union?

Dr Zuleeg: It varies. It is a significant amount rather than a small amount—I am talking about billions—but I cannot give you an exact figure because it varies during the cycle and according to where we are in the seven-year framework.

The Convener: I assume that some member states are better at spending the money than others.

Dr Hagemann: Since enlargement, there have been some issues about how regional funds and so on are allocated. Some of the criticism of the allocation of funds that remain unspent is to do with the requirements that both regions and Governments have to meet in order to receive the funding. It is argued that some of those requirements do not make sense given the problems that the funds exist to address.

I will give a vivid example. Regions from the new member states were allowed to apply for funding—in some cases, quite substantial funding—even though they do not have regional administration that can undertake the process. Therefore, the funding never found its way to the people and the regions that needed it. It is early days, but the Commission is aware that some of the expenditure priorities need to be adjusted.

Keith Brown (Ochil) (SNP): As a member of a Parliament that has no borrowing powers, I can well understand your anxiety about the Commission's inability to borrow, but I want to suggest a different point of view from the one that runs through your paper.

You suggest that the governance issues that you identify—such as the way in which the budget is put together, the fact that there are last-minute changes according to national priorities, and the fact that the budget is inefficient—do not match up with the priorities that the EU has set. That might not necessarily be a bad thing. Another way of seeing *juste retour* is to see it as political accountability. It could be that the things the EU does in collaboration are the successful side and that we have to acknowledge that, in a member-led EU, the national interests of member states will always come to the fore. I wonder whether that is

the reality and whether it is not necessarily a bad thing—or are you convinced that further integration is required?

11:15

Dr Hagemann: That is a valid point, although I would argue that accountability should not be based only on the figures on what the Governments bring back home. One problem with the negotiations is the fact that we talk only about the figures and not about what the budget exists to address. The debate in national Parliaments would also be different if the perspectives set out for the budget were integrated in the debates. If that happened, some people might question whether the presentation of figures was sufficient.

Dr Zuleeg: It is perfectly right that member states can choose how much of their powers they transfer to the European level but, in recent years, we have increasingly seen a contradiction in that. We are asking the EU to do more in a number of different areas in which it requires much more effective tools, including budgetary tools. If we are asking the Union to deal with the big economic questions, climate change and other wide-ranging issues, we must give it the tools to carry out the work. At the moment, there is a contradiction in policy.

A lot of the challenges will require a pan-European response and a much more effective European Union, part of which will be the budget. That is my view, and whether others agree is a matter of debate, but some of those challenges are beyond the ability of an individual member state to deal with.

The Convener: Thank you. You have given us a comprehensive overview, both orally this morning and in your written submission. Are there any final points that you would like to raise?

Dr Zuleeg: Aside from the budget review inquiry, which you are carrying out, there is a role for the Scottish Parliament in clarifying the policy objectives that it expects that the European Union will have to address as a matter of priority. It is also for the Scottish Parliament to set out its view of the budget that might need to be attached to those priorities at the European Union level. The reform process cannot come from the top down; it must come from the bottom up. It must be built up from the regions, civil society and all the actors in Europe to make it a policy-driven budget, which is what we are trying to achieve.

The Convener: On behalf of the committee, I thank you both for taking the time to give evidence this morning and for your written submission, which we have found very useful.

On that positive note, I suspend the meeting for five minutes.

11:18

Meeting suspended.

11:21

On resuming—

The Convener: It was remiss of me not to mention earlier that we have received apologies from Charlie Gordon, but they are on the record now.

The next item on our agenda is to consider the written evidence that we have received as part of our inquiry into the European Union budget review. Colleagues will recall that we asked for written submissions towards the end of last year. We have received two quite helpful submissions from Scottish Natural Heritage and Scottish Environment LINK. Do colleagues have comments or are you content simply to note the submissions?

The submission from Scottish Natural Heritage suggests that we could emphasise the economic disadvantage that is caused by Scotland's position on the periphery of Europe. That is a useful and helpful point.

Jamie Hepburn: Did we receive only two written submissions?

The Convener: Yes.

Jamie Hepburn: Two is an unusually low number. I have read both and although they are useful, it is unfortunate that we received only two. I do not want to denigrate the importance of the sector that the two organisations work in, but it is also unfortunate that the two submissions are from roughly the same subject area. That seems rather narrow for our purposes.

The Convener: The low number is unusual. I think that the closing date for written evidence was December, so the timing may not have been the best. However, we have an opportunity for another crack at the issue. We can consider the key themes to emerge from the budget review and then decide whether we want to move on to a further phase. If so, we could again invite submissions and hope that we receive a wider range of evidence.

Patricia Ferguson: I am not sure whether I agree or disagree with Scottish Natural Heritage. I understand the points that it makes, but I feel that they do not tell the whole story. Point 2 of the submission answers the question:

"Does the way in which the EU Budget is funded raise issues for Scotland?"

SNH mentions the dilemma of the funding mechanism benefiting rural areas more than it does urban areas. I understand SNH's point, but more debate is required on whether that is the way we should continue, and on whether SNH is right when it suggests that rural areas have something to offer everyone. I am not sure that people in towns see the countryside or rural areas as being places where they can go in the way that SNH's submission describes. I raise the issue principally as an interesting debating point—I have not yet reached a conclusion. The constituency that I represent is very urban. That said, during the last foot-and-mouth crisis, I found that there are six farms on the edge of it.

The Convener: That is an interesting point. If we move into phase 2 of the review—I do not want to pre-empt a committee decision, but we probably will do that—we can explore it. Perhaps we can invite Scottish Natural Heritage to come to the committee.

Jim Hume: Further to Jamie Hepburn's point, and as Patricia Ferguson suggested, we are all linked. I was chairman of the Lothian and Borders branch of the National Farmers Union of Scotland at the time of the foot-and-mouth outbreak, which also struck hard at small and large towns in the South of Scotland—of course, we have no cities.

That said, I will sound a note of caution on the evidence. SNH may be a little bit more holistic in its evidence, but Scottish Environment LINK focuses on the environment, full stop. For example, it says that

"Payments would be based on a recipient's environmental assets"

Payments have moved from being based on headage—rightly so in my opinion, given the environmental problems in the south and west of the country—to being based on acreage. However, payments that are based purely on land cannot keep people on the ground. Over vast tracts of Scotland, particularly in the north, one now finds a ratio of two or three sheep to two or three thousand acres. Out of respect for the Maryhill representative on the committee, I will not get too technical on the subject. Suffice it to say that there is almost no economic activity in those areas because vast numbers of people have left the land.

Over the past 10 years, the number of sheep on the hills has decreased by 25 per cent. That decline relates directly to a decline in the number of people who work them; people have decided that they no longer want to live on the land. As I said, the evidence is somewhat biased towards the environment; the countryside is about a lot more than the environment, albeit that the environment is a big part of it.

Keith Brown: I support the proposal to go to a further phase of the review. The most substantial contribution that we heard today was the view from Brussels. As Jamie Hepburn pointed out, the local response has been more meagre.

I return to the previous discussion. It is important to identify the opportunities and threats that Scotland faces. Certainly, we want to see Scotland make a substantial economic response. Demographic issues have also been raised. Earlier I tried to make the point—I think I made it badly—that the best contribution that Scotland can make to the debate is to highlight the opportunities and threats in a way that enables us to effect change. Even if we do not manage to effect change—after all, we do not have a veto on these things—at least we will achieve clarity on the best way to go about things in Europe.

The most productive way of going forward in terms of our consideration of the EU budget may be to agree that, when we hear of economic opportunities in, or threats from, India or China, we should identify their impact on Scotland and how best we can exploit the situation. As I said, I hope that we will move on to phase 2, at which time we may receive more substantive responses.

Ted Brocklebank: In its evidence, Scottish Environment LINK talks about

"redirection of some of the ... budget for the fisheries sector in order to deliver healthy marine ecosystems".

I agree on that, particularly given that Scotland is being given executive responsibility for the marine environment out to 200 nautical miles. Again, it is a matter not simply of redirecting existing funds but of establishing what extra funds are required. That takes us back to the issue of the need for member states to get their share of the money—or to get extra money—to carry through some of the policies.

The Convener: As I said, we will return to the issue. In fact, we have a short agenda item on the subject at the end of the private part of today's meeting. With those comments, do members agree to note the report?

Members indicated agreement.

Pilot Subsidiarity Check

11:29

The Convener: Item 5 is our consideration of our response to the House of Lords on the pilot subsidiarity check on the directive on standards of quality and safety of human organs intended for transplantation.

Members will recall that, before Christmas, we agreed to participate in the subsidiarity check, partly as a way of learning lessons on the process, particularly in advance of its going live under the Lisbon treaty.

The check is essentially to ask whether the proposal should rightly be implemented at European Union level or whether it could be more appropriately implemented at member-state level or even below that. We have heard from the Scottish Government and from Parliament's directorate of legal services. Both seem content that what is proposed will be most appropriately handled at EU level, although both raise questions about implementation of the directive in Scotland.

Colleagues will have read the clerk's paper and will know that the options for us are set out in paragraph 11. I invite comments from colleagues on which of the three options the committee should proceed with. I have my own view, but I ask for colleagues' views first.

11:30

Alex Neil: I would have thought that simply passing on the Government's response would be enough for us at this stage. It is not something that I would go to the barricades on, but I do not know that the committee has done enough to develop its own position on the matter.

The Convener: One of the difficulties that we have is the fact that, as colleagues will note, the document from the directorate of legal services is a private paper that is not for publication. It contains views that are private advice to the committee, which raise one or two issues, particularly in paragraph 27. I do not know whether colleagues feel that it is incumbent on us to reflect the legal issues that have been highlighted. We cannot pass on the full content of the paper from the directorate of legal services, as the submission must come from the committee. Option 2 would cover both the Scottish Government's response and our legal advice.

Jamie Hepburn: I am inclined to agree with Alex Neil. I hear what you are saying, convener, but with all due respect to the directorate of legal services, the paper provides one legal opinion and there may be others that we have not heard. I am

not sure that we can pass that opinion on because, in essence, it would become the committee's own submission. Like Alex Neil, I would not go to the barricades over it, but I would not be entirely comfortable with our doing that simply on the basis of a paper that has been presented to us, and without exploring the matter further.

We should, however, communicate paragraph 13 of the paper that has been prepared by the clerking team, on the timescale for the subsidiarity check. We have not had a lot of time to deal with the issue, which is why I think we cannot make a formal committee submission.

Keith Brown: I agree. However, of the two decisions that we have been asked to make, the second—to report back on the practical implications of the pilot checks—is more important, although I mean no disrespect to the important topic under discussion. The point has been made that we are not able to undertake a proper assessment in the timescale that we have been given. I do not know whether it is the timescale that we would be expected to follow in the event of a normal subsidiarity check. If it is, it will rule out things such as allowing other committees to formulate views. If that is the case, we will have to consider practical ways in which we can incorporate that into how we deal with the checks. To me, the more important issue is how we deal with the process in the future.

The Convener: Are there any other views?

Jim Hume: I agree with the convener that we should take the second option. We would, however, have to make it very clear that the legal opinion is the view of the directorate of legal services, and not the view of the committee. If there is concern about that, we might glance over what has been put down as the views of the directorate for five minutes at our next meeting. I do not know whether that would allay people's fears.

The Convener: We must make a decision on the matter and respond today.

Jim Hume: I am quite happy with option 2, in that case.

The Convener: We are not all that far apart. The committee has not had time to look into the matter fully. We could ask the clerks to draft a one-page paper on the difficulties that Keith Brown has raised in relation to the timescale and so on. The paper could also highlight some of the legal issues that have been raised with us, while pointing out that the committee has not had the time to take detailed evidence or to do anything else because of the timeframe. It could state that those issues have been highlighted to us by the directorate of legal services.

Alex Neil: Can I make a suggestion that covers both positions? It relates to the wording of the second option, which is:

“Supply a copy of the Scottish Government’s response”—

we are all agreed on that—

“and reflect the views of the Directorate of Legal Services on the subsidiarity aspects”.

The word “reflect” is open to wide interpretation. I suggest that, rather than “reflect” those views, we inform the House of Lords of the views of the directorate of legal services. That would mean that we were not responsible for those views. That would be fair to the directorate of legal services and to us.

I agree with Keith Brown that the most important point is bullet point 2 in paragraph 15.

The Convener: That is a sensible way forward. Are members agreed?

Members *indicated agreement.*

The Convener: That takes us to item 6, which we have agreed to discuss in private. I draw the public part of the meeting to a close and thank all our visitors for their attendance.

11:36

Meeting continued in private until 12:11.

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