

# **EUROPEAN AND EXTERNAL RELATIONS COMMITTEE**

Tuesday 28 April 2009

Session 3

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## EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

### 7<sup>th</sup> Meeting 2009, Session 3

#### CONVENER

\*Irene Oldfather (Cunninghame South) (Lab)

#### DEPUTY CONVENER

\*Michael Matheson (Falkirk West) (SNP)

#### COMMITTEE MEMBERS

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

\*Patricia Ferguson (Glasgow Maryhill) (Lab)

\*Charlie Gordon (Glasgow Cathcart) (Lab)

Jamie Hepburn (Central Scotland) (SNP)

\*Jim Hume (South of Scotland) (LD)

Sandra White (Glasgow) (SNP)

#### COMMITTEE SUBSTITUTES

Jackson Carlaw (West of Scotland) (Con)

Ken Macintosh (Eastwood) (Lab)

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

Iain Smith (North East Fife) (LD)

\*attended

#### THE FOLLOWING GAVE EVIDENCE:

Laurie Clark (Ecoscreed Ltd)

Stuart French (Platinum Event Management Ltd)

Jane Gotts (Scottish Council for Development and Industry)

Andrew Hogan (Bruichladdich Distillery Company Ltd)

John Melvin (Galink Ltd)

John Rigg (Scottish Government Business, Enterprise and Energy Directorate)

John Swinney (Cabinet Secretary for Finance and Sustainable Growth)

Julia Weedon (Edinburgh's Telford College)

#### CLERKS TO THE COMMITTEE

Lynn Tullis

Simon Watkins

#### ASSISTANT CLERK

Lucy Scharbert

#### LOCATION

Committee Room 2



## Scottish Parliament

### European and External Relations Committee

*Tuesday 28 April 2009*

[THE CONVENER *opened the meeting at 10:44*]

### Decisions on Taking Business in Private

**The Convener (Irene Oldfather):** Good morning everyone, and welcome to the seventh meeting in 2009 of the European and External Relations Committee. We have received apologies from Jamie Hepburn and Sandra White. Gil Paterson is Jamie Hepburn's substitute; we welcome him to the meeting.

Agenda item 1 is to decide whether to take items 6, 7 and 8 in private. Under item 6, the committee will consider further work on Malawi; under items 7 and 8, we will consider key themes arising from today's evidence sessions. Do members agree to take items 6, 7 and 8 in private?

**Members** *indicated agreement.*

Agenda item 2 is to decide whether to consider in private at our next meeting our draft report on the European Union's response to the financial crisis. Do members agree to do so?

**Members** *indicated agreement.*

## Financial Crisis (European Union Response)

10:45

**The Convener:** Agenda item 3 is our inquiry into the EU's response to the financial crisis. We are pleased to welcome to the meeting the Cabinet Secretary for Finance and Sustainable Growth, and John Rigg and Jim Millard from the Scottish Government. I thank the cabinet secretary for coming to address us. I understand that he will make a short opening statement.

**The Cabinet Secretary for Finance and Sustainable Growth (John Swinney):** Thank you very much, convener. I will indeed, with your agreement, make an opening statement.

I welcome the inquiry that the committee is undertaking. We all acknowledge, as the committee has done by holding the inquiry, that we are operating in very difficult economic times. With the economic downturn, there is significant pressure on Governments and the European Commission to take positive action and show a lead in tackling the issues.

I acknowledge the helpfulness of the European Commission's response in its economic recovery plan. The plan is encouraging. As members of the committee know, it provides a broad sweep across key areas. It includes the relaxation of state aids, the provision of extra support for energy networks and broadband infrastructure, and commitments to increase advances of funds and to ensure greater flexibility in structural fund programme delivery, which is particularly welcome.

The Scottish Government's recovery plan resonates strongly with its European counterpart. We have been in a position to front load structural funds programmes and take advantage of the inherent front loading that was implicit in the financial allocations to the Highlands and Islands programme. In that context, more than 470 projects throughout Scotland have already been allocated almost £355 million. The total funding packages generated by those projects, with key structural funds support, could help to generate more than £930 million of overall funding in the Scottish economy.

The Government has been successful in gaining the European Commission's agreement to amend our European social fund programmes to include under skills priority 2 assistance for workers who are at risk of being made redundant. That has enabled funds to go to Skills Development Scotland to expand the services that are provided under the partnership action for continuing employment—PACE—initiative. Two further

strategic ESF projects are under consideration. One project is to extend the training for work offer for those who have recently been made unemployed and face particular barriers to moving back into employment. The other project is a new scheme to offer employers a golden handshake to take on and complete the training of apprentices who have been made redundant part way through their training.

Within the European regional development fund, and in addition to the development of the joint European support for sustainable investment in city areas—JESSICA—initiative, we have made a number of proposals to widen the scope of the lowland and upland Scotland operational programme. The impact of those changes will be to increase our spending on capital projects. The changes are intended to ensure that the recovery programme fully supports the delivery of our economic recovery plan and reflects the experience that has been gained through the delivery of two rounds of funding. Stakeholders have been fully consulted and have made useful contributions to the process.

We continue to maintain good working relationships with local, United Kingdom and European partners, and we actively participate in various liaison, policy and management groups that deal with European programmes. We took the initiative to commission independent appraisals of our programmes to establish whether they remain fit for purpose in the fast-changing climate, which we are currently considering.

The programmes that have been brought forward have been encouraged to focus on skills and training and support for business, and on supporting the essential platforms on which economic activity and recovery depend, such as innovation, research and technological development, and access to finance. That is well evidenced in the latest round of awards to projects—worth some £107 million in total—as announced last month for the Highlands and Islands and as the First Minister announced on 18 April for the lowland and upland programme. A healthy crop of projects has come forward, and we look forward to further decisions encouraging them to be taken forward.

We appreciate the flexibility that the European Commission's amendments to its proposals have provided to the Scottish Government, and the Commission's focus on many elements of economic recovery that the Government thinks are essential has been particularly welcome. We look forward to continuing co-operation with the Commission.

**The Convener:** Thank you. I assume that most of the initiatives that you mentioned are new. Does the European economic recovery plan go far

enough in assisting projects on the ground? You have been quite complimentary about the European Commission's approach. Are there blockages in the system or measures that the Government or its officials think would help to ensure that money gets to where it is needed?

**John Swinney:** There are no new blockages in the system. The committee is familiar with the many aspects of the appropriate and proper accounting and scrutiny of projects that must be dealt with. My officials work energetically to tackle such routine matters, which are part of the furniture of dealing with European funding programmes.

The nature and flexibility of programmes are welcome. It would be helpful if programmes went further, but I accept that there are limits on the resources that can be deployed and on the scale of intervention that can be made.

We have enhanced funds' effectiveness by giving a much clearer steer on the type of projects that should be considered. Projects should complement the Government's economic recovery programme. We have brought to programmes a focus on encouraging research and development, encouraging skills development and supporting individuals who face the prospect of losing their jobs, which has helped to ensure that resources are deployed on the ground and impact on the lives of people in our communities.

**The Convener:** You mentioned the European Commission's flexibility on state aid. We are also aware of new approaches to public procurement and the globalisation adjustment fund. It is interesting that the qualifying threshold for applications to the fund has been reduced from 1,000 to 500 redundant workers. Has the Government discussed with the Commission how to use the fund to introduce the short-term flexibility that might assist Scotland?

**John Swinney:** We are considering a number of issues to do with how we support companies that potentially face difficulties in the current economic circumstances. In essence, I am talking about supporting companies through a difficult period. Active discussions on that are going on in Government. Indeed, all Governments are considering such issues. The United Kingdom Government has had much the same discussions. The Cabinet will consider material that emerges from the discussions.

The relaxation of rigorous state aid regulations gives us a measure of flexibility that allows us to consider options that previously we could not consider.

**The Convener:** The Government has issued guidance on state aid and public procurement. Has guidance on the globalisation adjustment fund

been issued? Do you intend to issue further guidance, for example on state aid to small and medium-sized enterprises?

**John Swinney:** We will do so if we think that information needs to be conveyed. In that respect, we work closely with the UK Government to ensure that consistent advice is provided in the UK and that we can deploy advice through the normal channels of communication with the business community. Our initiatives must be sustainable. That approach will be at the heart of what the Government does.

**The Convener:** Are any programmes in the pipeline that will take advantage of the flexibility in the de minimis threshold for state aid to provide support to SMEs or large companies?

**John Swinney:** I am not aware of any projects that are coming through the route of the programme monitoring committees. However, in the Government's wider work, there are various ways of supporting companies that are facing difficulties in the current economic conditions. For example, Scottish Enterprise and Highlands and Islands Enterprise routinely have investment programmes.

In these economic circumstances, the question arises of whether we are able to offer further financial support to companies. The Government is actively considering whether offering such support is practical or possible.

**The Convener:** I have a number of other points, but Charlie Gordon wants to come in on this issue.

**Charlie Gordon (Glasgow Cathcart) (Lab):** Forby telling us about how you would encourage the front loading of spending from structural funding, you alluded to other types of funding. You mentioned JESSICA. In these circumstances we will always draw heavily on the EU's acronym mountain. I also have in mind JEREMIE—joint European resources for micro to medium enterprises—and the European Investment Bank. Are you encouraging eligible applicants, and are you offering them stronger guidelines? Can you give us any examples, and will you tell us more about eligibility?

**John Swinney:** We are actively engaged in all three of the issues that Mr Gordon raises—JESSICA, JEREMIE and the European Investment Bank. We have accepted an application from within the Scottish Government—from the regeneration division—to set up a fund covering the lowland and upland Scotland programme area under the JESSICA programme. A study will explore whether JESSICA can also apply to the Highland programme area. We are considering how best to make progress with the JESSICA programme, such as how it can add value to a range of interventions in Scotland.

We are actively determining whether we can secure successful applications under the JEREMIE programme, which could open up opportunities for investment in the Scottish economy.

A number of commitments have been made by the European Investment Bank to ensure that investment funds are available in individual member states. In active co-operation with the United Kingdom Government, we are ensuring that EIB resources are properly integrated into some of the investment and funding vehicles that the UK Government has established. Back in January, Jim Mather co-operated with Lord Mandelson in a joint launch of EIB funds that were being channelled through the banking institutions. Jim Mather led the launch in Scotland, and Lord Mandelson led the launch in the United Kingdom.

As part of my regular discussions with the banks, I have encouraged and motivated them to make available to businesses the resources that the EIB has provided. Banks should have arrangements in place to ensure that when a businessperson phones up after reading in the newspapers about the availability of EIB funding and investment vehicles, they will be able to speak to someone who knows the arrangements and knows how the bank is responding to them. The banks are getting better at that.

We are trying to ensure that active work is under way in a variety of areas to maximise the availability of investment funds in the Scottish economy, and we have made progress on all three programmes.

11:00

**The Convener:** On that point, the cabinet secretary will be aware that we have taken written and oral evidence over the past few weeks on the EU's response to the financial crisis. There has been criticism of the lack of stakeholder involvement in some of the consultations on proposals around JEREMIE, for example. The Scottish local authority economic development group feels that it could have a significant input if it were invited to contribute. Is the cabinet secretary thinking about doing that?

**John Swinney:** Obviously, my priority is to ensure that there is proper and full consultation on our proposals, so I am disappointed to hear that it has not been all that people would wish it to be. There have been active discussions with the Convention of Scottish Local Authorities about the involvement of local authorities in JEREMIE, but I am happy to consider whether more can be done to secure that involvement.

In reference to my answer to the convener's question about European funding programmes, I

set out to the committee the Government's appetite to bring focus and cohesion to all programmes, to ensure that in these difficult economic times we maximise all the resources that are at our disposal. Therefore, in relation to JEREMIE, I am keen to bring together every relevant party to ensure that they can contribute to the work of the programme that will be developed.

**Michael Matheson (Falkirk West) (SNP):** Good morning. Sticking with structural funds, questions have been asked in oral and written evidence about whether the Government's approach to the use of such funds to address the economic crisis is the best one. For example, the Scottish Chambers of Commerce questioned whether the approach was the most appropriate one to the economic crisis and Scottish Enterprise said:

"Structural Fund Programmes are designed to address medium to longer-term reform, tackling structural weaknesses in our economy and do not necessarily lend themselves to the short term interventions needed for economic recovery".

What is your response to those bodies that raised questions about the way in which the Government is using European structural funds?

**John Swinney:** My response centres largely on the way in which the Government is handling the economic recovery programme. As part of that programme, we have tried to say to a wider audience that in November 2007 the Government produced an economic strategy to explain and outline what we meant when we said that the Government's purpose was to focus on increasing sustainable economic growth. The Government's economic strategy is our direction document, and it sets out how we will approach the improvement in the Scottish economy. When the strategy was written in November 2007, we did not envisage being in the situation that we are in today. If an economist had told us what would happen, we might be in a different position altogether, but there we are.

We have not changed direction. We said from day 1 that our focus was on supporting economic development and achieving sustainable economic growth. With the subsequent economic difficulties, the challenge has become greater and more intense, so we must ensure that we are more responsive and active in tackling current circumstances.

Part of the answer to the economic difficulties that we face will be short term, but the answer will also be medium and long term. Many European structural and social fund programmes allow us to position ourselves for short, medium and long-term scenarios. As I said in my introductory remarks, we have secured the Commission's agreement to reconfigure our programme to allow us to support individuals who are in employment

and facing redundancy. That is a short-term intervention to tackle the fact that companies and individuals are facing difficulties that they did not envisage. Within the programme, we have been able to deploy sufficient short-term assistance where required. Crucially, we have also been able to set a direction for medium and long-term investment, which is reinforced by the Government's economic strategy. As a consequence, some of the decisions that we take will be focused in that direction.

**Michael Matheson:** That is helpful. In January, the Government said that it wanted to keep the book open on structural fund programmes for the 2000 to 2006 period for an extra six months. Will you give an update on progress on that extension? What is the chain of command? Who decides whether the period can be extended for six months? Is six months long enough?

**John Swinney:** The issue is under active consideration. In essence, the European Commission has provided an ability to extend the period during which programme expenditure can be incurred and resolved. There are certain constraints on our ability to do that, particularly in relation to the internal financial arrangements of the United Kingdom, which provide some challenges. I am actively considering how we can resolve those questions.

**Michael Matheson:** I am still not clear about the chain of command. Who ultimately makes the decision on programme extension?

**John Swinney:** I suppose that, ultimately, the Scottish Government does, but it has to do so within the framework of the United Kingdom's financial rules, which, regrettably, the Scottish Government does not set.

**Michael Matheson:** Are you getting a receptive response from your counterparts in the UK Government in trying to make progress?

**John Swinney:** In essence, constraints in the UK financial rules restrict our ability to utilise fully the opportunities that the Commission has given us to extend the programmes. That is the issue that I am trying to resolve.

**Michael Matheson:** Are you hopeful that it will be resolved?

**John Swinney:** I remain ever optimistic.

**Jim Hume (South of Scotland) (LD):** I am interested in how you interact with companies. I was on one of the Scottish Enterprise boards, and I know that Scottish Enterprise works mainly with large client companies. I am interested in the smaller companies that do not interact so much with Government agencies. How are you targeting them and what mechanisms are you using to inform them about the changes that we are going

through, for example in relation to state aid rules and structural funds?

**John Swinney:** I want to set in proper context the focus of Scottish Enterprise's and Highlands and Islands Enterprise's support and interaction with companies. The agencies do not deal only with big companies; they deal with companies that have growth potential, which can be anything from a two-person enterprise up. I happened to spend time with the board of Highlands and Islands Enterprise yesterday, during which I met representatives of several companies. I spoke to people from a four-person medical science company in Inverness that is account managed. The company is getting a lot of support from HIE because the agency recognises that the company has significant growth potential.

Our two economic development agencies support a broad cross-section of companies, from the small to the large. Obviously, the account managers who act on behalf of Scottish Enterprise and HIE can convey full and comprehensive information on the support and advice that are available on state aid questions. Companies have access to a variety of resources through Scottish Development International for some of the non-Scottish exporting work, and access to quality information from the Scottish Government and the UK Government. In addition, the business gateway, which was launched in the Highlands and Islands on 1 April, now operates in every part of Scotland. As a consequence, a channel of dialogue is available to companies, through which business advice, including state aid advice, can be provided.

**Jim Hume:** I take your point. I realise that high-growth companies receive support, too, but a large number of companies might not be thought to be high-growth companies and might not be account managed.

You mentioned the Highlands and Islands, but the south of Scotland alliance does work in the south of Scotland, which, as you know, has problems associated with the area's rurality and the presence of traditional industries. You have visited Hawick twice and seen the problems in the textile companies there. What work is being done and what progress is being made, now that the south of Scotland alliance and the south of Scotland forum are starting to come into play? I think that that was one of the action points that you were given when you visited Hawick.

**John Swinney:** The south of Scotland forum has been in active dialogue with the Government. I recollect that it has discussed with the First Minister how it will take forward some of its activities. The interventions that we are pursuing in the south of Scotland are interventions that we are pursuing in every part of Scotland. The

arrangements that we have with Scottish Enterprise and the business gateway are available in the south of Scotland, too. We will remain focused on ensuring that the particular needs and requirements of the south of Scotland are adequately addressed by the Government's programmes.

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

**(Con):** Good morning, cabinet secretary. Jim Hume's question partly pre-empted the first of mine, which was to ask you to give us a flavour of which companies will benefit from the £95 million that will be allocated to 129 projects across Scotland. You have done that, so I will move on to the number of jobs that have been identified. If I read the information that we have been provided with correctly, the 50 ERDF projects might support the creation of almost 8,000 jobs and the

"79 new ESF projects are expected to support 75,000 people gain or sustain employment opportunities through training and skills development."

Those figures seem to be quite encouraging. Will you comment on them? Can you break down the figure of 75,000 so that we can see which jobs are new and which are jobs that will be sustained through the present period?

**John Swinney:** It is extremely difficult to do that, but it is clear that the tight refocusing of the programmes to support economic recovery has been designed to recognise the fact that normal conditions are not operating. As a consequence, we must put in place efforts to support existing employment that might well be in jeopardy. Thankfully, that is one of the changes that we have been able to secure from the European Commission in relation to our programmes. Such recognition is appropriate, given the scale of the challenge that we face in a number of sectors.

With our decisions on the programmes, our approach has been that we have aimed to ensure that the various public sector interventions—whether through Scottish Enterprise, through the local authorities' economic recovery programmes, through the business gateway or through the capital spending programmes of the Government or its agencies—have the combined effect of ensuring that a range of support is available that allows us to protect employment in these difficult times. The scale of the impact will depend on the wider economic conditions. Obviously, we hope that we are in a position to do as much as we can to support employment in these times and to support companies that might face difficulties, although the size of the challenge that we face will determine the effectiveness of some of the interventions.

11:15

**Ted Brocklebank:** Would it be fair to conclude—from my basic maths—that the number of jobs that would result from the 129 projects would probably be more than the 9,000 jobs that the First Minister projected Scotland was about to lose as a result of budget cuts elsewhere?

**John Swinney:** The challenge in all that is the wider economic circumstances. It is not a zero-sum game involving the two factors with which we have to wrestle. There are budget reductions, which the Parliament will debate later this week. On the wider economic circumstances, the estimates that the Chancellor of the Exchequer gave the House of Commons last week represent a significant contraction in the scale of economic activity this year. Independent forecasters would say that that situation is likely to prevail well into 2010, into the bargain.

**Ted Brocklebank:** Fine. I would like more information on how we are placed to benefit from the funds that are coming from energy-related programmes. I think that three of the Scottish projects are still on the short list: the proposed North Sea grid; the Aberdeen offshore wind farm; and the Longannet project, although it seems to have been knocked back a bit in relation to funding. Can the Government take any more steps, or can you give us any more information to assure us that you are using every possible measure to persuade the correct authorities to ensure that Scotland could benefit from two of, if not all, the projects?

**John Swinney:** The package that was agreed by the European Council on 20 March is yet to go to the European Parliament. It is not a case of our acting only once it has been approved there; we are engaged actively in discussion about the opportunities that Mr Brocklebank mentioned—the offshore grid, offshore wind and carbon capture and storage. Those are huge priorities for the Government; those projects are central to our approach to energy policy. We are optimistic that we will be able to secure resources from the programmes for Scottish projects. The First Minister, the Minister for Enterprise, Energy and Tourism and I have all been involved in discussions to try to ensure that we secure appropriate investment for the projects. They are exciting developments, which relate to another element of the European programme that is particularly beneficial to Scotland.

**Patricia Ferguson (Glasgow Maryhill) (Lab):** I was particularly interested in the First Minister's announcement of a Scottish investment bank. I read some press reports that suggested that European funds might be utilised in either the creation or the funding of such a bank—I am not sure which. Will you say a bit more about that?

**John Swinney:** The Scottish investment bank concept—it has been advanced primarily by the Scottish Trades Union Congress, with which we have had a number of discussions—is, in essence, about creating a vehicle that would enable us to provide the necessary long-term support and investment in the Scottish economy. There would certainly be the possibility of attracting European funds to the work of the Scottish investment bank. That is an active part of the proposal that is being taken forward. We would seek to ensure that the resources that would be put together in that vehicle would be able to deliver long-term benefits to the Scottish economy in a way that we have seen is possible in other European Union long-term funding vehicles. Again, it is a case of ensuring that we synchronise all the different interventions to maximise their impact on the Scottish economy.

**Patricia Ferguson:** Is there a particular stream of funding from Europe that you are looking to tap into? As Mr Gordon said, we get very used to all of the acronyms that are used.

**John Swinney:** To return to Mr Gordon's acronyms, certainly there would be the potential for some of the JEREMIE funds, and resources through the European Investment Bank into the bargain, to be sent in this direction.

**Patricia Ferguson:** Have colleagues in Europe expressed sympathy for that idea?

**John Swinney:** There have been very constructive discussions at Europe level on these questions and work is now under way to take this forward. We have the core—through funds that are already available—with which to constitute the Scottish investment bank: we can progress and build on that with other ventures. It will be a product of discussion with our colleagues in the European Union.

**The Convener:** What is your timeframe for concluding negotiations and discussions?

**John Swinney:** I want the work to be undertaken during the course of 2009. It is actively being undertaken now and I want it concluded as soon as possible—by June 2009.

**Gil Paterson (West of Scotland) (SNP):** Many small companies will be particularly interested in getting support from any quarter during these hard times. That said, this is new money. Are you also expecting a ratchet effect so that long-term growth results from it? If so, do you intend to measure the effects of this new money?

**John Swinney:** The answer to that question goes back to what I said to Mr Matheson earlier: there is a requirement that the European programmes—I accept that perhaps this is a criticism that all the money is not used in or for the

short term—invest to support the short, medium and long terms, so the profile of the expenditure is to achieve that, over time.

Like any part of the business community, the small business community is significantly affected by access to investment finance. Part of what the Government has been trying to do for some time is to reinforce some of the requirements and exhortations of the United Kingdom Government to the banks: essentially, to take some of the European resources that are available and ensure that they fulfil their purpose of improving lending to companies that are active within the Scottish economy. We have been working co-operatively to deliver that. We will continue to do that and we will have regular dialogue with the banks to make sure that is the case.

In terms of measurement, we have a range of measures of performance of the Scottish economy that we can examine and assess, many of which will capture the impact of some of the expenditure. We also have a requirement to audit and assess very fully the programmes that are taken forward. The questions that the committee raises will be a material part of the auditing process that is undertaken in relation to the programmes.

**Gil Paterson:** Will that measurement be peculiar to the £95 million? Will there be a separate calculation on that?

**John Swinney:** There will be a distinctive audit assessment on that work and all the components within it. It is unlikely that we will do a separate economic analysis because it tends to fit into some of the wider assessments of economic performance that the Government routinely undertakes, and which are essential in order to determine whether we are making sufficient progress in delivering economic recovery in this difficult time.

**The Convener:** You will recall from when you were convener of the European and External Relations committee that Scotland has a good reputation for delivering multisectoral programmes that involve partnership organisations, and which build from the bottom up. The European Commission has commended us for that approach. A feeling is coming through in our evidence that much of that has been lost. COSLA's submission says that

“practitioners argue for a more strategic approach from the Managing Authority”.

Other bodies have argued that front-line experience and expertise is being lost, which results in levels of spend that are not quite as good and projects not coming forward. Do you have any thoughts on that?

In your opening remarks, you mentioned an independent review. COSLA also proposes a single operational programme with a single fund and single eligibility rules. Will such approaches be under consideration in the independent review? Are you hearing any anxiety about the fact that some front-line expertise is being lost?

**John Swinney:** That is not my impression. You are correct that Scotland has a commendable record on its ability to spend. There is nothing more frustrating than seeing programme funds allocated but not being spent, so I have taken a number of different steps to ensure that we spend allocations fully and effectively and that we support an audit trail, which is required on all such matters.

I do not accept that we have a lack of projects: there is no shortage of projects coming forward. We have allocated almost £335 million-worth of expenditure for the 2007-13 programme out of a fund that, in sterling, is valued at about £700 million, and we are only two years into the programme. We have front loaded the programme and there has been good demand for projects. However, we have not approved all projects because some did not pass the quality test. It is a fact of life that that will sometimes be the case.

I am naturally pretty sceptical about a proposal for a single fund and single sets of criteria. All my experience shows that Scotland is a highly diverse country, so it strikes me that there being a range of options and approaches is appropriate. My impression is that a range of different vehicles come forward to secure investment. Some are community planning partnerships, which involve local authorities in their leadership but—crucially—also include other public sector and third sector players. That broad range of players is essential to structure the interest and activity around particular programmes, which enhances the quality of what we have available.

I will ask John Rigg to give the committee details about the independent review.

**John Rigg (Scottish Government Business, Enterprise and Energy Directorate):** The independent review has been completed. We asked for advice on whether the operational programmes, as originally drafted, were fit for purpose, given the current economic situation. The broad consensus is that they are able to deal with the immediate requirements for economic recovery and that they will continue to provide the sustainable growth strategy for the full programme period.

11:30

We continue to have a strong partnership involvement through the advisory group process,

which is scoring and giving advice to the programme monitoring committees on the nature of the projects that are coming forward. The programme monitoring committees, both in the Highlands and in lowland and upland Scotland, are strong bodies with a strong partnership involvement in providing precisely the sort of challenge function that we require in order to deliver the programmes.

**The Convener:** Has that independent report been published? I wonder whether the committee might have sight of it.

**John Rigg:** It is our intention to publish that report once we have given advice to ministers on the main conclusions. That will be made available and put in the public domain.

**The Convener:** One other point that COSLA raises is the possibility that

“funding officers should have a ‘one-stop-shop’ point of access to all EU Structural Funds”.

If you were against the idea of one fund with one eligibility criteria, could you see merit in there being a one-stop shop point of access?

**John Swinney:** That would depend on what we were talking about. The advisory networks are clear about what advice about structural funds is available and how it can be deployed. My officials are happy to provide advice and guidance to anybody who asks them about the funds.

The other aspect of decision making is the programme management committees, which exist, essentially, to provide a one-stop assessment of individual programmes and to make judgements about their suitability and effectiveness in relation to the objectives that we have set for the programmes. Dr Rigg has talked about the independent review, which has tested whether the focus of the programmes is appropriate for the times. It is encouraging to hear that that work has been supported.

**The Convener:** It will be useful for us to see that report. We look forward to receiving a copy of it.

My final point relates to the Scottish Council for Voluntary Organisations and the third sector. We always knew that, post 2007, funds were generally going to diminish a little bit; however, the third sector feels that it has lost out more than other sectors. Do you share that view? Can anything be done to assist the SCVO?

**John Swinney:** We are obviously in a very different position today regarding structural funds compared to where we were 10 years ago. The world and the European Union are fundamentally different, and a process of change must be undergone.

We have active dialogue with the third sector. Mr Mather and I met representatives of the third sector just the other week to consider its position in the current economic situation. There is, undoubtedly, strain within the third sector and the Government is trying to make its contribution through the funds that we have available to us. We prioritise the interests of the third sector and we are pursuing new work to increase the third sector's involvement in the employability agenda.

My personal view is that the third sector is immensely successful in reaching individuals who are hard to reach in terms of employability. Yesterday, I had the privilege of presenting some awards to two young men at the Cornerstone organisation in Aberdeen. They had faced enormous challenges in gaining access to employment, and had been supported in that process by Cornerstone. It is a classic example of the work that can be undertaken by the third sector.

We are engaged in dialogue to ensure that the position of the third sector is improved. The Government sees the third sector as having a great deal to contribute to the employability agenda, so we will seek additional ways of ensuring that we maximise that input.

**The Convener:** I said that that was my last point, but the clerks have drawn to my attention another issue on which we would welcome your view.

On 7 April 2009, the European Council agreed council regulation 284/2009, which outlined simplification measures that had been introduced into the original general regulation governing the 2007 to 2013 programme. Do you have a view on how helpful that new regulation, which was introduced by the European Council to simplify the use of structural funds, will be for Scotland? If you want to get back to us on that matter, you are welcome to do so.

**John Swinney:** I feel as though I should plead the fifth amendment on that one, if you do not mind, convener. If the committee will excuse me, I will write to you about that in due course.

**Jim Hume:** The economy is a huge issue. Front loading is probably a good idea, but do you have any concerns about problems that it might cause in 2012 or 2013, when moneys might have been spent and there is nothing to fall back on?

**John Swinney:** That is a fair question. Essentially, the question of how far to go with front loading is a matter of judgment. We have taken a decision in principle to front load the programmes because of the economic circumstances that we face. However, front loading does not mean that we spend all our money in years 1 and 2 and leave nothing for later on. We have taken an

approach that tries to manage two factors. The first factor is the point that Jim Hume makes, which is that we need to ensure that programmes are sustainable throughout the six-year period. The second is the need to make a proper assessment of currency risk. When the programme commenced, sterling was at €1.20, but it has since reached virtual parity—yesterday, it was at €1.11. We have to conduct a risk assessment around the extent to which we can front load the programmes, given that we will be getting paid back in euros at a stage when the currency advantage might not be quite what it is today.

We have advised our officials to manage those two factors as we work our way through the programme. We have taken some prudential decisions in that respect because of the acute economic problems that we face. Obviously, we hope that those economic problems will be less acute in the later years of this programme. I assure the committee that the Government is actively managing the risk that was referred to.

**The Convener:** Thank you for your time. We are expecting some late written evidence this week. If any issues arise from that, could we write to you on those matters?

**John Swinney:** Of course.

**The Convener:** Thank you. We will suspend for a few minutes.

11:38

*Meeting suspended.*

11:42

*On resuming—*

## China Plan Inquiry

**The Convener:** Item 4 is evidence for our China plan inquiry. We are pleased to welcome representatives from organisations that recently visited China on a mission that the Scottish Council for Development and Industry organised. I welcome Andrew Hogan, Julia Weedon, Jane Gotts, John Melvin, Stuart French and Laurie Clark and thank you all for coming. I understand that Jane Gotts will make a short opening statement on behalf of all the witnesses.

**Jane Gotts (Scottish Council for Development and Industry):** Good morning, everyone. A few months ago, when the SCDI gave evidence to the committee on the revised China plan and on refreshing the programme, we mentioned that we were to take a trade delegation out to China. That was one of the largest delegations that we have organised. One of my key messages to the committee when I previously gave evidence was that it is important to help small and medium-sized enterprises to engage in the Chinese market.

We took 23 SMEs out to China from a range of sectors in Scotland's economy, including the energy, financial services, life sciences, biotech, education, tourism and food and drink sectors. A range of businesses from those sectors is represented today. Andrew Hogan represents the whisky sector; Julia Weedon is from the college sector; John Melvin is from the tourism sector; Stuart French is from the tourism and event management sectors; and Laurie Clark is from the construction sector.

I thought that good value would be obtained from those businesses feeding back into the China plan and talking about the challenges and opportunities in doing business in the Chinese market. The feedback from our visit already shows the prospect of more than £1.5 million of orders in the next 12 months, which is a fantastic result from a week's trip out to market.

I do not know how you want to approach the session, convener—perhaps you will want to bring in some of the other witnesses.

**The Convener:** I thank all the witnesses for their written evidence, which we appreciate as background information. It might help to open with general questions. In your written evidence, most of you mention the value of the China plan. How will it assist your organisations in doing business in China? Do you want to change anything in the plan? What would assist you further?

11:45

**Andrew Hogan (Bruichladdich Distillery Company Ltd):** I enjoyed going out to China with the SCDI. However, as ever with China, it is about the long term and the guanxi relationship. I am in the fortunate position of going back tomorrow to follow up on meetings. I appreciate that not everyone is in the same boat. People cannot usually just go back to China at the drop of a hat.

I would like a means of establishing guanxi when we are not in China. A head of steam is built up when we are there and we make many fantastic contacts. We have discussed this morning how positive we all felt when we came home and had businesses and interests to drive. However, the difficulty is that that does not happen when we are not in China. If we do not go back straight away, the initiative can be lost. The core of my suggestion is therefore to find whether there is a way of using Government organisations, particularly the SCDI, to manage the process and keep relationships going until we can go back out again.

**Julia Weedon (Edinburgh's Telford College):** I outlined in my written evidence a number of ways to help in education, particularly with the college sector. We have been going out to China for a number of years. Some opportunities require a long lead-in, while others happen quickly; it is sometimes difficult to know which will happen quickly and which are long-term prospects.

Cross-sectoral trade missions of the kind that we went on recently are important. They raise the profile of Scotland generally, which is always good. We are from a relatively small country and are visiting a very large country with many provinces, so it is important for us to raise our profile together. It is also important to have synergy not only between the Scottish companies and the Chinese companies when we visit them, but among the Scottish companies. On the missions this year and last, we made contacts in the companies with which we travelled that let us work together on business opportunities to get into the Chinese market. That is always a wonderful add-on.

As part of the follow-up from the mission that we have just been on, one of our partners visited us yesterday. Unfortunately, the climate was not particularly conducive to their visit to Scotland and Edinburgh. However, they had a wonderful time. Obviously, there will be a lot of follow-up from the trade mission and from our other engagements with China. A number of methods can be used through the China plan for the college sector in particular to support our business in China and the Scottish economy.

Business is still growing for us in China. It used to be our largest market for student recruitment and partnerships, but it has dropped into second place. India is now first for our college, as it is for a number of educational institutions. However, our ambitions are to make China our number 1 again. I know that that is what our Chinese partners want. I regard the trade missions as a great opportunity for growing business with China.

**John Melvin (Galink Ltd):** Good morning, everybody. Just to add to what Julia Weedon and Andrew Hogan said, the benefits from multisectoral trade missions of the kind that the SCDI organises and the fact that they are part of the China plan make them useful for small companies such as ours. We have been on the go only since November 2007, so it has been great to go out with the trade mission to markets for inbound tourism, meet agencies and build up relationships. It has taken us 15 months to get to where we are and we hope now to welcome regular groups of Chinese visitors to Scotland and the UK. The trade mission provided a very useful platform for us to go out there. We met other Scottish companies on the trade mission that we would probably not have met otherwise, so it has been very useful for both internal and external contacts.

The China plan is most impressive as a general plan, but it would be good for the tourism sector if more specific targets were set for organisations—for example, VisitScotland working through VisitBritain. One of the messages that we got out there came from being asked constantly, "Who are you?" It sounds strange to say that Scotland has low visibility but, although people have heard of things such as tartan, whisky and golf, they do not automatically associate them with Scotland. We have incredible sales tools, or business cards, as it were. However, countries such as Australia and America seem much more proactive than us and are committing more resources, even during the economic downturn. Another such country is Ireland, which has a focused team Ireland strategy. It would be good if more specific goals on tourism were set for VisitScotland.

**Stuart French (Platinum Event Management Ltd):** Like John Melvin, I am involved in the golf tourism industry. In my role as golf consultant to Angus Council, I was fortunate enough to go to China a few times. Taking on board what I learned from those visits, I felt that it was time to break out on my own and see what I could achieve in the Chinese market. I was able to do that with the assistance of the SCDI's latest trade mission.

The opportunities in China for the golf tourism industry are endless. I have watched with interest how things have changed in the past four years. Recently, to celebrate tartan week, we had the

tartan week international golf challenge. This year, I noticed a marked difference in the age range of Chinese people at the event compared with previous years. That reinforced the view that I have had for several years that, although golf has been very much a high-end sport in China, it is filtering down to the middle classes. At that event, there was a young element with a different mindset and attitude, which has reinforced my commitment to go ahead with what I am trying to achieve. I believe that the sport will filter through to an even greater extent and that we will get a lot more business.

As a result of my visit, and through personal contacts that I have made in the past three years—as Andy Hogan alluded to, with the Chinese, the approach is about relationships—I will be involved with three tours this year. I am not a tour operator like John Melvin; instead, I put together itineraries and event manage, organise and co-ordinate trips. We forecast an income of about £370,000 this year just from three trips that were set up through personal connections. However, I want to get into the non-personal connections. I want to get into the tour operator market in China, but that will take time. Everything takes time with the Chinese. Creating a business relationship in China takes three or four times longer than it does here.

I fully support the China plan, but I reinforce the point that assistance is needed for people such as John Melvin and me to secure business with the Chinese. That is particularly true for those who deal with Chinese tour operators, as that is the most difficult market to break into. However, once we break into it and get into the operators' mindset and into a relationship with them, they will be invaluable. I fully support the work that is being carried out, but further support is needed.

**Laurie Clark (Ecoscreed Ltd):** I totally agree with everything that has been said. It is difficult doing business in China—it is a much more long-term process. We must remember that China is a long way away from Scotland and that it is very expensive to get there. However, it is worth making the effort. The China plan looks very good, but one comment that we all had when we discussed the issue earlier this morning—I raised the issue, but I think that everybody else was just frightened to do so—is that the plan is a wee bit like a business plan with no financial information at the end of it. I expected to see numbers and money and information on where some of the public money will be invested.

Support should be provided not only for business organisations, but for cultural trips. We need to get out there and, as has been said, create team Scotland. We see team America and team Ireland in China, but we do not see team

Britain or team Scotland. We are keen to create that, but that needs a bit of money to be filtered through organisations such as SDI and the SCDI. The more Scottish people are there, the more benefit we will get. In the current climate of adversity, when the world is in a bit of turmoil, there might be an opportunity for us to gain ground that has perhaps been lost. Countries such as Ireland and America are certainly more advanced than we are when it comes to dealing with the Chinese.

**The Convener:** Will you say a little more about the barriers that you face, so that we can consider how we could assist. Is China's size a barrier? Should we concentrate our efforts in one area, or should we just go where the business is for each of you? John Melvin mentioned VisitScotland. Do you receive assistance directly from the Government or from VisitScotland or VisitBritain? Do they contact you? Would any kind of rapport or networking assist you in your work?

**Jane Gotts:** It is important to mention that we were in Hong Kong as well as Shanghai. Hong Kong is an excellent market for smaller businesses that are looking to get into mainland China. Hong Kong is a safe place to do business, the legal aspects are similar to those in the UK, and English is the language of business. In our efforts to remove risks, we are conscious that Hong Kong should remain a key part of the China plan. It offers access to southern China and the Pearl River delta area, where there are many major opportunities.

Part of our role in the SCDI is to link in with the public sector agencies that offer support. We certainly try to do that by working with Scottish Development International, and with the China-Britain Business Council, which has offices throughout China. It is our role to facilitate those networks and contacts.

I mention Shanghai and Hong Kong, but I know that Julia Weedon went to other cities in China during her trip.

**Julia Weedon:** We used the mission as a starting point for our visit to China. As we said in our written evidence, engagement at ministry-to-ministry and Government-to-Government level is crucial for the Scottish colleges sector, especially in China. On the website of the Chinese Ministry of Education, there is really no mention of Scottish colleges, because they are not award-giving institutions, relying on validation from the Scottish Qualifications Authority. Mention on the website is very important, so that when we talk to potential partners in China—universities and colleges—they know that we are on the website and are recognised, bona fide, Government-funded organisations. We have to make a hit at that level.

The Chinese have quite a hierarchical structure in their businesses, so it is important to tick all the boxes so that local arrangements for partnerships are endorsed by the relevant ministry. That could be the Ministry of Education or the Ministry of Labor and Social Security, for vocational qualifications. It is very good that the SQA is delivering higher national diplomas in China, because it raises the brand. However, there could be opportunities to expand that work and to support the Scottish colleges, perhaps by part of the qualification being done in the other country and part of it being done in Scotland. Transnational education is definitely the way forward for Scottish institutions, whether colleges or universities.

Although we are recruiting students directly, we are also looking for partnerships. Telford College's network of global partnerships is very important to us. We want to raise the profile of our institution as well as that of all Scotland's colleges. Links with prestigious universities and colleges are important, and we were able to form such links on our trip to China as we travelled out of the main cities and into the metro cities and the second and third-tier cities.

Obviously, the travel and the cost are challenging, so any support that can be given is helpful. With missions such as the Scottish Colleges International, SDI and SCDI missions, it is important that there is funding to support the small marketing budget that the college has. Such tangible, practical things—along with supporting smaller companies, where possible, with the buying power of Scotland—would make it easier to do business by making the trips more cost effective and would help a great deal, ensuring a good return on the spend.

12:00

**John Melvin:** I mention in my written report that better advantage could be taken of the existing sister-city relationships that Edinburgh, Glasgow and Perth have. There are also links up in Angus. Rather than just look at the map and stick a finger on it, we could exploit those existing relationships.

In-bound tourism is the main focus of our activity, but we are also keen to improve cultural and educational links between China and Scotland and between Japan and Scotland. We see education as an important area. Agencies such as the British Council, for example, could be encouraged to develop more school links. I mention in my written report how awareness of Scotland can grow through education. People have heard of the Loch Ness monster, but that is the only thing that they associate with Scotland. School links can be established using the current technology, which makes it easy to put schools in

contact with each other. When I was at school, we had to write to our pen pals in France, but children can now rattle off e-mails that get there in the blink of an eye. The technology is certainly there.

If students' awareness of Scotland is improved through school links, that will rub off on their families—their parents and uncles—and, when they grow up, they will perhaps be more likely to come here to study or to travel. We should encourage organisations such as the British Council, which has existing links with China and Japan, to exploit those links further.

You mentioned barriers. I will not go into the intricacies of getting visas. There is quite a complex process, just now, to enable Chinese people to come to the UK for general sightseeing. It is a lot more straightforward for them to come on general business. If they want to come for sightseeing, they must go through an agency in China that is registered with the British embassy, and they must be sponsored or invited by an agency in Britain that is registered with the China National Tourism Administration through VisitBritain. It is quite a lengthy process.

We are targeting the north-east of China. The UK Trade and Investment report of 2007 focused on regional cities in the north-east of China, away from Beijing, Shanghai and Hong Kong. Through a lengthy process of begging, pleading, threatening and calling in a lot of favours, we eventually got an agency in the north-east of China registered with the British embassy and it has gone through a training process. I hope to welcome the first groups through that agency at the end of next month—or, if not then, in June or July.

We hope that it might be possible to make it slightly easier for agencies to be registered with the British embassy. The location that we are targeting is called Shenyang. A few years ago, there was an American visit there, which was led by a senator. Trade missions involving high-profile politicians are very useful. America has spent a lot of time and effort on developing such relationships, and it is now easy for agencies in China to register with the American embassy for the issuing of visas. There are obviously worries about Chinese visitors coming over here and not going back—that is partly what the British embassy is worried about. However, a lot of our competitors have found ways to accommodate such worries better than we are doing just now.

**The Convener:** Does anyone else want to comment on barriers and networking?

**Stuart French:** We talk about the vastness of the geography of China. The scatter-gun approach does not really work there. We pick an area. At the moment, I am concentrating on Shanghai because I have got to know its geography and people there.

I am going down a new route. As I say in my written evidence, business will not be secured by one trade mission or one meeting; rather, two, three or four meetings secure relationships. Therefore, people must first of all concentrate on one area before they beat off into other cities. That is one problem. Visas are also a problem, as John Melvin said. I highlighted that in my written evidence. Those are among the aspects that I have to consider.

**The Convener:** In his written evidence, Andrew Hogan says that he likes the idea of an industry sector set-up that could network and advise people. Would that assist you, Andrew? Do you work across China or mainly in Hong Kong?

**Andrew Hogan:** We have been established in Hong Kong for many years; we have nothing in China at the moment. For many distilleries, getting into China is a massive aspiration. People in every market in the world will say that their market is special and different, but that remark probably applies more to China than to any other market.

The unique issue in China is that there is no shortage of importers. I have spent many hours trying to source importers for Korea and other south-east Asian countries; doing so is quite difficult. In China, one is approached daily by dozens of importers. Importers in China will take concrete, steel, plastic, whisky or whatever. The difficulty for me lies in thinning people out and finding out who is relevant, who is specialist enough to deal with my product, and who has the connections and the distribution capacity to take it forward.

There were many Chinese businesses at the official reception that I was at for the SCDI mission in China in March, but a networking strategy proved to be quite difficult. I have a mountain of business cards from lovely people who have no interest at all in my business; equally, I have no real interest in their business. I tried to nudge people gently out of the way because the guy to whom I wanted to talk was glaring at me 10m away. The problem is trying to thin people out and cut people out, and perhaps streamline things a little bit. There are pitfalls in streamlining too much, but it would be nice if industries were broken down by sector so that we could get hold of specialists and the niche market operators for whom I am looking much more quickly.

**The Convener:** Laurie Clark is in construction. Is that market quite difficult for you? What barriers do you face?

**Laurie Clark:** I am involved in two distinct aspects of construction at the moment. I am involved in the production of concrete, and my company also imports construction equipment from China, which started very well in 2007 to

2008, but was brought to an abrupt halt. Basically, I copied an idea that I picked up from the Irish. We brought in diggers or loading shovels in kit form, assembled them in Scotland and then rented them out throughout the United Kingdom. Obviously, things were all very well until November or December last year, but work came to an abrupt halt then.

The other sector that I am involved in is the specialised green concrete products sector. We are at an early stage with that work. We have a substantial sum of money involved in intellectual property, and we have now achieved a Chinese patent and copyright on our brand, which should be of interest to the Chinese. Indeed, it is proving to be of interest to them, but getting to the right people is difficult. Plenty of people will put up their hand and say, "We'll help you. We're interested in doing that," but whether we should deal with those people is yet to be proven.

The other panel members are interested in taking people to China. They are more interested in going out there, engaging with people and trying to help other businesses, although perhaps they should not do so in my sector, thank you very much. I am quite happy to try to help people in other areas and to use the little bit of experience that I have picked up from people in other sectors.

Every businessperson in Scotland could certainly learn from a trip to China and from how the Chinese approach business. I reiterate that the more people from Scotland we get to go to China and engage in the provinces, the better the feedback we will get, the more money will come back into Scotland, the more jobs we might create and the more inward investment we are likely to get. It is a numbers game, and we have been a wee bit slow to get out there.

My first visit to China, which I made on my own, was a bit of a leap in the dark. When I got to the airport, I did not realise that no one spoke English, so getting from the airport to my hotel was quite a challenge.

**The Convener:** The first challenge.

**Laurie Clark:** Yes. I was disappointed when I went to a trade convention, because large numbers of people from Ireland, Australia and the USA were there, but no other British companies were represented, with the exception of JCB—although no one from JCB UK was present to promote the company's product. The UK and Scotland seem to have got lost. However, with the flux in the world market, we now have the opportunity to get back in there and make progress.

**Michael Matheson:** A key theme in the written evidence and in what has been said this morning is people's concern about our visibility in China,

which Laurie Clark has again just touched on. I would be interested to hear what practical measures the panel believes could be taken to address the low level of understanding of the Scottish market. I confess that I was quite surprised when John Melvin said that some of our most iconic figures, or business cards, are not directly associated with Scotland by the Chinese. I can remember speaking to someone at the Irish tourism authority who said that if they had some of the iconic symbols that our country has, they would do even more than they are doing. That is quite concerning. It would be interesting to hear what practical measures can be taken to address Scotland's low level of visibility in the Chinese market.

**Jane Gotts:** I will kick off. The key is that we all need to work in partnership. SCDI's relationship with SDI has improved significantly over the past few years. SCDI has made trade visits for a long time, but recently there has been a sea change in how we have approached those visits. We work much more closely with SDI, especially its in-market teams. SDI has good coverage in Asia. We visit the markets where it has a presence.

Partnership working is the key. As well as working with SDI, we need to let VisitScotland know when we are going away. We can do simple things, such as use a VisitScotland video on Scotland as an icebreaker at meetings. Company representatives can raise awareness by showing images of Scotland. If you mention golf or whisky to a Chinese businessman, their eyes light up; it is an icebreaker. That is Scotland's unique selling point—it is what opens doors and allows us to get down to the nitty-gritty of doing business. The key is working more closely with VisitScotland, SDI and organisations that already have a presence in China. It is about having a team Scotland approach, because we have only 5 million people and we are competing against a country with a population of 1.2 billion. That challenge cannot be underestimated, but we can draw strength from one another, and we as an organisation are keen to take that approach.

**Andrew Hogan:** It is much easier for my company to create an identity, because as soon as you mention whisky, everyone associates it with Scotland; golf is pretty much on a par with that. Things are not quite as straightforward when it comes to construction, but we could say, "Hang on—Hong Kong was built by Scots." I do not think that we make enough of that. An icebreaker video should allude to traditional symbols of Scotland, such as the Loch Ness monster, whisky and golf, but it could also point out that Hong Kong, which is on China's doorstep, was put together by Scots 150 to 200 years ago. That would create a direct association with different aspects of industry. It

would big us up quite a bit to say, "We did that and now we are coming to you to do a bit more."

12:15

**Stuart French:** From the perspective of golf tourism, we—I refer to my role as Carnoustie country golf consultant—had a presence through our agent in China at the recent Beijing golf show and the China open golf championship, which was held in Beijing. In my view, those are the type of shows at which Scotland should have a larger presence, as that is one of the ways in which we can get the message over about what golf and golf tourism in Scotland are all about.

The Chinese golfer knows what golf is, but the Chinese have come in at a higher level, while we started at a lower level. They do not really know what has happened previously, but they want to learn. When they get to St Andrews, they do not even check into their hotel rooms before they are down on their knees on the 18<sup>th</sup> fairway on the Old course, saying, "Mecca". We have a responsibility to educate them more fully about what Scotland has to offer.

**John Melvin:** When we first went out to China on the SCDI trade mission last year and met professionals from the tourism industry, it was a huge surprise to us that they had heard of whisky and golf. They did not, however, automatically associate those things with Scotland, and they were delighted when we told them that all those things came from the same wee country, and that they could go there and experience it all. We have great selling tools at our disposal.

With regard to being able to get that across in a practical sense, VisitScotland might have to change its operating procedures. It is currently very hard to find VisitScotland—it has a presence in Beijing and Shanghai, and I presume that it is in Hong Kong as well, but it is tucked up in a wee office somewhere. It seems to be a very passive organisation that waits for people to contact it with information.

VisitScotland already has a lot of information that has been translated into Mandarin, but I hope that it will become more proactive in approaching agencies, particularly the nationwide agencies. It could circulate a video—the "Pride and Passion" DVD, for example—and the brochures that it already has, which are very visual methods.

A key method for getting into the Asian mindset is through television and advertising, and especially through celebrities. If celebrities pick up on something—particularly in Japan and China—such as drinking the new whisky or cognac, hordes of people will start chasing it up. It should be easy to organise a few Chinese celebrities to come over on a familiarisation trip to experience

what we have in Scotland, and to get a film crew over so that the trip can be shown on Chinese TV.

I understand that Angus Council has already been involved with Chinese TV stations, but VisitScotland could co-ordinate that at a wider level.

**Julia Weedon:** There is, as John Melvin said, a challenge in relation to language. At Edinburgh's Telford College, we have taken on a fresh talent graduate to help with our communications with China. There are perhaps more opportunities through the British Council and its Scottish networks international. It is a great advantage for SMEs in particular to have that support, because there is a language barrier.

We are talking about practical solutions as well as barriers. Fresh talent—Scotland's post-study work scheme—is unique. We still have a competitive advantage in the UK, in that people on that scheme can work in Scotland for two years after gaining a higher national diploma. We use that as much as we can, but there is perhaps an opportunity to branch out and make ourselves more different by moving to a three-year post-study work visa. That would put us ahead of the rest of the UK, so it could be a practical solution.

Whenever we can, we use recognisable, high-profile Scots, from James McAvoy and Ewan McGregor to Sean Connery, depending on the audience that we are talking to. We usually hit on a smile from each generation, if you like, so we have used that to our advantage. As John Melvin said, using Scots who are known worldwide is important.

Scottish colleges can offer an alternative route to a degree. We do not regard our work as just being vocational; the rest of the UK still tends to talk about further education colleges, but in Scotland, we talk about colleges. Our products are vocational, but they are also an alternative route to a degree. Significant numbers of students are now coming through to universities through that route. Colleges can be of particular support to students in the context of changing learning cultures. In addition, education is now regarded as a major business because of the international money that it brings in, not only to individual institutions but to the country as a whole, from foreign students living, studying and working here.

Scholarships tend to be for the university sector—the introduction of the saltire scholarships was wonderful—and for the top end, at PhD level, which is important. However, every country that I travel to talks about the skills agenda, so if Scotland could be seen to support vocational and skills education and give skills scholarships, that could be used to raise the profile of our wonderful vocational education.

**The Convener:** Gil Paterson has been waiting for a while to come in.

**Gil Paterson:** First, I must declare an interest, because I have been doing business in China for a considerable time.

What clearly comes across from the witnesses, although they articulate it differently, is frustration with the lack of money or resources to deploy in China. The China plan's resources are finite and small. Andrew Hogan's industry probably spends more in a day than the China plan will spend in its lifetime, which shows that only a small amount of money is available.

The witnesses' account of their experience in China answered one question for me: it seems that, because China is so big, people concentrate on a particular geographical area. Would the witnesses advise the Scottish Government to do that with its China plan? Another way to use the plan's limited resources would be to home in on individual sectors. Can the witnesses comment on that idea?

In my experience of the system in China I found that, latterly, I got great advantage from political dialogue: a UK politician would open the door for me by interfacing with the political system in China. In my experience, it is therefore not businessmen but politicians who open the doors. Can the witnesses comment on that and on whether more resources should be put into the political way in? For example, someone from the Government could make quarterly visits to China—although that would take money—and introduce accompanying Scottish businesspeople, opening the door for them and short-circuiting the system. There are three questions there for the witnesses. I ask Laurie Clark to start.

**Laurie Clark:** I agree 100 per cent with what you have just said. Although top of the pops for the media at the minute is criticising all politicians for going on junkets, claiming expenses and so on, you guys—from all parties—must step up to the plate and be brave. You must get out to places such as China and help businesses by leading delegations of not only businesspeople but people from the cultural and arts sectors. You should be prepared to say that you are there because you are doing a job and that, although you are spending public money, it is money well spent.

I understand that the media would have a field day criticising politicians of all parties who made such trips, but I agree 100 per cent with you that there would be an advantage to the country and to businesses in missions or trips to trade shows. There would be a benefit in politicians talking to people in the relaxed environment of a hotel lobby or aeroplane, rather than in a formal environment.

That would perhaps be a better way of getting the message across.

As I said earlier, at this point in the economic cycle, there is an opportunity for us to regain some of the ground that has been lost, to start spending money and to get out there to engage with China. That is far and away the biggest opportunity open to Scotland at the minute.

There is a great opportunity for us to revive some of the industries that we have lost. The idea that I have been trying to peddle is that we should be trying to revive our manufacturing industry not by digging the iron ore out of the ground and making the engines but by buying the components in China or elsewhere in Asia and trying to get manufacturing going again in this country. We have seen what has happened to our financial services industry. Tourism is probably bobbing along quite nicely at the minute, but it could do better.

I agree 100 per cent with your suggestion. I say to politicians of all parties that they should take the opportunity to go out to China and be prepared to defend their position if they get flak from the media about it.

**Julia Weedon:** During the recent mission from the Scottish Government, the minister went to a university in Beijing, and the first thing that I got through my mail was a photograph of the presentation there. It was important for people from our partner institution to show that somebody from the Scottish Government was there. They were proud that their university was selected for the visit. That visit has done a huge amount for our college and our partner and has strengthened the work that we do together. That is a practical example of the benefits that we are talking about. I agree with what Laurie Clark said about those benefits.

Gil Paterson's first question was about geographical areas. Although I agree with colleagues who have talked about working outside the main cities, we still have quite a lot of business in the main cities. We try to diversify into other regions, which we usually select through one of our partners in China—we use word of mouth, contacts and relationships. My recent trip took me everywhere from Inner Mongolia down to Nanchang and Wuhan—cities I had never been to—and was very useful. China is a very large country, with a big educational sector that is looking for opportunities.

On the second question, the China plan highlights support for certain sectors. However, our main areas of business are still English language, which is a major part of our work, dental technology and hospitality management, which are not highlighted in the China plan. There is

commitment in the plan to certain sectors, but, outside those sectors, each company, business or educational institution has to focus on its specialties, uniqueness and the key areas on which it can link in with partners in China.

**Stuart French:** I agree whole-heartedly with what Gil Paterson said. Having experienced at first hand trade missions in which politicians were involved, I have no doubt that politicians help to open doors. You find yourself at meetings and banquets with politicians who have responsibility for different sectors. I have been on missions where I have met politicians who have an interest in tourism, and there is no doubt that they have helped to open doors. Given the strength and power that are to be gained by having politicians with you, such missions are without doubt the way to go.

For example, when we were in Beijing, one of the head politicians from Yantai, which is twinned with Angus, heard that we were in the city, and he took us to a banquet dinner at which heads of state were present.

It definitely helps to have politicians with you. That is one way in which the China plan could go forward.

12:30

**Andrew Hogan:** I also agree whole-heartedly that the regular involvement of senior politicians in trade missions would short-circuit the process. However, I stress that contact with the Chinese Government is also important, so that its prominent politicians can ensure that their businesses and companies are focused and targeted in a useful way. That is where the true interface will occur. If that happened, I would not end up with that pile of business cards, trying to fight my way past people; instead, we could ensure that both sides of the table were engaged.

**The Convener:** We are running a little bit short of time. Does Jane Gotts want to say something?

**Jane Gotts:** I think that my colleagues have answered the questions extremely well, and that a value cannot be placed on the credibility that is gained from having ministerial engagement with programmes.

SCDI is whole-heartedly committed to working with the Scottish Government and the Scottish Parliament to promote China to as many Scottish businesses as possible. We would be delighted to continue that conversation. Such engagement is particularly useful with regard to China, where a great deal of the process involves Government relations. I know that a key focus of the Scottish Parliament is the international picture, so I think

that it would be positive if we could work together in that regard.

**John Melvin:** As was mentioned earlier, the political nature of China is still evident. The Government maintains either a majority stakeholding or a significant minority stakeholding in the vast majority of companies. That is another reason why making political or ministerial links will help to turn the wheels a bit further down the chain.

**Jim Hume:** My question is for Stuart French. You mentioned the length of time that it takes to build up relationships—I assume that a lot of that involves the building up of trust. You also mentioned Sun Tzu's "The Art of War" in relation to the way in which people do business out there. We do not just have a language barrier; we also have a barrier in terms of our cultural differences.

You talked about the need for Scotland to be China-ready. I know that you are talking about tourism, which involves importing Chinese people, but other businesses are interested in exporting Scottish goods to China. Could you say a little more about what you mean when you say that Scotland should be China-ready? How can the action plan help Scotland to become China-ready? Do not think about resources, as there are probably fewer resources than you would like. Instead, tell us what you think should be done, if we could wave a magic wand.

**Stuart French:** When I talk about being China-ready, I am talking about people in Scotland being ready to accept the Chinese and look after them in the way in which they expect to be looked after, because there are differences between our ways of life.

We also have to be China-ready when we go to China. We have to understand what we will encounter, who we will deal with, how they like to be dealt with and so on. We should be aware that they apply the strategies in "The Art of War" to business. You have to engage in eye-to-eye contact with the Chinese. That is why I say that you cannot do everything in just one meeting or trade mission. They have to get to know you. They have to look you in the eye, and you have to look them in the eye and establish trust. About an hour into a meeting during our recent mission, the guy I was speaking to wanted me to go down to his office—he wanted me to see his office and he wanted to see that I could show interest in seeing his office.

When people come here from China, I make a point of visiting the hotels, bed and breakfasts and restaurants that we are using, to explain the dietary requirements of the Chinese, which are different—we can handle their diet more easily than they can handle ours. Such cultural

differences mean that we must be China-ready, as I call it, to make the Chinese feel at home. I would like a toolkit for businesses in this country to be produced; that would also support businesses from here when they go to China.

I was fortunate in that I had been to China before I went as part of Jane Gotts's mission. I am learning as I go—we are always learning. For people who have not been to China before and have the potential to do business there, being China-ready works both ways.

**Jim Hume:** Thanks. You have provided us with a useful toolkit.

**The Convener:** We have run out of time. It has been an interesting session. Before we close, are there any final points that we have not covered and that the witnesses would like to bring to our attention for our report?

**Stuart French:** An interesting point arose this morning, when Andy Hogan and I were speaking before the meeting. Andy is in the whisky industry and I am in the golf industry, but there is business that the two industries can do with each other in the Chinese market. Trade missions have more than one use—they can bring together people who are based in Scotland and enable them to assist one another in doing business.

**Jane Gotts:** The China plan provides the framework; it is up to SCDI, as a business organisation, to work with the other key stakeholders to deliver on that. We are enthused about the opportunities that exist in China and think that Scotland can crack the Chinese market. We are keen for our exports to that market to grow and are committed to working with all public sector agencies to get more businesses out to that market and help them to meet their international objectives.

**The Convener:** Thank you all for coming along this morning and for the written evidence that you have provided, which will assist us in our deliberations and in the formulation of our report.

## “Brussels Bulletin”

12:37

**The Convener:** The next item on our agenda is consideration of the most recent issue of the “Brussels Bulletin”. This is the final item before we go into private session, so we will bash on with it while our witnesses are leaving. Do members wish to highlight any points in the “Brussels Bulletin”?

**Jim Hume:** The revision of the food labelling scheme is mentioned on page 7. The Rural Affairs and Environment Committee may be aware of that, but we could bring the issue to the committee’s attention.

**The Convener:** We already send the “Brussels Bulletin” to the committee. The clerks can highlight the relevant section.

**Jim Hume:** I note that a new Government has been formed in the Czech Republic since our visit. I hope that that has nothing to do with us.

**The Convener:** We will see what happens when you go to Sweden.

I bring the public section of the meeting to a close, as we have agreed to take the next items on the agenda in private.

12:38

*Meeting continued in private until 13:11.*

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