

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Tuesday 17 November 2009

Session 3

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CONTENTS

Tuesday 17 November 2009

Col.

| | |
|---|------|
| INTERESTS | 1269 |
| DECISION ON TAKING BUSINESS IN PRIVATE..... | 1270 |
| EUROPEAN UNION BUDGET REVIEW INQUIRY | 1271 |
| “BRUSSELS BULLETIN” | 1303 |

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

13th Meeting 2009, Session 3

CONVENER

*Irene Oldfather (Cunninghame South) (Lab)

DEPUTY CONVENER

*Michael Matheson (Falkirk West) (SNP)

COMMITTEE MEMBERS

*Rhona Brankin (Midlothian) (Lab)

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

*Patricia Ferguson (Glasgow Maryhill) (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:

Allan Bowie (NFU Scotland)

Stephen Boyd (Scottish Trades Union Congress)

Rob Clarke (Highlands and Islands Enterprise)

Jonathan Hughes (Scottish Environment LINK)

Patrick Krause (Scottish Crofting Federation)

Donald MacInnes (Scottish Enterprise)

Duncan McLaren (Friends of the Earth Scotland)

Professor Paul Mitchell (Scottish European Green Energy Centre)

Alastair Sim (Universities Scotland)

John Thomson (Scottish Natural Heritage)

CLERKS TO THE COMMITTEE

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Simon Watkins

ASSISTANT CLERK

Lewis McNaughton

COMMITTEE ASSISTANT

Kathleen Wallace

LOCATION

Committee Room 1

Scottish Parliament

European and External Relations Committee

Tuesday 17 November 2009

[THE CONVENER *opened the meeting at 10:30*]

Interests

The Convener (Irene Oldfather): Good morning everyone. I welcome you all to the 13th meeting of the European and External Relations Committee in 2009. I have received apologies from Sandra White and Jamie Hepburn. Colleagues will join me in congratulating Jamie, whose daughter, Rebecca Catherine, was born on 12 November. We all send our very best wishes to him. I can say from experience that his life will never be the same again.

As colleagues will be aware, we have received a resignation from Charlie Gordon, who has taken up the transport portfolio in the Labour Party. I am sure that colleagues would wish to join me in thanking Charlie for his contribution to the work of the committee in recent years and in wishing him well in his new role. Rhona Brankin is replacing Charlie Gordon. I welcome her and ask whether she has any interests that she would like to declare.

Rhona Brankin (Midlothian) (Lab): I am a member of the Scottish Co-operative Party, NFU Mutual and RSPB Scotland.

The Convener: Thank you. That is now on the record.

Decision on Taking Business in Private

10:32

The Convener: Item 2 is to decide whether to take item 5, which is consideration of our approach to the Treaty of Lisbon inquiry, in private. Do members agree to take the item in private?

Members *indicated agreement.*

European Union Budget Review Inquiry

10:32

The Convener: Item 3 is to take evidence from our first panel of witnesses. It might be helpful if I say a few words about where we are in our inquiry. Some colleagues will be aware that in phase 1 of the inquiry, which we have now completed, we undertook a blue-sky thinking exercise in relation to what a European Union budget of 2025 might look like. Phase 2, which we move into today, is to focus on the policy priorities that are important to Scotland.

The first panel of witnesses is here to discuss the budget in Scotland in relation to the common agricultural policy. Unfortunately, a few witnesses from the committee's agreed list could not attend, but we are pleased to have with us Duncan McLaren from Friends of the Earth Scotland; Allan Bowie from NFU Scotland; Patrick Krause from the Scottish Crofting Federation; Jonathan Hughes from Scottish Environment LINK; Professor Paul Mitchell from the Scottish European Green Energy Centre; and John Thomson from Scottish Natural Heritage. We have received written evidence from Scottish Renewables, which could not send a representative.

We will hear from a second panel of witnesses later, so we will have to keep the questions and the responses quite tight, but we want to give everyone an opportunity to contribute. As we have such a large witness panel, I have not suggested that people make opening statements.

I will kick off by asking witnesses how important European funding is in general to their policy areas, and whether they can give examples of the type of support that it has delivered. I have provided you all with the European Commission's paper—or non-paper, as it is called. Do you have any initial thoughts about the impact that the EC's thinking may have in the areas in which you work?

John Thomson (Scottish Natural Heritage): European funding is important from our perspective, because the common agricultural policy is the main policy that provides public funding for land management in Scotland, which in turn is critical for natural heritage. The provision that the European budget makes for land management is therefore vital as far as the natural heritage is concerned. There are specific environmental funding streams, but they are much more limited in extent. The principle in recent years has been to mainstream environmental expenditure into the other policies, particularly the land management policy, which only reinforces their importance from our standpoint.

It is not only funding that is important, but the nature of the policies that guide the funding. The policies affect the extent to which it is possible, through national—member state level—measures to achieve environmental objectives in the countryside, because national measures are subject to state aid rules. Expenditure on environmental causes is therefore indirectly as well as directly affected.

Professor Paul Mitchell (Scottish European Green Energy Centre): From a university perspective, the European Community's funding for the framework programmes is essential for our ability to conduct research and develop strong links across Europe. From an energy perspective, European funding allows us to develop new technologies and ideas that will subsequently feed into deployment.

SEGEN has been around for only a few months, but the funding has been tremendously important. We have already made three bids as part of the economic recovery package, two of which are moving into the negotiation stage: the Scottish Hydro Electric Transmission Ltd northern seas grid is important for Scotland and for Europe, and the proposed wind deployment centre in Aberdeen bay will be a central plank in Scotland's offshore wind development programme. From our perspective and that of the industry, it is a tremendous opportunity that is already being realised, and the subsequent changes could be very important for Scotland.

The Convener: We will perhaps come back to some of those points.

Jonathan Hughes (Scottish Environment LINK): I echo John Thomson's point. From a European perspective, it is important to say that the environment is transnational. European funding allows us to create a level playing field across Europe, which is important. We need to take a collaborative approach to the European environment and European funding allows us to do that.

European funding is important for protecting what might be called natural capital throughout Scotland. European directives and legislation are also important in that they create a level playing field, which, through the use of environmental regulations and incentives, allows Scotland to manage its natural environment. We will probably come back to that later. European streams of funding are crucial to allow Scotland to actively manage the environment. Without that active management, we would lose considerable benefits in terms of biodiversity, water quality, landscape quality and so on. There are also synergies in relation to our carbon management of the landscape, and our food production and food security.

Patrick Krause (Scottish Crofting Federation): The European budget as a policy driver is very important for crofting. Croft land covers quite a large area of Scotland, and is specifically noted for its extensive use, extensive grazing, high nature value farmland and so on. What has happened in the CAP has not so far been very good for crofting. It is recognised that there has been a big reduction in stocking in the crofting areas, and land abandonment is becoming a problem.

Reading all the stuff on the budget review gave me a lot of optimism that there is an opportunity to change things and address the problems in crofting and Scottish agriculture. I noted that the Scottish Government, in its response to the consultation on the budget review, made a point of saying that food production is still important for Scotland. That is really good. I am not sure about this, but that approach might be against United Kingdom policy, although it is probably a bit extreme to say that. However, the fact that Scotland has a food policy shows that we are being innovative and considering the budget review as an opportunity.

Allan Bowie (NFU Scotland): I reiterate what Patrick Krause said. Obviously, we cannot be treated in isolation and we fully accept that there will be reforms, but it is great that the Scottish Government recognises that food is important. We must be careful because, although we cannot be treated in isolation, the biggest concern with the budget review is that, because Scotland is at the edge of Europe, we might be left out and find that other Governments do their own thing. We have concerns about that, although we appreciate the fact that food production is now further up the list of priorities, where it should be. However, there are other issues, such as climate change, water issues and the rising population. We recognise that change is needed and activity is required. Patrick Krause was right to say that livestock is coming off the hills. That is happening not only in the hills—we are losing livestock, and people, in other areas of Scotland. I fully endorse what the Scottish Government is doing.

Duncan McLaren (Friends of the Earth Scotland): I preface my remarks by saying that, in some respects, particularly in relation to climate change, which is the most pressing environmental issue that we are trying to deal with, there are fewer issues of importance with the current funding, although there are issues, than there are potential issues of great importance. I will give three quick examples. The first, which is a current and a potential issue, relates to land management for public benefits, which include minimising carbon emissions or maximising the carbon sink. That is particularly important for Scotland because of our large areas of peatland and organic soils. I

am not saying that food production is not important, but those budget flows must not be about production alone.

Secondly, European Union funding is important and could be increasingly significant to our renewable energy potential. It could release Scotland's potential to go to high levels of renewable electricity production through support for projects such as the North Sea supergrid. Under the energy heading, I also highlight the importance of addressing fuel poverty through European cohesion budgets.

The third point, which perhaps belongs more with the committee's blue-sky thinking, is that all those other issues are rather dwarfed by our concern about climate justice and the need for very large financial flows from Europe to the global south to help countries there deal with mitigation of and adaptation to climate change. If one thing needs to be increased in the European budget, it is that flow of support.

The Convener: I should have thanked the witnesses for their written submissions, which I found interesting and which raised many points.

Colleagues will ask questions in a minute, but I want to set the general stage. We have a huge budget review and we know that there is a lot of pressure to reduce CAP spending. How do we align that with some of the ideas that you have brought to the table? For example, can we reconcile the idea of sending that flow of money to the developing world with those about better land management and food production? What are the key dangers and what should we look out for?

10:45

Jonathan Hughes: Scotland's environmental assets in its high nature value farming areas perhaps hold the key. Strangely enough, if we move towards an EU budget that is targeted at the purchase and delivery of public benefits, we will be in a much stronger position than we were 15 years ago. Even though the total CAP budget might be reduced, if we make the case that we have high-quality environmental assets that need protection, we could get a bigger share of it. Further, not all the land management money must necessarily come through that one stream. There is a potential to access other parts of the budget, for example to manage carbon in the landscape, which might not traditionally fall under Scotland rural development programme funding. However, we must be proactive and make the case now that we support public money for public benefits and that we can deliver a high-quality environment in Scotland while delivering food production. We can have a win-win situation, but we need to grasp the issue now.

Allan Bowie: Jonathan Hughes is right. We must also recognise that the market will have to deliver more. To be honest, Scottish farming relies heavily on the CAP budget just to sustain itself economically. We are therefore fully aware that, if the budget is reduced—which is on the cards—the market will have to recognise the farmer or the producer for his endeavours on the provenance and quality of the food, which come at a cost. There must be a realisation that food might have to get slightly dearer to reflect the higher quality and to maintain the environmental benefits.

The Convener: It is interesting and welcome to hear that from you.

Duncan McLaren: I endorse everything that Jonathan Hughes said, particularly the idea that, even if overall European CAP expenditure is cut, that will not necessarily mean that Scotland's CAP expenditure will be cut if the focus is on the delivery of public goods. As Allan Bowie suggested, that might lead to food prices rising. An issue arises about ensuring that the distributional impacts of that are foreseen and addressed in advance, rather than thought about afterwards.

There is significant scope for farmers and land managers to participate in the development of Scotland's renewables industry, particularly through facilities such as anaerobic digesters to provide local heat using green wastes. I hope that, with a more sustainable Scottish agricultural system, we can tap into other income flows.

Patrick Krause: In the crofting context, we see the way in which things are changing as fairly positive. Crofters have always been plural active—they do not rely entirely on food production as a means of support. We see approaches such as the use of croft land for wind energy generation as a real positive, although we lean in favour of smaller-scale wind development—wind crofting, rather than wind farming.

As the convener mentioned, the CAP will inevitably be reduced. Everyone knows that it is definitely on its way down. The issue on which we would take the strongest line is that the resources will need to be targeted. The European consultation document makes a big point about equality. The Scottish Government picked up on that and had it as a foundation in its submission to the consultation. It was good that John Swinney made a big point about equality, as that is a relevant issue. A recent study showed the effects of equality on the wellbeing of a society in general. That is all relevant and integrated. At the end of the day, finding equality is about using the available resources, recognising the challenges and targeting the resources specifically and carefully.

Professor Mitchell: This has been an interesting conversation. I have spent part of my life in agriculture and forestry, so I am well aware of some of those issues.

The main point that I stress is the need to move to a low-carbon economy, which involves agriculture as much as the rest of society. One of the important things that comes through in all the documents is that the low-carbon systems way of thinking must be embedded throughout society, not just in the energy industries and agriculture.

There is a great opportunity for Scottish agriculture to embrace the low-carbon technologies, such as the anaerobic digestion that Duncan McLaren talked about. There are energy crop opportunities for renewable heat in rural areas. There is power generation potential and there is also biofuel technology, which is a contentious issue but is one that we need to be aware of, as Scotland could make a contribution to its development, which means that we need to be aware of European thinking about it.

In terms of balancing the portfolio of CAP versus export, Scotland's great energy-delivery opportunities are in offshore wind and marine power. We have the necessary natural resources to develop those areas and can work with the environment agencies to ensure that we minimise any impact. In so doing, we can make a big contribution from the energy perspective, but we will also be developing a technology that can be exported, either as a business opportunity into other countries or as part of an aid package through which we can deliver what Duncan McLaren called "climate justice", which is a nice phrase.

The Convener: That is an interesting point. As we are having the discussion, it occurs to me that farming practices differ greatly across Europe and that Scotland, with its unique combination of land management and farming practices, could be well placed in any future debate in this topic, especially compared to other areas that might be considered to be a little bit behind us in terms of their thinking around modern technology, farming practices and the ways in which renewables can be linked up with farming.

John Thomson: I agree with Allan Bowie that farmers in the more productive areas of Europe and Scotland, in particular, are likely to have to get more of their return from the market. If food is in relatively short supply, that will be easier, but there will be more disadvantaged areas that will need public support, which can be justified in environmental terms.

I would put much more emphasis on European spending on research and development on food security. I was quite pleased to see that coming

through in the European Commission paper. That is the area in which significant advances will be needed and where public intervention can be justified.

One of the challenges in a climate change and carbon emissions context is livestock farming, which is particularly important in Scotland. Scotland has an opportunity to build on the research base and take a lead in addressing the question of how we can make livestock farming less environmentally damaging in climate change terms. That must be a priority.

The budget review presents us with an opportunity to rebase CAP spending. Until now, the amount of money that is spent under the CAP in individual member states has depended critically on their historical levels of spend. That has severely disadvantaged Scotland, which has the lowest level of spending per hectare of all 15 of the countries that made up the EU before the new member states joined. That bears no relation to the environmental value of the land that is being managed. That is not to say that you would necessarily expect people with unproductive land to be receiving as much as people with more productive land. Nevertheless, the existing basis of distribution relates poorly, if at all, to the public benefits that agriculture delivers. This review gives us an opportunity to put that right. When the budget was reviewed a few years ago, there was an opportunity to do so, but it was sacrificed in the interests of protecting the UK rebate. Obviously, there is a potential trade-off in that regard next time around.

The Convener: You mentioned food security. There is a debate about that and I would welcome the witnesses' views. Obviously, the CAP was set up to deal with food shortages following world war 2. Is food likely to be in short supply again? Is there an issue around food security and should the CAP be addressing it?

Jonathan Hughes: My point is not on food security; I want to pick up on John Thomson's point. The non-paper talks about the idea of a broader strategy, and LINK has been calling for a sustainable land-use policy to replace the CAP. As you rightly say, the CAP was based around food security, and it missed the opportunity to take an integrated approach to the management of land, of which food production is one element. The budget process gives us an opportunity to move towards a sustainable land-use policy.

We have talked a lot about climate change mitigation. Climate change adaptations offer us substantial opportunities to improve the resilience of ecosystems in a way that will enable them to soak up carbon and ensure that they can better cope with climate shocks. If we look after the soil, the water and biodiversity better, they will be

better able to provide environmental services for us in the future. There is a big adaptation angle. Hopefully, the budget will take account of climate change adaptation funding streams as well as those for mitigation.

Allan Bowie is probably better placed to answer the question about food security than I am.

Allan Bowie: We must be conscious of the potential volatility of the world market. If our pockets are deep enough for us to buy food regardless of its price, there is not an issue, as we will simply import food. To be honest, I think that that is the view of the UK Government. The Scottish Government, however, has decided that we must be careful. We have a huge natural resource and the skills and ability to produce food in a sustainable and possibly a low-carbon way. We are not asking for all of our food to be produced in Scotland.

It is great that food security is on the agenda, but we must acknowledge the parameters that we are working within. The public might assume that volatility happens elsewhere and that we should not worry. However, I think that we should worry—about 18 months ago, there was a spike in the cost of cereals, fuel and inputs such as fertiliser. We need to ensure that we get the right policy and then adjust the budget to suit. We do not want to go back to market-distorting systems. That does not help us. Unfortunately, Europe has just done that by establishing intervention stores for milk. That nearly breached financial discipline within the budget.

In the Scottish context, it is great that we are acknowledging the issue of food security, but we should be careful about what is available.

Duncan McLaren: Food security is one of the reasons why we are emphatic that climate justice must be addressed. As Allan Bowie implies, food is a global market. The combination of the effects of climate change and the coming effects of peak oil—which will impact on the availability of fertilisers for agriculture as well as on vehicle fuel—and potential water shortages present a real risk to global food security. As Allan Bowie suggests, richer countries will be able to claim what might be regarded as an unfair share of the food that remains, but that does not mean that the food security of billions of people will not be affected if we allow climate change to progress on a business-as-usual course.

11:00

For Scotland, as well as that dimension, there is also the question of how we address our own agricultural system. I was struck by the recent high-level assessment of the Scottish budget that looked at its carbon intensity. Single farm

payments represented, if not the single most, then one of the most carbon-intensive bits of spending; they were over three times more carbon intensive than spending on support for aviation and route development. It is clear that there is a way to go to make Scottish agriculture low carbon, but there are many ways in which we can do that, and I hope that Allan Bowie and I and others will work together to promote them. If we do not, Scottish agriculture will be vulnerable to spikes in the markets, such as those that affected oil and fertilisers. We would then have to rely on imports in a constrained world.

Ted Brocklebank (Mid Scotland and Fife) (Con): I echo the convener's thanks to the witnesses for providing us with their papers, which are interesting. The debate has opened up a number of interesting lines. I would like to drill down on issues a little more through the NFUS Scotland submission and try to tease out where the differences are between the Scottish Government's approach towards direct support and the UK Government's approach, which the NFUS views as more radical. It has been said that we should not go down that route. Can you explain the differences to us a bit more?

Allan Bowie: Yes. Two different fundamentals are involved. On one side, the Scottish Government is trying to get the right policy; on the other side, the UK Government is looking at the budget. You are right to highlight the differences that are involved. Even since the reform of the CAP and the budget, there have been very few occasions when Scottish agriculture has made enough money to be economically sustainable and to be able to reinvest. We need to endorse technology, be innovative and look forward, and the single farm payment part of the CAP budget has played a huge part in providing the ability to do that. There would be huge damage to the structure of agriculture if we took the UK Government's view and simply dismantled that overnight or over a couple of years.

I acknowledge that there will have to be a change in the budget. I fully endorse that. There may be a lead-in time, and we may have time to develop systems. However, we cannot simply adopt the UK system. Some 85 per cent of the land in the Scottish farming system is marginal, less-favoured-area land. The system is livestock based and produces high-provenance, high-quality food. We do not have enough good land to buffer Scottish farming plc.

Ted Brocklebank: As a wee sidebar to that, the NFUS says in its submission that the UK Treasury's

"radical position has virtually no supporters elsewhere in Europe".

Did I read in the non-paper that Europe is coming round to the UK approach? It sounds as if the UK approach is being endorsed by more and more European colleagues.

Allan Bowie: You are right to highlight a line of thinking that is mostly taken by the new countries that have come into the EU. They are saying that things are unfair and that there should be greater support. They advocate a system in which the same payment is made over all hectares, regardless. I think that there will be a shift in power and that countries such as France and Germany will say, "Hang on a minute here. We're going to protect our own farmers," which is the last thing that we want to do.

There will be a shift. You are right. The point of the submissions is to try to tease out discussion and thinking. We fully realise in Scotland that the current system will change. It is like musical chairs. People are shifting and putting in thoughts. I hope that there will be convergence somewhere in the middle and that we get a system that provides sustainable agriculture throughout Europe.

Ted Brocklebank: John Thomson, too, has drawn attention to the fact that Scotland receives the lowest rural development payment per hectare of farmed land of all the EU member states. I think that, historically, that payment is based on costs at a different time. We must somehow get things back into kilter. Scottish Environment LINK's submission states:

"Scotland currently receives about a quarter of the UK's Rural Development allocation, though Scotland's Utilised Agricultural Area (UAA) makes up a third of the UK's total UAA."

John Thomson said that we will have to concentrate on that in the negotiations and try to increase that figure. Is that realistic? Will we be able to make progress on that?

Allan Bowie: I sincerely hope that we will. If you do not ask, you will not get. Members must bear in mind the socioeconomic side as well as the agriculture side of the single farm payment for a huge part of Scottish agriculture. It would be nice if another budget took care of that; it would be great if there was a different budget in Scotland for socioeconomic benefits. We could then live with a reduced single farm payment. That may happen, which is the whole point of teasing out the argument in Europe.

It is unfortunate that, historically, we have the lowest rural development payment. I think that, on a per hectare basis, we are slightly above Latvia in the 27 member states. That shows the position from a Scottish perspective.

Jim Hume (South of Scotland) (LD): Perhaps I should remind people of my interests. I am a

livestock farmer and past director of NFU Scotland, as Allan Bowie probably remembers.

The problem with agriculture in Scotland, of course, is that it is very varied. We have some of the most productive land—if not the most productive land—just outside Edinburgh and some of the least productive land up on the higher grounds. That makes things difficult but interesting. In which sectors of Scottish agriculture, varied as it is, are there opportunities with climate change? In which sectors are there perhaps threats?

Patrick Krause: Members do not need me to tell them that the situation is complicated. The fact that an integrated approach is being taken comes across very well in the Government's submission. It has been said that the different policies in Europe need to be much more joined up. The budget is the driver of European policy, and obviously we always need to ensure that the horse is in front of the cart. Once we have sorted out the policies, there will be a lot of opportunities.

I cannot remember whether the non-paper or the original consultation addresses the retention and development of populations in rural areas. I was quite surprised to read that more people in the European Union now live in rural areas than in urban areas. Things have gradually shifted, perhaps because of the accession states. The budget review is part of an integrated system's drive towards tackling climate change and population retention, for example. There will be opportunities.

The Convener: Friends of the Earth Scotland's submission states:

"By shifting expenditure away from support payments to the purchase of 'public benefits', EU funds could help restore degraded ecosystems."

Is there a contradiction there? Can both things work together? Must they simply do so in a different way?

Duncan McLaren: It is primarily about different farming systems. It is clear that parts of Scotland's land have been degraded by inappropriate forestry or agriculture. Typically, that has happened when high-carbon soils have been ploughed or drained; as a result, they have emitted carbon and lost much of their wildlife interest.

If I may, I will give Jim Hume my take on his question. Please forgive me for not being an agricultural expert. There are particular challenges for those farms that are dependent on the heavy use of fertilisers or irrigation. Unfortunately, if we consider the Scottish climate change impacts partnership's predicted impact, some of the productive farms in the east of Scotland will become more dependent on irrigation as the climate changes. The flip-side of that is that there

are opportunities for organic farming, which can potentially take a premium price niche, although not every farmer can do that quickly. There are also opportunities for mixed farming, which reduces fertiliser dependence.

We need to work out urgently the best way forward for the livestock sector. My understanding is that extensive, grass-fed livestock systems can be made relatively low carbon; however, depending on stock selection and so forth, they may not be. As a means of tackling climate change, we will need to find ways to produce premium Scottish meat products. We will need a diet that is lower in meat, and I hope that the meat that we eat will be less intensively produced and climate damaging. I am not advocating no meat consumption at all as a policy solution. On the analogy that Scotland can gain more from agricultural support if it delivers public benefits, Scottish farmers can probably gain more from the transition if they are producing a quality-extensive product, and if a lower volume of meat is perhaps being sold but at a higher price.

Jim Hume: Obviously, there is meat and meat. We do not produce enough beef in the United Kingdom, and with lamb, we are export oriented.

Convener, you are correct that the common agricultural policy was introduced to secure food supply. In the 1950s—not that I can remember it, of course—we were unable to produce enough food, and there is little evidence since the previous reform that the market pays, unless there is a way of differentiating the product, such as Scottish beef. It is far more difficult for something like standard bread wheat, which is very much on a world supply. It would be interesting to explore further how the CAP can ensure that we keep the diversity of our agriculture going. I can see the label now, Duncan: "Buy your best low-carbon use, Scottish-produced local beef."

Duncan McLaren: But a bit shorter.

Allan Bowie: We must be very careful, though, because under the current system, we have a drift of livestock off the hill. The market is not paying enough for the product. You could argue that the system allows people not to produce and still get some form of payment, but they are looking after the environment—they are doing the minimum requirements. To be clever, we need to have an activity-driven scheme, and we need to accept that if the market is not going to deliver the benefits that the public are looking for, there will be a cost on that.

As far as the farming industry is concerned, we have innovation here. I am up for it. We have a great chance to make a system that the public will recognise as being sustainable. I am fully confident that we will have a change, but we have

to get the system right so that it still encourages people to produce low-carbon products. If that impetus does not come from the market, it will not happen. The committee should try to be conscious of that.

11:15

Professor Mitchell: The debate is all very interesting. We talked about food security, but other issues are fibre security for the forestry industry, fuel security and energy security. Land use will undoubtedly change as a consequence of how the climate is changing. Our goal is to minimise that change.

We need to consider how we approach land use and whether the aim is continuity for energy, fuel, forestry, the timber industry or the fibre industry. Lots of opportunities exist. The fact that we face the major problem of climate change presents a great chance for us to sit round a table and ask how Scotland can best use its land from environmental, energy, fuel and fibre perspectives. We should not miss that opportunity.

John Thomson: In many ways, Paul Mitchell has made the point that I wanted to make, but I will extend it to the land use strategy, which provides a huge opportunity to consider how we make the best use of our land. The strategy is driven by the Climate Change (Scotland) Act 2009, but it offers the opportunity for us to address a range of issues that relate to how we extract the maximum benefit from our land and freshwater resources.

In many cases, the solution will lie in better integration of land uses, which raises a question about the CAP. Forestry is now funded through the Scotland rural development programme as an element of the CAP, but the CAP has been very much an agricultural policy. Better integrating farming and forestry is an important objective for Scotland. It would be good if the land use strategy addressed that and if reform of the CAP enabled that to happen.

Patrick Krause: I return to a point that Allan Bowie made about premiums and which everyone has made in various ways. Ultimately, payment for producing food needs to be better. To an extent, that can come from the public purse—from the European budget—but it also depends on the market, as Allan Bowie said.

One of the least efficient uses of energy is growing grain to feed to animals. Fundamentally, we must move further away from that. As Duncan McLaren said, the writing is on the wall, although meat consumption is increasing—we must reverse that trend. In the UK, reversing the trend is a possibility. The aim is to encourage people to think more about what meat they buy. Using meat from

grass-fed extensive animals is much more eco-friendly and we should work towards that, but it is crucial that the Scottish food policy concentrates on educating people. When people are offered beef that comes from a South American country at £3 a pound and good hill-reared Scottish beef at £8 a pound, the price tag often—unfortunately—wins.

Jonathan Hughes: Fundamentally, all the debate relates to the pillar 1 and pillar 2 issue, which is about income support versus targeted public benefit purchase. All of us probably have different opinions about where the split should be and about which direction to move in and how quickly. The non-paper talks about implementing a gradual reduction in income support and placing more emphasis on public goods, which Scottish Environment LINK supports strongly.

It is crucial to make the point that opportunities exist for Scotland. Because our farming systems are high nature value in character, and because we can have the delivery of a number of important ecosystem services, we can make the case for investment in Scotland from whatever future budget we get. However, we must grasp the nettle and start making that case now. After 2013 we will be living in a very different CAP world and we could do very well for Scotland, but we must face up to the fact that things are changing very quickly.

The Convener: Your paper makes an interesting point. We need to be a bit visionary; perhaps if we do that, we could turn some of the threats into opportunities.

Rhona Brankin: I thank the panel members for their evidence. Many of you have talked about the challenge of getting the balance right between food production and low-carbon land management. Does each panel member think that the Scottish Government is getting that balance right?

Duncan McLaren: Frankly, no; it is not getting the balance right at the moment. That is shown by the high carbon intensity of the agriculture support budget. In mitigation of that, this is a relatively new challenge for the Government allocation of money and, as you are all acutely aware, EU rules trump a lot of local decisions. However, it is clear that the balance must shift dramatically towards low-carbon land management, including low-carbon agriculture. That is not to say that that should be done at the total exclusion of production, as I said before, but when production is prioritised, it should be part of the goal of a low-carbon economy.

Jonathan Hughes: The science is new, and I do not think that we have even begun to get there. I have tried to distil the winners and losers from the EC's non-paper, and it is clear that research

and development will be one of the winners. The EC is talking about research and development in the regions, which will be music to Professor Mitchell's ears. That kind of initiative will be very welcome. Perhaps we need to do some years of research before we can begin to understand how we can drive forward low-carbon farming systems; it is still a bit of an emerging science, to be honest.

Allan Bowie: I reiterate that. We must also bear in mind the signals that farmers have been given over the past 20 years, and be conscious that they cannot be reversed in just two years. The Scottish Government has got its priorities right, although I endorse what Duncan McLaren said about how there will be a change; we fully accept that. However, we must be careful about how quickly that change happens.

We can endorse low-carbon systems, but we must remember that food production involves carbon and that there are areas of land that lend themselves to efficient intensive production. You have to be careful about the signals that you give to the farming community. We may well get a split—the bulk of Scottish land will be low carbon, while other support systems will, hopefully, be put in place. There will also be areas of land that can be intensive. We still need grain for the Diageos of this world and for poultry production. Livestock does not necessarily have to be intensive; it could still be produced in a low-carbon system.

I think that there might well be a split in Scotland, and we must be careful about timing. Research is crucial, and that is where Scotland has punched above its weight in the past. We have able people who are fully aware of the problems and could come up with the answers, but I do not think that they will do that in the next year. We should have a longer timescale and a correct vision.

Professor Mitchell: I have to respond to the point about research. Obviously Scotland is well able to do the necessary work. The universities and research institutions have tremendous capability and are probably second to none in the world—the highest density of environmental scientists is in Aberdeen. Those are important assets that Scotland can utilise.

Only in the past 20 years have we recognised that the climate is changing, and only in the past few years have we started to get grips with it. Indeed, we still do not know the enormity of the problem. We can make lots of predictions, but a lot of work still has to be done for them to operate at the farming level in particular regions of Scotland—and the question of how quickly that work can be carried out is still up for debate.

I realise that there have been big knee-jerk responses to this major problem—for example, we

had President Bush's push towards biofuels a few years ago, the spike in wheat and barley production, and attempts to deal with the loss of rainforests as a result of the production of palm oil—and we must be aware of the law of unintended consequences. After all, what we think is a good thing to do now might not necessarily be good for the future. Farmers responded very well to the drivers that were put in place 15 or 20 years ago, but people are now calling into question whether what they did was actually correct. Hindsight suggests not, but that all raises the question of whether we can be sure that in 20 years' time what we do now will prove to have been the right course of action.

The research has to be carried out, but what we need is the kind of blue-sky and strategic thinking that will put an envelope around it and make it meaningful. If allowed, scientists will just keep going down their narrow rabbit-holes. We need to sit above the situation and identify—and, I hope, respond to—the big issues that we need to address.

Rhona Brankin: The inquiry's aim is to scrutinise the Scottish Government's approach to the EU budget review, which is why I asked each one of you to say whether you think that the current Government is getting the right balance. I would be grateful if you could give me an answer to that.

Professor Mitchell: I was going to say earlier that the Scottish carbon accounting group is working towards that particular aim, and I also sit on the forum for renewable energy development in Scotland, which includes a group looking at carbon accounting on wind farms on cut-over peatland. As a result, I feel that the Government is responding, although it is a matter of debate whether it is responding effectively and quickly enough.

From what I have seen, the Government is aware of the issues and is responding as quickly and ably as it can, but obviously there is more to be done. As I have said, we need to know the big picture so that we can identify the critical short-term issues that we need to target immediately—some of which the Government has taken on board—and the longer-term issues that we can perhaps put on the back burner.

John Thomson: I want to defend the SRDP, which was broadly developed under the previous Administration and has been carried through by the current Government with relatively minor tweaking.

Although the programme has had its critics and, like most such schemes, has had teething problems, its concept, which is based on integration, is quite good. It perhaps does not

integrate spending on competitiveness, on rural and community development, and on environmental measures as much as it ideally should, but that is not really a reason to give up on it. The programme could and should be developed to deliver public support for a whole range of public goods.

My concern, which is hinted at in the non-paper, is that some rural development elements might be stripped away from the SRDP and reintegrated with cohesion or structural funding. That would be a move in the wrong direction. With its more integrated approach, the SRDP is taking us in the right direction, but obviously we need to ensure that the measures reflect current policy priorities, particularly in climate change mitigation and adaptation.

We should continue to work on the SRDP rather than abandon it and take the criticism that there has been as a sign that it is not a productive approach. It is a good approach and we need to stick with it.

11:30

The Convener: We are almost out of time, but I will call Patrick Krause and then invite the witnesses to make any final points.

Patrick Krause: I will try to answer Rhona Brankin's question quickly. As Allan Bowie said, it is tempting to say that we have to make changes slowly. I agree to a certain extent: I have always tried to be patient and look at things in the longer term, and we cannot force people to change quickly because they will resist that. However, there has been evidence over a number of years that certain things could change rapidly and that they need to do so. From 2003-04, we were saying, "Don't go down this single farm payment road because it's heading for disaster." We do not quite have a disaster yet, but we are on the point of a disaster because so much stock is being lost. A lot of people who know a lot more than I do are saying that we are now at the tipping point and that, if we go over, it will be very difficult and take a very long time to recover the situation. It will be interesting to see what the Pack inquiry comes up with.

On a more critical level, over the years there have been reviews of the LFA system. The recent review, which was carried out by the Royal Society of Edinburgh, concluded that the LFA system has to change. The Government had the opportunity to change it, but it did not do so. It would be wrong of me not to point that out, because the issue is on-going. It is not as if people are suddenly coming up with the idea of changing the LFA system. It has been considered carefully by well-qualified

committees—the last of which was the RSE—but change is not being made.

In answer to Rhona Brankin's question, I would say that the Government is not doing everything that it could do at the moment.

The Convener: We have run out of time, but I invite the witnesses to make any final points on areas that we have not covered.

Jonathan Hughes: One major thing that we have not talked about today is the funding of the implementation of EU directives. This is perhaps a discussion for another day because it is a big topic, but how far does the budget go in targeting funds at the implementation of directives? A number of new directives are in the pipeline, so we need to think carefully about that. In answer to Rhona Brankin's question about whether we agree with the Government's line, all that is in our literature and our responses.

Duncan McLaren: I will be as brief as I can. If there is one thing on which the committee should be pushing for a clear position from the Scottish Government, it is on the point that the European budget must shift towards some repayment of the climate debt and that that money must be additional to existing aid flows and not simply the revenues raised from carbon trading—which would be a double counting technique. The European Union's proposal for funding of €2 billion to €15 billion is far short of the minimum that is needed, which is probably well in excess of €35 billion per year. If at all possible, that has to be in the Scottish Government's position.

Allan Bowie: I just want to come to the defence of the single farm payment. The rules changed, and payments were decoupled from production. There was always going to be a result from that: you cannot make a rule, follow it through and then say, "Wait a minute. That's the wrong thing to happen."

I would hate to go back and recouple payments to production because that was the wrong way. We need to get the signal from the market—and we have perhaps had the correct signal from the market. We perhaps need to recognise that in certain parts of Scotland the consumer is not willing to pay more for the product.

I am conscious that there will be a change in the system with pillar 1 support needing to take a cut, but I would be very cautious about the benefits of that and about where those cuts came.

Professor Mitchell: In the EU budget review, the amount of funding that is pushed towards low-carbon technologies should be commensurate with the magnitude of the problem, which is enormous.

John Thomson: Ideally, we should move away from the two-pillar model and stop thinking in terms of a sharp demarcation between income support and the funding of various public goods. The review perhaps provides an opportunity to look at the budget in the round, including the LFA support element. We should ask ourselves how we can best use the budget to deliver the range of desired benefits, such as environmental benefits, the support of remote and fragile communities and the benefits of enabling the evolution of a low-carbon agriculture as well as, indeed, competitive agriculture.

The Convener: I think that Patrick Krause wants to make a further brief final comment.

Patrick Krause: I support John Thomson on the need to move away from pillar 1 and pillar 2 support to look much more at payment for public goods. It is worth mentioning—I read this only recently and it was news to me—that the World Bank is now talking about payment for environmental services. That is the way that the EU budget should be going.

The Convener: We have run considerably over time, but that is because we have had such a useful and interesting discussion. I thank all the witnesses for their attendance and for the papers that they have submitted. Further to the valid point that Jonathan Hughes raised about the funding of directives, let me just say that, if anyone wants to submit any further written evidence, we will be happy to take it on board.

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

11:37

Meeting suspended.

11:46

On resuming—

The Convener: I warmly welcome our second panel of witnesses, who will give evidence on regional policy, competitiveness and innovation. Rob Clarke is from Highlands and Islands Enterprise, Donald MacInnes and Stephen Boyd, who are regular visitors to our committee, are from Scottish Enterprise and the Scottish Trades Union Congress respectively, and Alastair Sim is from Universities Scotland. We are pleased to have you all with us. Thank you for your written submissions.

Again, I will open with a general question. You have had a chance to have a look at the Commission's non-paper. I would welcome a few introductory remarks on what you feel it might mean to your respective policy areas from the

point of view of competitiveness, innovation and regional policy. Are there any benefits that you experience at the moment that you feel could be under threat? Are there any areas that we should examine a bit further that you want to highlight? I will start with Rob Clarke.

Rob Clarke (Highlands and Islands Enterprise): As you will be aware, the Highlands and Islands has benefited significantly from EU funds, particularly structural funds, which we have used highly successfully for many years.

We read the non-paper with interest. If nothing else, it has kicked off a furious debate about EU funding priorities over the next wee while. It is important not to have a knee-jerk reaction to the non-paper; I have been aware of quite a number of knee-jerk reactions to it from various quarters. There is a lot in it that we agree with, including the focus on there being fewer priorities and on issues such as competitiveness, innovation and energy.

For us, the key omission is that there is no reference to regional policy below member-state level. Given that the Highlands and Islands has used structural funds over many years, that may have a significant impact for the area, so we would be concerned about losing out in that regard.

Donald MacInnes (Scottish Enterprise): I agree with Rob Clarke. In addition, looking to what will happen next—the final page of the Commission's paper talks about "Next steps"—it is still all to play for. There are many opportunities for Scotland to contribute to and influence the new thinking, which is what I would like to focus on.

The Convener: We will come back to some of those points.

Stephen Boyd (Scottish Trades Union Congress): It is a particularly interesting time in Scottish economic history to be considering such issues. We are still in the middle of a severe recession and unemployment is rising exponentially. Around Scotland, we can see the importance of European structural funds in helping to retrain people for the challenges that they face at the moment and for the challenges that the economy will face in the future.

We certainly hope that the budget will underpin a policy agenda that will help to make Europe more prosperous, fairer and more sustainable. With that in mind, I fully endorse Rob Clarke's comments about the absence in the non-paper of an inter-member-state regional policy agenda.

Alastair Sim (Universities Scotland): We perceive quite strong opportunities in the Commission's non-paper and we welcome the emphasis on redoubling our efforts in research and innovation. That is a fundamental area for investment if Europe is to move towards being a

knowledge economy and to creating employment by leading in development and exploitation of ideas. The non-paper sets a stretching and ambitious target, which is that 3 per cent of gross national income should be devoted to research. That would take us further. At the moment, the figure for Scotland is about 1.5 per cent; the aggregate figure for investment at both UK and EU levels is about 1.8 per cent.

Scotland is very well placed to benefit from increased emphasis on investment in research and innovation. At the moment, Scotland and the UK do well when competing for EU-level research funding—the UK manages to access about 20 per cent of European Research Council funding—because there is depth of excellence in higher education at UK and Scotland levels and because we have distinctive research strengths in areas such as renewable energy, about which we have already heard, and biotechnology.

We see significant opportunity in the Commission's view of the way forward, but we will need to keep an eye on certain issues in respect of operationalisation of the non-paper. For example, the suggestion that there should be greater focus on spreading R and D capacities to the regions is exciting and forward looking, but we need it to be fleshed out. We must also keep an eye on potential threats lurking in the proposals. Is the global European emphasis on migration management merely code for "putting up barriers"? We would be concerned if that were the case, because international mobility of researchers and students is key to the university sector, and to Scotland's being the outward-looking and internationally focused society and economy that we need in order to be successful.

The Convener: Most of you have highlighted the biggest challenge that the non-paper presents, which is whether we should have a regional policy that covers all member states and prioritises disadvantaged areas in all member states, or one that targets the poorest member states. That will be one of the big arguments as the EU reform process develops. Against that backdrop, many people are arguing that national Parliaments should do more and take back regional policy. What would it mean to the organisations that you represent if the Commission held to the line that it is taking? I would be interested to know from Donald MacInnes, who is based in Brussels, how other regional Parliaments view the proposals and whether there is support for the Commission's line that only the poorest member states should be targeted.

Donald MacInnes: There is a spectrum of opinion—from the UK view, which is that regional policy should be repatriated, to the German view, which is that regions in even the richest member

states should continue to be supported. How the debate plays out will be determined by politics. As the convener knows, I tend to keep out of politics.

The Convener: It will be interesting to see what the European compromise on the issue will be.

Donald MacInnes: The main point is that there should still be support for cohesion. Whether it is provided within member states or across Europe will be a political decision.

The Convener: Colleagues from across Europe to whom I speak are concerned about the issue. Everyone is protecting vested interests, but most people would like to see an EU-wide policy, because they believe that that approach has delivered in the past by branding certain projects as EU projects, which allows citizens to see their value. The debate will be interesting.

Rob Clarke: There is a danger in being seen to protect interests and get what we have always had. We do not see it like that. It is very much about setting out our agenda and identifying what we can achieve with European funds. We can debate regional policy versus greater support for innovation and technology—we support greater funding and support for technology—but the key thing that will be debated and agreed on, if those support measures are horizontal across the whole EU, is how they will impact on areas that are disadvantaged and will be disadvantaged into the future.

Take innovation as an example. The innovation process in an economy, or series of economies, such as the Highlands and Islands, is not very different from the process in the central belt or any other urban area; the same factors and drivers still apply. The difference is in what needs to be done to support that development. In an area such as the Highlands and Islands, where there is its sparsity of population and no great agglomeration of businesses, universities and so on, it invariably costs more to kick-start development, it takes longer and you have to do different things. There is no one-size-fits-all approach across the EU. Whichever direction we take, the policies that are put in place need, one way or another, to recognise those differences.

The Convener: If the global financial crisis has demonstrated anything, it is the importance of flexibility in policy initiatives. Traditionally, the EU is immensely rigid in its financial instruments. Donald MacInnes gave evidence for our report on the EU financial crisis, and it is reflected to an extent in the Commission's paper. Do you feel that flexibility will be crucial to financial and policy instruments of the future? I would welcome views from various panel members, but let us start with Donald MacInnes.

Donald MacInnes: On rigidity versus flexibility, it was interesting to listen to the previous panel when you were talking about the enormity of the problems of climate change and energy security. There seems to be an assumption that the EU dimension of that should come from the existing budget: maybe it should not. Maybe the issue is so big that member states ought to consider the case for there being at EU level a completely different approach to the problem, instead of trying to take the funding from the existing very small amount of money that goes into the cohesion, common agricultural policy and innovation funds. All those issues still have to be addressed. In addition, there is the big issue of climate change. Over the next two years member states have to make some tough decisions in those areas.

Stephen Boyd: It is difficult to identify how the EU could have been more flexible during the current financial crisis. If you had to identify a problematic rigidity throughout Europe, it would be in respect of the euro and the inability of certain countries to devalue in the face of the crisis. That was a major component.

Going back to previous questions, there are two issues around how we will handle regional policy in the future. One of those issues is the enhancement of productivity throughout the EU. If our approach focused only on the poorest member states, we would miss great opportunities, such as developing the renewable energy sector in the rural and peripheral parts of Scotland, where EU funds are important.

The other issue is the political economy dimension, which is often overlooked. Europe has changed over the past 20 years as globalisation has become embedded. We have seen rapidly growing inequality both within and among countries. If we are to retain the support of workers and citizens for the European project, the EU has to be mindful of those inequalities and must, through its policy programme, seek to tackle them effectively.

12:00

Alastair Sim: I have a point to make about flexibility. Universities Scotland published a paper called "What Was/What Next?" back in the spring. Various views were expressed about it, but the important argument at the core of it, which was made by Scotland's leading economists, is that we do not know what the economy will be like in five or 10 years, and picking industry winners today might be a wrong bet because things change so fast. The emphasis on investing in research and innovation helps to build the flexibility that will be required in order that we can respond to challenges that we have not even foreseen yet,

and to develop a breadth of investment that gives us the capacity to respond to a future that we cannot guess.

Michael Matheson (Falkirk West) (SNP): Like yourselves, a few of our previous witnesses have referred to the significant opportunity that the budget provides at regional and national levels. What inhibitors do we as a nation face, which could limit us in taking up the significant opportunities that are presented by the EU budget, and which we must address more effectively in order to realise our full potential from the budget?

Donald MacInnes: I am not sure that Scotland is disadvantaged. The institutions that we have are perfectly capable of taking advantage of the opportunities that we have mentioned. A current example is the big bid that the University of Edinburgh is leading to establish a knowledge and innovation community in Scotland, which would have six nodes across Europe and would allocate and distribute a big chunk of research funding in the future, which is one way that the Commission wants to go. We have both the institutions and the flexibility in Scotland to work across the range of private sector and public sector organisations. I do not see a particular constraint.

Rob Clarke: I agree with Donald MacInnes. Scotland is well placed to take advantage of some of the opportunities in the budget. We may have different views about some areas, but it is important that we work together as a nation to pursue those opportunities.

One of the specific items in the non-paper is a potential significant increase in the budget for transnational activities. Our and Donald MacInnes's teams have significant experience in tapping into what already exists. We have the vision and we have the opportunity and—I think—we have the skills among us to take some of those opportunities.

Stephen Boyd: I agree. Donald MacInnes would not want to say this, but I think that Scotland Europa is an effective organisation in helping other Scottish organisations to access funds at Europe level.

Going beyond the institutional framework in Scotland to look at other inhibitors, we should bear in mind the issues around skills and infrastructure in the development of the renewable energy sector, for instance. The question of what sort of financial sector we will have left at the end of the current crisis is crucial for the future, and the EU is likely to play a major role in that. The situation in Scotland—and in the UK, I would say—has been uniquely bad for the type of patient and committed investment that is required to support research and development and innovation in emerging technologies. The EU has a crucial role in helping

to fill the gap and to regulate us into developing a more helpful financial sector for the pursuit of Scottish opportunities.

Alastair Sim: On what Rob Clarke and Donald MacInnes said, I too think that Scotland is well placed to embrace opportunity. However, as the detail is worked on, we need to ensure that we minimise bureaucracy in respect of how we will benefit from opportunities. Progress has been made on that. The European Research Council, for example, has essentially borrowed a UK research funding model that is relatively unbureaucratic and which gives decent support to research at a particular price level. If we can build on such ways of making European funding a more attractive proposition, we will be very well placed to benefit.

The Convener: Are you aware of groups that are—not having the expertise of the STUC or Highlands and Islands Enterprise—put off by the administrative burdens of applying for funding? I know that the Commission is keen to address the issue, but is it relevant?

Stephen Boyd: Undoubtedly, it is relevant. I hesitate to claim that the STUC has any great expertise in the matter, but recently we were able to access European structural funds to develop trade union learning in the workplace. I have to say that the surrounding bureaucracy, particularly the procurement rules, has been very detrimental to our progressing the programme as positively as we would have liked. Although the process has not put us off trying to access funds in the future, it has certainly made us mindful of the resource constraints that bureaucracy places on our organisation.

Rob Clarke: I very much agree. I am aware of groups and organisations that would be able to use EU funding very well, but have been put off by the bureaucracy, administration, audit requirements and such like. The situation is generally recognised. We have talked about simplifying the use of EU funding for a long time now—

The Convener: For 20 years, at least.

Rob Clarke: We might get there one day.

Ted Brocklebank: We have been talking by and large about generalities, so I wonder whether we can look briefly at some specifics. I meant to raise this with the previous panel, but we ran out of time. In its paper, the Scottish European Green Energy Centre made the interesting point that, although the EU has apparently been happy to fund wind technology, it has been less interested in funding the wave and tidal renewables sector. I found that surprising, given the importance of offshore renewables. I wonder whether any of you can bring your knowledge to bear on the question

why the EU seems to have been slower in that respect and whether, given the obvious knowledge in and the geographical advantages of the north of Scotland in that regard, we might have a genuine opportunity in this area.

Donald MacInnes: I am not sure whether I can defend the Commission in this matter, but I suspect that its support for wave and tidal power does not seem as prominent as that for wind because the technology is not as advanced and it is still funding early-stage experimental work. I understand from Brussels that the Commission is keen to support development across the whole range of renewables. In any case, we need ideas and technologies, which is why the reference to the number of researchers in Scotland is important and why new research and research courses might prove to be a way forward. However, that is all longer term.

Ted Brocklebank: I am sure that your general comments are right, but I remember looking 20 or 25 years back at experiments in tidal technology that were being run at the University of Edinburgh in collaboration with Queen's University in Belfast. The result of that work was a tidal energy project that is still in place on Islay. Given that the technology has been around for a long, long time, I am surprised to hear that we still regard it as being in its infancy and still having a long way to go. Do other witnesses have views on that?

Stephen Boyd: Donald MacInnes is right: Scotland is still some way off large-scale commercial deployment of the technology. However, I am very nervous about making such comments in such a public forum, because the area offers Scotland very substantial opportunities. Every year, I travel up to Caithness to meet the local trade union council. The area faces economic development challenges from the rundown of Dounreay but has opportunities in the Pentland Firth. Much of our discussion there is about marrying those two aspects.

As far as I am aware—Rob Clarke might be able to give more detail—European funds are supporting bits and pieces of work in the Highlands and Islands to deploy marine renewables, which is important. However, I suspect that Donald MacInnes is right that the Commission is looking for the big wins, such as carbon capture and storage, which will have a radical impact on climate change if it can be deployed commercially on a large scale. The Commission's thinking is understandable.

Ted Brocklebank makes a valuable point. If more EU funds are channelled to developing marine technologies, that can only be good.

Rob Clarke: The marine renewables opportunity is massive and is based largely in the north of

Scotland. Not just EU funds but other public sector funds are needed to support that development, if it is to proceed. The challenges are significant.

I am heartened by what Donald MacInnes said about the Commission's view. I am sure that he is right to say that we are at an early stage. The technology has been around for a long time, but we are relatively close to the beginning of the process of refining and developing the technology and applying it commercially.

Ted Brocklebank: I guess that nobody is better placed than us—nobody's technology is ahead of ours.

Rob Clarke: Absolutely.

Ted Brocklebank: Should we place as much emphasis as we can on marine renewables?

Rob Clarke: I am not an energy expert, but I think that Scotland has an amazing renewable energy opportunity, which is largely marine based in offshore wind, wave and tidal energy. We should make the case for significant support to develop that sector, as it will need that support.

Alastair Sim: Scotland has a distinct research strength in the subject. I return to the business that I mentioned of not picking winners too narrowly, because what we thought a few years ago might be a winner might change as technology and the economy evolve. We must keep the adaptability. I hope that the EU has the capacity and flexibility to invest in multiple renewable energy focuses, especially as Scotland has diverse research strengths and a contribution to make.

Donald MacInnes: The Scottish European Green Energy Centre was established to do exactly what has been described—to put Scotland at the leading edge.

Stephen Boyd: It is important not to be complacent about the subject. I have been in my job for six years, throughout which I have heard consistently that Scotland has first-mover advantage in tidal and wave technologies. However, that is under threat. Larger-scale commercial deployment has taken place of wave technology that is Scottish owned and produced and manufactured in Scotland, but Scottish projects have not succeeded in accessing UK funds, which have been allocated recently to projects in areas such as Cornwall and the Bristol Channel. It is important to recognise that others are developing the technologies and that we must deploy them as quickly as we can.

Gil Paterson (West of Scotland) (SNP): My question is on the same line as Ted Brocklebank took. One element that will allow us to realise the potential is the superconductor. What are the panel's views on that?

Donald MacInnes: Taking energy from remote parts of Scotland to populous parts of Scotland, the UK and beyond is an enormous challenge and has an enormous cost. Feasibility studies are proposed. There is a good chance of private sector investment, provided that the scale of the machinery justifies the cost of installing the massive conductors.

Rob Clarke: Developing commercial applications for renewable energy is one key challenge. A lot of power will be generated in the north of Scotland, but not a lot of it will be used there, so the other challenge is moving it to where it needs to be. Significant thought and—ultimately—significant investment will need to go into that. We are also looking at whether we can attract to the north of Scotland power-hungry businesses that could utilise some of that energy. However, such businesses would not soak up everything that is generated, so we need to look at a number of solutions for that.

12:15

Gil Paterson: Might we be gilding the lily somewhat in talking about Scotland's potential? Discussions on Scotland's potential for renewable energy are almost an everyday occurrence, but development will never happen unless the infrastructure is put in place. In other words, are we putting the cart before the horse? Should the Scottish Government put more energy into resolving that problem, given that we will need to provide the means to transmit the energy before we can realise that potential?

Stephen Boyd: That is a widely recognised problem. As someone who sits on the First Minister's Scottish energy advisory board, I think that I can provide some reassurance that Scottish Government officials are working hard on those issues and have been doing so for some time. However, as Donald MacInnes said, the challenges are massive.

The Convener: Does Rob Clarke want to add anything to that?

Rob Clarke: I would just add that transmission is a significant challenge. I know that my colleagues who work in the energy sector are very much on top of the issue, which needs to be sorted out if we are to realise the benefits of renewable energy. I am confident that the issue is recognised and is being looked at. However, I am not an energy expert, so I do not know the detail of that debate.

Donald MacInnes: I think that we need to do both: we need both to talk it up and to do the business.

Jim Hume: I am glad that everyone is so positive, but we must always ask whether there are any potential losers and consider how we can mitigate any effects. Does the Commission's non-paper perhaps focus too much on research, or does it strike the correct balance?

As a South of Scotland MSP, I look enviously at the Highlands and Islands and I know well that the south of Scotland alliance has long focused on trying to ensure that our area is viewed in a similar way. Does the south of Scotland alliance—this question is perhaps more for Donald MacInnes—perhaps have an opportunity to restate its case?

Donald MacInnes: The south of Scotland alliance has done a terrific job over the past few years so, no, it should not be jealous of the Highlands and Islands. What has been done in the Highlands and Islands is freely available for copying—I am sure that Rob Clarke will confirm that—but that is not really the issue. Whether only the Highlands and Islands or only the south of Scotland does well is perhaps irrelevant; both areas need to do well in relation to the rest of the UK and the rest of Europe. Over the past few years, the south of Scotland alliance's approach has been very good and it has had some very good people working on various projects. Yes, I think that the alliance can continue to do what it is doing and it can do more—I am aware that people are working on some ideas just now.

On what else Scotland ought to be doing, I think that pushing for research and development is important. As a few of us have mentioned, Scotland has expertise in research and innovation. Emphasising innovation is good for Scotland, so I think that we should continue to push on that. Personally, I have been impressed with the way that some of our institutions have responded to that agenda. The Universities Scotland paper is very good on that.

The Convener: This is perhaps an opportune moment to point out that Alastair Sim's submission mentions a bid for a knowledge and innovation community that would be attached to the European Institute of Innovation and Technology. Having argued for many years on this committee that Scotland should put in such a bid, I am pleased to see that happening. Will we find out in December whether the bid has been successful?

Alastair Sim: Yes, I understand that we will find out in December. It is great and it shows ambition that we can lever out benefit from this type of European initiative.

The Convener: Does anyone else want to comment on that point?

Stephen Boyd: It is important to endorse what Donald MacInnes said. The focus on research and

development in the non-paper is to be welcomed and it represents an opportunity for Scotland.

Rob Clarke: I echo those comments. Even if we get into the debate about whether there should be a regional policy, the key component of any regional policy would be its support for innovation R and D, because it is such a key driver of economic growth.

The Convener: In a way, it is a change from where we have come from in respect of regional funds, as we used to invest in large infrastructure projects. It is interesting that, in some of the submissions, there was a particular request that we do not go back down that route, although obviously, in doing so, we would create jobs—I guess that that is a dilemma for us all.

Rhona Brankin: I will focus on the research aspect. We all agree that Scotland is a world-class centre for research. Any Government in Scotland would face the challenge of how we retain world-class researchers in our universities in Scotland. Would someone like to comment on that? Secondly, Scottish Enterprise has talked about the importance of both research and technological development and a continued focus on innovation and commercialisation. What challenges face the Government in that regard?

Alastair Sim: Being internationally competitive is essential to the Scottish universities sector. We have three of the top 100 universities and we have an extraordinarily high citations rate for our research. If Scotland is going to be anything in the future, it must be an economy that is based on knowledge and intellectual property. That seems to be at the core of where we are moving to.

Among the Commission's proposals in the non-paper, the Marie Curie initiative to encourage the exchange of top-class researchers throughout Europe is welcome. I made the point that we can be world class and successful only if our doors are open to the best people, at both student and researcher level, coming in and out of Scotland and keeping us intellectually vigorous and refreshed.

To be internationally competitive we must also be operating in a favourable funding environment, and there are various aspects to that. The ambitions in the Commission's non-paper for increased investment in research and innovation are an opportunity. Scotland is very well placed to lever in resource from an increased level of European investment in research and innovation. The Scottish Government is also dealing with the issue. We welcome what we have seen in this year's budget bill as an affirmation that the Scottish Government recognises that being a knowledge-based economy is essential to our future. In the longer term, who knows? For the

moment, we welcome a budget bill that I think recognises our central contribution to Scotland's economy.

Knowledge exchange is vital. We are not doing research for research's sake; there is obviously an element of blue-sky thinking, but there is a huge element of business and third-sector outreach in the research that the Scottish universities are doing. We have a great strength in having the interface initiative, whereby there is a single phone number that businesses and voluntary organisations can call to be put in touch with a researcher who can work with them on their problems and help to lever out opportunities.

It will be interesting to see how the Commission evolves further its instruments for promoting knowledge exchange, but it is also a challenge at a Scottish level. We are in continued dialogue, particularly with the Scottish Further and Higher Education Funding Council, about how knowledge exchange can best be supported. We are expecting more debate about that over the coming weeks. You are right to say that it is crucial that the doors are open internationally and to business.

Donald MacInnes: As well as seeking to retain talent and researchers, we have the talent Scotland initiative to attract new researchers and knowledge workers into the country. That is massively important. Business and public sector innovation has a role to play, especially in relation to applied research. In its non-paper, the Commission indicates that it is looking for educational and academic institutions to lead on pure research but that business and public sector innovation is important for applied research. Scotland should be reasonably well placed in those areas.

Rob Clarke: I agree with all the panellists about the importance of the areas that we are discussing. Recently, we completed an innovation review of the Highlands and Islands, which flagged up some interesting issues, not least the fact that Highlands and Islands businesses tend to innovate more than businesses elsewhere in Scotland; that was a nice plus point for us. Significantly, the review highlighted the crucial importance of human networking, bringing together businesses, academics and the public sector. Without that, the innovation process does not work.

Rhona Brankin: I invite Alastair Sim to talk about some of the longer-term challenges for universities, given that we are taking a long-term view on the EU budget and the future funding of universities.

Alastair Sim: I am happy to comment on the matter, but it would probably involve me straying from European issues.

Rhona Brankin: We all agree that the EU and its budget have an important role to play in the Scottish economy and in the universities, as part of that. That is the reason for my question. Universities across Europe face specific issues that any budget review must take into consideration.

Alastair Sim: I will comment first at European level and then at sub-Europe level. If there is a budget at European level to back up the ambition that we see in the non-paper, that is a useful supplementary resource for Scottish universities and a useful opportunity to lever more money into Scotland, the Scottish economy and Scottish knowledge generation. That will have benefits beyond the universities, as we hire people and invest in technical support and companies that feed into and off the universities. It is not a fundamental fix but a supplementary catalyst for maintaining world-class universities.

Fundamentally, if we want to maintain world-class Scottish universities, we must ensure that funding from Government—or whatever the funding arrangement is in the future—is adequate for that purpose. Andrew Cubie and others have discussed the issue. At the moment, we are maintained by an adequate level of public funding, but I cannot guess at what the future will look like.

The Convener: Sadly, we have run out of time again. Thank you for your written evidence and for taking the time to come here to share your views with us. It has been a helpful and interesting session.

“Brussels Bulletin”

12:29

The Convener: Item 4 is consideration of the “Brussels Bulletin”. Ian Duncan is not with us today, but we had an opportunity to speak with him by videoconference at our previous meeting, when he updated us verbally on much that is contained in the bulletin. Do members agree to note the bulletin’s contents and to send it to the relevant committees?

Members *indicated agreement.*

The Convener: At the beginning of the meeting, we agreed to take the next item in private, so I bring the public part of the meeting to a close.

12:30

Meeting continued in private until 12:35.

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