

EUROPEAN COMMITTEE

Tuesday 13 June 2000
(*Afternoon*)

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EUROPEAN COMMITTEE 12th Meeting 2000, Session 1

CONVENER

*Hugh Henry (Paisley South) (Lab)

DEPUTY CONVENER

*Cathy Jamieson (Carrick, Cumnock and Doon Valley) (Lab)

COMMITTEE MEMBERS

*Dennis Canavan (Falkirk West)
*Bruce Crawford (Mid Scotland and Fife) (SNP)
Dr Winnie Ewing (Highlands and Islands) (SNP)
Dr Sylvia Jackson (Stirling) (Lab)
*Ms Margo MacDonald (Lothians) (SNP)
*Maureen Macmillan (Highlands and Islands) (Lab)
*David Mundell (South of Scotland) (Con)
*Irene Oldfather (Cunninghame South) (Lab)
Tavish Scott (Shetland) (LD)
*Ben Wallace (North-East Scotland) (Con)
*Allan Wilson (Cunninghame North) (Lab)

*attended

THE FOLLOWING MEMBER ALSO ATTENDED:

Christine Grahame (South of Scotland) (SNP)

WITNESS

Professor David Bell (University of Stirling)

ADVISER

Professor John Bachtler

CLERK TEAM LEADER

Stephen Imrie

ASSISTANT CLERK

David Simpson

LOCATION

Committee Room 1

Scottish Parliament

European Committee

Tuesday 13 June 2000

(Afternoon)

[THE CONVENER *opened the meeting at 14:56*]

The Convener (Hugh Henry): Good afternoon, ladies and gentlemen. Welcome to the 12th meeting in 2000 of the European Committee. I have received apologies from Tavish Scott, who is at another meeting. I think that Sylvia Jackson is attending the Local Government Committee, but she hopes to be here later.

Professor Joe Painter, from the University of Durham, is carrying out some research work and will be around this afternoon, this evening and tomorrow morning. He is particularly keen to speak to members of the European Committee and he would be delighted to have a word with members who have time at the end of the meeting, this evening or tomorrow morning. He is sitting at the back of the room with his hand in the air.

European Structural Funds

The Convener: I welcome to the committee Professor David Bell, from the University of Stirling, who is here to help us with our inquiry into European funding. He will build on some of the work that we have undertaken, although there are specific issues with which we hope Professor Bell can help us. I do not think that we require comments from John Bachtler at this stage, so I will ask Professor Bell to make a brief presentation. We have some specific questions for him after that.

Professor David Bell (University of Stirling): Thank you for the invitation to address the committee.

I have prepared a PowerPoint presentation so that I can address some of the issues in which I believe you are particularly interested, for your inquiry. I will start with a couple of slides that might be useful as they put Scotland into the European context, particularly in relation to structural funds.

My first slide shows the percentage of European Union gross domestic product per head in each of 275 or so NUTS 2 regions in Europe. These figures are drawn from the European Commission, and they place the four regions of Scotland in context. You have to imagine that there are 279 little bars in the graph, although I have highlighted

only those that pertain to Scotland. The graph shows the percentage of average EU GDP per head—obviously, 100 per cent is the EU average. The slide is not showing very clearly what I see on the computer screen, but I will soldier on—as I would do during a lecture—and explain what I am doing.

The Convener: We have circulated copies of the slides, so people should have before them the graphic image to which you are referring.

15:00

Professor Bell: I am concerned that the grey has vanished entirely from the screen.

Scotland is split into four regions. There are two dark vertical bars on the slide. One is at 100 per cent of EU GDP and the other is at 75 per cent. The 75 per cent bar is very important because that is what is used as a criterion for objective 1 funding. You will see that the lowest of the bars that is specific to Scotland—the Highlands—just gets over that 75 per cent bar. Of the other regions, south-west Scotland, which is Strathclyde and Dumfries and Galloway, has around 85 per cent or 90 per cent of the EU average. Scotland as a whole is just below the EU average. East Scotland is above, and north-east Scotland, which is the Grampian area, is considerably above, the EU average of income per head.

Many regions in the European Union have lower GDP per head than those in Scotland and, of course, on enlargement, their number will increase considerably.

The second graph shows unemployment rates. It gives an even more favourable picture. The EU average unemployment rate is at about 10 per cent. The different rates for the different NUTS 2 regions of Scotland are shown as horizontal bars on the graph. South-west Scotland has the highest unemployment rate and the Highlands are next. The rate for Scotland as a whole is just beside that of the Highlands and east Scotland is next. The unemployment rate in north-east Scotland is about the lowest in the whole community.

I guess that one can conclude from those slides that, when viewed from Brussels, the problems of the NUTS 2 regions in Scotland are not particularly difficult. That information is drawn from the latest database.

The next slide shows the Scottish share of UK structural funds from 1975 to 1999. The information is taken from a parliamentary answer that was given to John Swinney some time ago. I have fitted a trend to the graph, which shows that Scotland's share of EU structural funds has been falling—there have been minor ups and downs, but overall, Scotland's share has been falling. That

is pertinent to the discussion of how the funds operate, which we will come on to.

I will address some of the specific questions that I have been asked.

Additionality is the notion that European funds should be additional to whatever level of spending would have occurred in the relevant country. I am sure that the committee is aware that additionality is currently determined at UK level, which means, for example, that if all of Europe's funds were spent in Lesmahagow, the additionality criteria could still be satisfied for the whole of the UK.

The question of how additionality could be determined at a Scottish level is extremely difficult, and is a problem that social scientists constantly come across. It is almost impossible to come up with a simple answer to the question of what would have happened if circumstances had been different. That is why, instead of proving additionality, the UK has typically tried to establish a lack of subtractionality. Although that sounds more complex, it is in fact easier to establish, because it simply means that we have not cut back on any existing programmes.

I will now move on to the issue of structural fund budgeting. I am sure that the committee is aware that we are approaching the beginning of a new programming period. In such periods, the Commission might decide to make substantial changes to allocations both between and within EU countries. Based on the type of indicators that I mentioned at the start of the presentation, it looks as if Wales will be a particular beneficiary of the new programming round, with the Scottish share continuing to decline.

Such a step change will not necessarily affect the operation of public expenditure in the UK, because the Barnett formula continues to operate. The amount of money that the Scottish Executive receives is still based on changes that occur in comparable spending programmes in England and Wales. The Treasury has built up a list of several hundred comparable spending programmes, and the Scottish Executive's budget changes only if there are changes in the budgets to those programmes. For example, as the UK budget contained a large increase in health service spending, which is a comparable programme, Scotland will get 10.3 per cent of whatever increase is agreed for England for the health budget. That process rolls on without any particular regard to what has happened with European funding.

As for European funding, provision is made within the Executive's budget for the expected spending in the forthcoming year. Although the Executive will have some indication of the expected spend, as it has been party to agreeing

the programme with the EU, it cannot predict exactly when particular projects will be ready to go ahead, when match funding will be available and so on. The Executive is trying to make provision by forecasting the amount of spending for the European programmes that will be necessary over the coming year.

The key question is: is that provision impinging on other budgets? I am afraid that the answer to that question is lost in the mists of time. There is no easy answer to it. Everything depends on whether Scotland got a reasonably good settlement when programmes such as the European regional development fund were brought within the block grant, as it then was. That money used to be negotiated on a yearly basis with the Scottish Development Agency and the then Scottish Office. Something similar happened with the European social fund. If spending on those items had not changed at all through time, the Barnett formula would not have made any change, so whether there was enough provision would depend entirely on whether the original settlement that was made back in the early 1990s was appropriate. It is difficult to come to a judgment on that.

However, let us suppose that there is a problem and that budgets are being squeezed. By budgets being squeezed, I mean that it is clear that, in order to make provision for European structural funds and match funding, other budgets are being raided. There is a small amount of flexibility, in that 20 per cent of structural funds can be rolled over from one year to the next. The explicit agreement of the Treasury is needed before that can happen. There is also overall end-year flexibility in the budget of the Scottish Parliament.

The other area where there might be flexibility is the comprehensive spending review. A comprehensive spending review is under way now, which is particularly fortuitous for the Welsh. As I am sure members are aware, the Welsh feel that their settlement is not as generous as Scotland's. They are also getting much more in the way of European structural funds, because a large proportion of the Welsh population now has objective 1 status. The Welsh must find match funding and be sure that there is provision in the Welsh Assembly's budget for funding the basic programmes. They hope that, during the comprehensive spending review, they will be able to negotiate a better deal for Wales—a step change that can be made outside the Barnett formula. Once that change is made, the Welsh feel that they will not have to raid their other budgets.

I will come back to that point after dealing with the issue of match funding. Match funding is drawn largely from the public sector. It is not constant across all objectives and funds, but

varies from project to project. However, as most match funding in Scotland comes via a Barnett-derived formula, if someone is having difficulty in making the main payments for, say, building a bridge in the Highlands under the ERDF, they are likely also to have difficulty matching that funding.

We need to remember that, in a sense, the Scottish Executive is playing the role of the European Commission. It is paying out the funds that the Treasury has given to the Scottish Executive and that the European Union has given to the Treasury. That is the chain. The Scottish Executive is partly playing the role of the European Commission, but it is also indirectly playing the role of the match provider, as most of the funds that are required for match funding will ultimately come from the Scottish Executive. If difficulties arise in making adequate provision for the programme—that is, the EU contribution—they will most likely be encountered in finding match funding.

15:15

I have two final points to make. For the financial year 2000-01, the amounts of European money are small relative to the size of the assigned budget. Provision for the structural funds is around £180 million in the Scottish Executive's assigned budget of £16,700 million—just over 1 per cent of the budget. I return to a question that I have already asked: is the budget adequate? There is no easy answer to that because of the way in which, historically, the different funds were brought into the ambit of the Scottish Office, which has become the Scottish Executive. Negotiations took place between the Scottish Office and the Treasury at the time, and perhaps there was give and take in different budgets.

Finally, as Scotland's share of the UK provision of European structural funds is decreasing, in contrast to Wales's share, which is increasing, getting the adequate funds out of the assigned budget is less likely to be a serious problem in Scotland than in Wales.

The Convener: Thank you very much, Professor Bell. That has been a useful overview. Members will have specific questions to ask. I know that Bruce Crawford has a question. The committee is also interested in transparency, ring-fencing and the impact on net expenditure levels.

Bruce Crawford (Mid Scotland and Fife) (SNP): Thank you, Professor Bell. That was useful in helping us to understand the whole subject. I would like to address transparency and the impact on net overall public expenditure, whether ring-fencing is an advantage or a disadvantage, with regard to EU structural funds, and the impact on the assigned budget.

I am interested in the effect that structural funds have on net overall public expenditure in Scotland. We have received written evidence from the minister, stating:

"If payments of Structural Fund grant increases or decreases from one year to the next, the resources available for other purposes change correspondingly, subject of course to any changes in the assigned budget as a whole. Thus the Executive will adjust its other programmes, up or down, to reflect the expected call on the Assigned Budget from Structural Fund payments in any year."

At the previous meeting, the minister was asked whether, if we received no structural funds, we would still receive the 10.39 per cent of changes in expenditure in England and Wales, through the Barnett formula. The minister replied yes.

Given that background, do you think that, at a Scottish level, EU structural funds can be properly described as additional to the Scottish assigned budget? I am not talking about the rules on additionality at a national level, as perceived by the European Commission; I am talking about those funds being properly described as additional to the Scottish assigned budget.

Professor Bell: It is difficult to make that assertion because, as I said, the Barnett formula rolls on and no specific provision is made for European decisions that are made in Brussels about what Scotland should get on a year-to-year basis. You might wish to argue that the appropriate place to make that step adjustment is through the comprehensive spending review, as the Welsh are doing. The CSR gives ministers the opportunity to examine their commitments and to make a case to the Treasury that a new level of spending is appropriate for whatever territory ministers are responsible for.

On a year-to-year basis, the application of a formula is automatic. In some years, provision for European funding will rise, because many projects are likely to come on stream during that year, and in other years provision will fall, as you said.

Bruce Crawford: I do not want to put words into your mouth, but are you saying that it would be difficult to argue that one could properly describe the EU structural funds that come into Scotland as additional to the Scottish assigned budget?

Professor Bell: This is a murky and complicated area. The CSR provides an opportunity to demonstrate clear additionality, but if Scotland gets more money on the year-to-year basis, that will be because a programme in England has increased its funding on the basis of decisions made by the UK Parliament. That carries forward into the Scottish budget.

Bruce Crawford: If it is difficult to see the impact on net overall expenditure, what is your

view of the concept of ring-fencing of EU structural funds? If there is no impact on the net overall assigned budget—

The Convener: Can we come back to that question? We should stick to the impact on net overall expenditure. I will come back to ring-fencing.

Ms Margo MacDonald (Lothians) (SNP): Is Scotland a net contributor?

Professor Bell: Do you mean a net contributor to the overall budget?

Ms MacDonald: Yes.

Professor Bell: I visited that question a long time ago, when I argued that that was the case. Now, the case is less clear.

It is clear that the UK, as a whole, is a net contributor. That is why the Treasury insists on treating the moneys that are received from Europe as a kind of repayment of the contributions that the UK makes. Therefore, the Treasury receives the funding from the EU and allocates it according to the programmes that it has agreed with the EU. Before considering the question whether Scotland is a net contributor, I should make a few points.

Scotland gets a greater share of agricultural funding, which is the major source of EU funding, than the average share across the EU. Its tax contributions are probably in line with those of the rest of the UK. It receives slightly more than its proportionate share of structural funds but, as I pointed out, those are small in comparison to the overall budget. One has also to bear in mind the question whether Scotland is a net receiver from or contributor to the UK budget. It is difficult to take the EU in isolation. We could be a net receiver from the UK Treasury but a net contributor to the EU. All that has to be considered together. The simple answer to your question is that I have a vague idea but would not commit myself to either side of the fence.

Ms MacDonald: But our GDP per head is absolutely dead average.

Professor Bell: Yes.

The Convener: Before I allow Allan Wilson to come in, I wish to stick to the subject of overall expenditure levels. Clearly, politicians are not responsible for what ends up in newspapers, but the suggestion that led to the inquiry was that, because of the way in which funding was accounted, between £500 million and £800 million of European funding, which Scotland should have received, had been removed or stolen from it—I cannot remember the exact words. Do you have any evidence that such money has been removed from our control or spending ability?

Professor Bell: I have no direct evidence on

that. Clearly, Scotland's share of European structural funds has been falling. That has happened on the basis of discussions that take place between the Department of Trade and Industry and the European Commission. Clearly, the DTI tries to play an even hand across the whole of the UK. The first two graphs that I showed you did not contain information about the English or Welsh regions, but the levels in many of those regions are below those of equivalent areas in Scotland. For example, the Welsh areas that now receive objective 1 funding, which cover just below 70 per cent of the Welsh population, would fall below the 75 per cent line in the graph showing percentage of EU average GDP per head.

The decisions that have led to Scotland's share of European funding have been based on negotiations between the Department of Trade and Industry and the European Commission. I have no evidence to suggest that the DTI has been unfair to Scotland.

The Convener: The nub of the inquiry is that, as was reported on 31 May, some people have said that

"the rules have robbed Scotland of more than £730 million since 1993."

Is that an accurate or useful way in which to describe matters?

Ms MacDonald: It is useful.

Professor Bell: I do not think that people on the ground would see it in that way. Those who are involved in bids—I have been involved to a certain extent in the Highland bid—try to put forward the best case for receiving objective 1 status or whatever project funding they might be interested in. They play by a set of rules that is laid down by the UK Government. I am not suggesting that Scotland has been differentially disadvantaged by those rules.

The Convener: Was your question on the same subject, Dennis?

Dennis Canavan (Falkirk West): It was on a different subject.

The Convener: Bear with me for a minute and I will come back to you.

Allan Wilson (Cunninghame North) (Lab): I am interested in the relationship between agricultural spending and the structural funds, as a percentage of the assigned budget. Is there any correlation between the two?

15:30

Professor Bell: The common agricultural policy funds are part of the annually managed expenditure and are not determined by the United Kingdom Government. They are simply passed

through a bank account with the Bank of England; they are considerably larger than the structural funds that we are talking about today.

Allan Wilson: They form no part of the assigned budget?

Professor Bell: No, they do not.

Ben Wallace (North-East Scotland) (Con): You said a number of times in your statement that Scotland's percentage share of the UK structural funds has been decreasing, but I would like to put that in context. Since 1992-93, the share has increased in every year except one. Those figures are shown in a table published in Jack McConnell's response to a question lodged by Andrew Wilson. Apart from in 1994-95, when it dropped to 7.2 per cent, there has been a steady increase since 1992.

I can understand what you are saying in the context of the funding pattern since 1975, but there have been a number of programme changes in that period. That is related to the overall increase in Scotland's average gross domestic product compared with that of the European Union. Scotland's standard of living has improved between 1975 and today, so would not one expect a reduction in overall structural fund awards?

Professor Bell: Just to show that I am being impartial, I should point out that the answer was to a question from John Swinney.

Ben Wallace: They are from the same party.

Professor Bell: You are right in saying that, since 1992, or thereabouts, Scotland's share has been increasing. It is complicated; perhaps I should have shown only three or four points. There are programming periods, and we are talking about the period toward 1998-99, when Scotland's share increased quite a lot—that might be because we were late in getting our projects in. Perhaps I should have averaged the period from 1993 to 1999.

Over the whole period, there has been a downward shift—and remember that the graph that we are talking about shows figures within the UK, so it does not matter what happens in Greece or in Italy or what expansion has taken place there. The data on income per head and on unemployment are the key indicators for many of the programmes. Parts of the UK have had more adverse economic circumstances during that period than Scotland has. If we look ahead, however, there is no expectation that Scotland's share will suddenly rebound.

Ben Wallace: As you say, the peaks on that graph could easily be explained by the back-ending of projects, as happens in objective 2, the late submissions or the initial payments.

Ms MacDonald: The dispute started when the Barnett formula was changed. This is the first time that I have gone into it and I do not have a clue whether so many hundreds of millions have been filched; I approach the subject with an open mind. Given that the Barnett formula changed and the comprehensive spending review, which was introduced in 1997, took a closer look at the various regional needs in England, there should be some computation to say whether, in relative terms, Scotland has moved up or down the scale.

Professor Bell: The trouble is that, in this discussion, the European structural funds are very small beer.

Ms MacDonald: You mentioned 1 per cent, which is marginal. However, for someone in south-west Scotland, that marginal difference is quite significant. Can we also consider the sums involved to see whether they have changed noticeably as a proportion of the overall budget?

Professor Bell: Scotland's share of UK public spending, which is what the Barnett formula determines, has been relatively stable over the 1990s. As you say, the Barnett formula has changed in various technical ways, which has probably led to what is popularly known as the Barnett squeeze. However, over the 1990s, the assigned budget has not fallen as quickly as the line on the graph that we are considering. That is partly because increases in public expenditure in the UK as a whole have taken place in areas to which the Barnett formula applies, namely health and education. Those are the areas that the present Government has emphasised. However, defence expenditure, which does not come from the Barnett formula, has collapsed as a share of UK public expenditure. That is one explanation.

The population share has changed and that has moved against Scotland. The fact that the programmes to which the Barnett formula is particularly relevant have kept on increasing has partly explained why Scotland's share of overall spending in the UK has not yet fallen as several people have predicted it might.

Allan Wilson: If we were to compute a similar trend of Scotland's share of overall public expenditure and compare that with Scotland's share of UK structural funds, the difference would be the additional amount—the level of benefit—available to the Scottish Executive for lines of public expenditure that are not determined by structural funds. Could we do that, to allow us to make that comparison?

Professor Bell: We could do that, but one might want to consider other items of expenditure. If we accept the trend line on the graph as at least a rough indication of what has happened, we see that Scotland's share of UK structural funds has

almost halved in the period, whereas under no circumstances could anyone argue that Scotland's share of overall UK funding had halved over that period.

Dennis Canavan: Professor, you said that it is almost impossible to come up with a simple way in which to determine additionality at a Scottish level. Is that difficulty due in part to the lack of transparency in UK Government expenditure statements?

Professor Bell: That is a difficulty. I understand that, in response to the recent report on EU structural funding, the Welsh Executive has agreed to produce a more transparent statement about the way in which structural funds operate in Wales. I do not envy the task of the Executive in trying to come up with clear statements of what is happening, but some of the fears that have been expressed might be allayed by greater transparency.

Dennis Canavan: If there was an obligation to be more transparent, would that be the responsibility of the Scottish Executive, the British Government or both?

Professor Bell: The Treasury has increased its transparency in relation to the Barnett formula. It is now easier to understand where the assigned budget is coming from. Last March, the Treasury made a statement that made it clearer how the assigned budget is constructed. However, further work is required in that area. The Scottish Executive makes annual statements on where structural funds are going. Those statements do not say much about match funding, although it would be interesting to know where such funding comes from. Various sources are used—local government, enterprise companies, colleges and so on—and it would be interesting to know who is responsible for the bulk of match funding.

Dennis Canavan: Are there similar difficulties in other member states of the European Union with devolved or federal structures? For example, would the Spanish Government be able to demonstrate additionality in Catalonia and is the German Government in a position to demonstrate additionality in one of the Länder?

Professor Bell: I cannot give a definitive answer to that question. I am fairly confident that none of the other member states operates anything like the Barnett formula. Allocations that are made to maintain levels of public service in different Länder or different parts of Spain are more clear cut.

In Australia, a commission standing apart from Government makes decisions about spending levels in different areas. For example, it might decide that Western Australia's tax base was insufficient to meet its public service requirement,

so that the Government should transfer x funds to Western Australia. The Barnett formula is not interested in the needs of Scotland relative to the rest of the UK—Wales and Northern Ireland fall into the same category. The Barnett formula is automatic and has nothing to do with need.

Dennis Canavan: You said that, under the Barnett formula, if the Chancellor of the Exchequer was giving a certain amount of additional money to health, for example, Scotland would get 10.3 per cent of that. However, is it not the case that the Scottish Executive could, if it wanted, divert that money to some other part of the Scottish budget—to education or housing, for example?

Professor Bell: It is completely free to do so. The Treasury produced a long list of programmes that were comparable and to which the Barnett formula applied. Health falls into that category, obviously. Strangely, the Docklands light railway also does, which means that we get 10 per cent of the money that was allocated to that. You are correct to say that it is the Parliament's prerogative to allocate the money in whatever way it chooses.

15:45

The Convener: You said that Barnett was not based on need. Is not that the criticism that people in London and elsewhere make when they complain that Scotland gets a disproportionate share of resources?

Professor Bell: Yes, broadly speaking. They point to the fact that education spending and health spending per head is higher in Scotland than in the UK as a whole. The Barnett formula has been a useful device for the Treasury because, as it is an automatically applied formula, there is no bickering among local authorities about what indicators, such as the rate of heart attacks or whatever, should be used to demonstrate need. I have seen such bickering between English councils and it is not pretty.

The Convener: That sort of debate happens in Scotland as well. Indeed, local authorities are currently engaged in such a debate.

Irene Oldfather (Cunninghame South) (Lab): On the EU component of the assigned budget, the minister told us that structural fund payment surpluses were carried forward or reallocated to domestic programmes whereas deficits were covered by year-end flexibility. Do you think that that flexibility is a good thing?

Professor Bell: At the beginning of the year, the Executive estimates—based on the single programming document that sets out what is to be done—how much money will be needed for structural funding throughout the year. If the amount that is set aside is too much or too little,

the fund can be rolled over. To allow that to happen, the Executive must apply separately to the Treasury. The mechanism means that the Executive does not have to raid other Scottish budgets and the structural fund money can be kept isolated.

Irene Oldfather: Does that mean that, if there is underspend, the money is not lost but goes into domestic programmes? It seems like a win-win situation for Scotland.

Professor Bell: An attempt is being made to ensure that provision can be made over the whole period for the funding that is implied by the Executive's agreement to the single programming document. To ensure that that happens, one year's surplus may well have to be used. The money left over from a year in which not many projects came forward might be needed if a lot of projects piled in at the end, as happened in 1993-94. The idea is to predict the provision over the programming period as exactly as possible.

The Convener: When we asked the minister about flexibility and the ability to reallocate, he told us that the Executive would want to use the surplus for economic development projects across Scotland to maintain the momentum and to ensure a lasting legacy. Do you think that there is sufficient flexibility to do that?

Professor Bell: I do not think that, over a programming period, that is the way that one would want to run the—

The Convener: That one would want to, or that one would be able to?

Professor Bell: In a sense, that is a matter of semantics. It might be possible to use a surplus from European funding for another purpose, but what would be the point? Given the huge budget that we are talking about, what is essential is that those who spend the money—in the health department, the education department and so on—know what they are able to spend. Similarly, the amount of money that is likely to be spent on structural funds has to be accurately predicted.

The Convener: We will have to clarify that matter.

Ms MacDonald: You said that it was not pretty to watch English local authorities—and I assume that you were thinking about development agencies as well—arguing on the basis of need. However, that is what happens at a European level—the European Commission does that, too.

Professor Bell: Exactly. Britain has been arguing vehemently—and rather transparently, given that our unemployment level is slightly lower than that in the rest of the Community—that unemployment is not a good indicator for structural fund programmes. No matter what level we are

talking about, if there is a cake to be split up, people will try to ensure that they get the largest slice. However, the Barnett formula prevents that from happening.

The Convener: We will move on to deal with ring fencing.

Cathy Jamieson (Carrick, Cumnock and Doon Valley) (Lab): Is there a case to be made for ring-fencing the funds? Would that give us a better deal?

Professor Bell: Would it ensure that we got more money out of Europe? No—the fights that we have just been discussing will continue to happen. Would it ensure that we got more money out of the Treasury? Perhaps. At the time of a comprehensive spending review, we could argue for the goalposts to be shifted. I suspect that that is what the Welsh are going to do.

David Heald told the Finance Committee that, while Scotland's overall share of the structural funds is declining, we get a reasonable deal out of the Barnett formula and that, in that situation, ring fencing might upset the apple cart.

Ben Wallace: We do not have ring fencing at the moment, although we are discussing its benefits. In a sense, the money is policed by the DTI. The Executive—or in the past the Scottish Office—presented its map. The map was approved by the DTI and the DTI submitted it through Cabinet committee to the European Commission. In a way, that element of the European funds is predesignated, or ring-fenced, with regard to the approval and the mapping of the money.

Professor Bell: Yes, the share that you are going to get is probably fixed by the process that goes on in the DTI. Exactly what you have said does happen: Scotland makes its case, Wales makes its case and Merseyside makes its case. Those are brought together and presented to Europe, then Europe decides on the budget. Having agreed the single programming document with the DTI, the process pretty much follows on mechanically from there.

Ben Wallace: So in a way there is a ring-fencing process at the moment, because Scotland submits its expected share on its expected map, and, give or take some changes, the submission goes through the management executives at the lower level of European funding to ensure that the money is funnelled down. Apart from the payments from the social fund—because it is harder to find out where objective 3 funding goes—structural funding is ring-fenced already.

Professor Bell: Yes, that is true. It is certainly not the case that the UK, or any part of the UK, reneges on agreements made in the single

programming document. Once that is set, it is set in stone: Europe pays money to the Treasury, and the funds have to be found. Once the Treasury has transferred money to Scotland, the funds have to be found to meet the commitments for whatever programme it happens to be.

Irene Oldfather: Over the longer term, will that amount of structural funds coming to Scotland increase or decrease? What is your view in terms of political considerations?

Professor Bell: I suspect that they will decrease. My major reason for believing that is enlargement.

Irene Oldfather: I agree with you 100 per cent. Is this case much worse than just upsetting the apple cart? In fact, Scotland could seriously lose out if ring fencing takes place.

Professor Bell: It is possible that Scotland could lose out, but again, we are talking about scale. The fact is that, as a proportion of the overall assigned budget, we are talking about a small amount, although it affects people in Dumfries, Inverness and elsewhere. Nevertheless, as part of the great scheme of things in Scotland, it is not a huge amount.

Irene Oldfather: But if it were going to have any impact, would your judgment be that it would be detrimental as opposed to beneficial?

Professor Bell: That is a political judgment that I am not well qualified to make. It would depend on how skilled our negotiations were with the Treasury.

The Convener: I will take Bruce Crawford, and a brief point from Margo MacDonald, because I want to draw this discussion to a conclusion.

Bruce Crawford: I was glad to hear the interesting discussion on the Barnett formula. You are not aware of any other countries that have a Barnett formula, and therefore there probably are no other countries treating EU structural funds in the same way as we are. The convener referred to people who are saying that £730 million over the past number of years, and £971 million over the next six years, will not be within the Scottish assigned budget, and will therefore be removed because of EU structural funds from overall expenditure levels.

That all ties in to the issue of ring fencing. The minister said that we get 10.39 per cent of the Scottish budget, come what may, through the Barnett formula. That will not change, therefore the amount of public expenditure coming to Scotland will not change, unless they change the Barnett formula. If they were to remove EU structural funds and ring-fence them, and the Barnett formula remained, and the money coming into Scotland through the formula was the same,

would it be an advantage or disadvantage to ring-fence EU structural funds?

16:00

Professor Bell: It depends on the context. There is no doubt that it would increase transparency. The question is how the Treasury would react, because you have a system that has been used for a long time and which is automatic, as you said. You would have a relatively small amount of money that you wanted to be treated differently. The pressure in the past has been to bring everything inside the assigned budget. The history is that in the early 90s the ERDF, which was previously negotiated directly with the SDA and the Scottish Office, was brought within the assigned budget. In a sense, you are saying, "Let's go back to where we were." Ultimately, it is a political issue. Clearly, there are ways of doing this, but the point is—

Bruce Crawford: Can I put it another way?

The Convener: Hold on, Bruce. We are starting to run out of time and I am going to draw this to a conclusion shortly.

Bruce Crawford: It is a short question, which will require a short answer. If the political will existed to do that, would it be an advantage?

Professor Bell: If it was purely for the sake of transparency, obviously you could see some advantages.

Ms MacDonald: I put it to you that if the political will existed, it could be done relatively easily, because there is a formula that was previously in use to identify European funds. We are calling it ring fencing, but it is really just to monitor what happens. On the other hand, if you are the Treasury, you would like to have the flexibility, given the year-end rollover and all the rest of the funds, and the small amount of elbow room to move money around a wee bit.

Professor Bell: You could argue that the Scottish Executive would like to have that flexibility too.

Ms MacDonald: Of course, and the Treasury would like it.

Professor Bell: Yes. The flexibility will, to some extent, come to the Scottish Executive, because if the right provision is not made in one year, there will be some flexibility, if the funds are not ring-fenced, to do other things with the money.

The Convener: I will conclude by asking you a question, which you do not necessarily need to answer now; you can give the information to the clerk to the committee. What information should we seek from either the Scottish Executive or the Treasury that would finally answer whether

additionality in the EU sense can be demonstrated in Scotland?

Professor Bell: We thought a little bit about that, and we can easily give you an answer.

The Convener: Thank you. You have been very helpful. This is probably the last information gathering session that we will have. Some time soon we need to start drawing some conclusions, although what inevitably happens is that every time you ask a question, it leads to another set of questions. People talk about neverendums. This can go on and on, but we will reach a conclusion soon.

Professor Bell: Thank you.

The Convener: I hope that Professor Bell can answer the question. We need further information from the Minister for Finance.

Can we agree to hold our next discussion on this in private, to try to draw the bones of our report together?

Members *indicated agreement.*

Bruce Crawford: Can you give us a time scale?

The Convener: I hope that we will meet on Tuesday 20 June, to start pulling some of this together. We may not do everything on that day, but we must start moving.

Bruce Crawford: I am happy with that. However, there is one issue that we have not resolved, which is the UK evidence. I wonder whether we will be in a position next week to draw conclusions when we have not seen the whole picture.

The Convener: Committee members were asked to indicate to the clerk any specific questions they had for the Treasury or the Scotland Office. I am not aware that any such questions have been indicated to the clerk. If, even at this late stage, members think of questions, they should put them in. However, we have been saying that for more than a fortnight and nothing has come forward.

We agree to meet in private next week at least to put some direction on the report.

Bruce Crawford: Convener—

The Convener: No, I am leaving it at that. We will discuss any issues that flow from that next week. If we need to go back into public session, we will do so.

Convener's Report

The Convener: I want to delay the convener's report on the items on the agenda, to discuss the trade dispute between the European Union and the United States and its implications for Scottish industry. Cathy Jamieson has been doing some work on this, but she has another meeting to go to. Christine Grahame also wished to comment on it.

Cathy Jamieson: Thank you for putting this on the agenda, convener. I am sure that many committee members will wish to comment on it, so I do not intend to take up much time. Information on the issue has been circulated.

I wish to express concern at what might happen to a number of industries in Scotland—notably the textile, and especially the cashmere, industry—if there is no resolution to the EU-World Trade Organisation dispute over bananas. People may be aware of problems on this issue last year. At that point it was assumed that a solution had been arrived at by the EU that would prevent the situation arising again.

Unfortunately, it has been indicated that within the next two weeks the US will relist some of the items that were taken off the previous list. The cashmere industry in particular would be affected, but additional items, affecting a number of Scottish industries, may be included. It is important that we take a view on this and that we support the UK Government in trying to resolve the situation and to protect jobs in the Borders and elsewhere in Scotland.

I hope that the committee can agree today to write to the Scotland Office, to the UK Government and to the relevant bodies in Europe, to press the case. The UK has consistently argued to protect jobs; it is inappropriate that jobs in this country will be affected.

There are other issues in the longer term. If the situation is not resolved, we could face it again in six months' time, when the carousel is considered again. We could face it again in a further six months' time. That in no way gives assistance to what are already, especially textiles, vulnerable industries.

The Convener: Can you be clear about what you are asking the committee to do? In which direction shall we make representations?

Cathy Jamieson: We ought to make representations to the UK Government, supporting its attempt to resolve the dispute, and to the European Commission and to the European Parliament, to urge a speedy resolution.

The Convener: Before Christine Grahame speaks, do any other members of the committee wish to comment?

Ben Wallace: While I am supportive and consider that we should avoid anything amounting to a trade war, can the clerks or the Scottish Parliament information centre find out the background to the conflict? As I remember, the conflict is not directly with the United States, but with the World Trade Organisation's ruling that the European Union is in breach of regulations. I would like to know the background to that. The USA is responding to that ruling, rather than directly to the UK. I wish to know how we can help influence the situation through Europe.

The Convener: The letter from the Scottish Trades Union Congress covers that. Was it circulated?

Ben Wallace: Yes, it was.

Irene Oldfather: I wish to be clear about exactly what we will say in the correspondence. My understanding is that cashmere has not yet been added to the list. This goes back a stage further, to earlier discussions on the WTO's position in relation to bananas. It is a complex issue.

Christine Grahame (South of Scotland) (SNP): I hope that members find the letter from 6 June helpful. I passed round 10 copies, so everyone should have one. The letter is to Tony Blair, on behalf of the Borders Knitters Forum and the Scottish Cashmere Club, from Tony Taylor, the chairman of Scottish Enterprise Borders. It gives a full history of the cashmere-banana war, which now involves hormone-implanted beef. The UK supports the WTO decision; it is the EU that is resisting the decision. There are political reasons why cashmere may be put back on the carousel on 19 June. It is one of those pressure points that the US trade representatives know will cause a quick response.

I hope that members will have a chance to consider the letter later. I passed it around because it will give them a clear picture of the impact on the Borders, which accounts for 90 per cent of cashmere production in Scotland—40 companies are involved and 2,000 jobs would be directly affected. The current order book is worth £21 million and most orders are from the States. Much of the purchase of raw materials has already taken place. It is a serious matter for an area that members know is in great difficulty already.

Further, in the third paragraph of the second page of that letter, it is made plain—

Irene Oldfather: I do not have the letter.

Christine Grahame: I do not know where they went.

The Convener: It is a fair point. The letter was not circulated through the clerk. Committee members are at a disadvantage. We will leave those comments—

Christine Grahame: Perhaps I could say that—

The Convener: Briefly, because I will draw the meeting to a conclusion in a few minutes' time.

Christine Grahame: The effect on the Borders would be devastating; that is made clear in the letter, which is non-political. There are long-term impacts. I will get the letter to members of the committee, as it seems to have disappeared. I did not want to interrupt the previous evidence. As you know, I did not know whether I would be able to make it to this meeting.

I would like the committee to send a letter to the Commission on this issue, supporting the UK position and setting out the committee's view. I would also like the committee to make representations to the US trade representative, to the US consulate in Edinburgh and to the US embassy in London. This is a very serious matter for a vulnerable small community in Scotland. We want to know why we are in this situation again when the industry thought that the issue would be resolved in April. Why is it taking so long?

Cathy Jamieson: Brian Wilson, Minister of State at the Scotland Office, has taken up this issue and has made clear the UK's position to the Commission. We should support that position and argue for an early resolution of this issue in line with what was understood to be the previous agreement between the EU and the WTO.

16:15

Allan Wilson: Without wishing to minimise the potential effect of this decision on the Scottish cashmere knitwear industry, its effect would not be limited to the Scottish cashmere knitwear industry or to the Borders, but would extend to a number of product lines in different parts of Scotland. Many Scottish jobs are dependent on a favourable outcome to this dispute. I am sure our representations will want to reflect the fact that this is a broader threat.

The Convener: Any letter that we send will not single out a particular industry. Cathy Jamieson is suggesting that we write to the Government to support the line that it is taking, that we write to the Commission and that we write to the European Parliament. I suggest that we copy those letters to the organisations that Christine Grahame has identified.

Ben Wallace: And to our Scottish MEPs.

The Convener: Yes. Is that agreed?

Members indicated agreement.

The Convener: We move on to the Commission's white papers on environmental liability and procurement directives. If members have an interest in those issues, they should indicate that to the clerk to the committee. We will receive a private briefing on those documents before we consider them again in committee.

We propose to appoint a committee reporter to prepare a response to the Digital Scotland task force report. I do not want to suggest David Mundell, but he has expressed an interest in this issue.

David Mundell (South of Scotland) (Con): I would be happy to prepare a response to the report. My aim will be to put the Digital Scotland task force report in the context of the e-Europe initiative, which is an appropriate thing for this committee to do.

The Convener: Thank you.

The last item is simply for noting, as we will come back to it. Stephen Imrie has made contact with his equivalents in the Northern Ireland Assembly and the Welsh Assembly. It would be useful if we could develop reciprocal links with the committees of those bodies that deal with European matters. We will probably need specific proposals for doing that, but today I would like us to agree the principle of making those links and initiating discussions.

I have written to the Presiding Officer to ask for guidance on how we might take forward the idea of links with the Republic of Ireland, which is a different matter. We have also had some discussion with the European Scrutiny Select Committee of the House of Commons and the European Union Select Committee of the House of Lords. We need to consider our relationship with equivalent committees both within the UK and in the Republic of Ireland.

David Mundell: That is very welcome. I draw members' attention to the fact that each member of the Welsh Assembly, even those who do not sit on the European Affairs Committee, is entitled to one trip to each member state of the European Union, funded by the Assembly. That compares rather favourably with the restrictions that the Scottish Parliament places on members of this committee.

The Convener: That issue will, no doubt, come up in discussions.

I apologise for the short notice, but we have been asked to participate in a meeting with the German-British parliamentary group from the Bundestag at 3.35 pm on Thursday 22 June. I have not been told the venue, but the clerk will inform members of that.

Our next meeting will be in private and will take place next Tuesday at 2 o'clock, here in Edinburgh.

Meeting closed at 16:19.

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