

EUROPEAN COMMITTEE

Tuesday 7 May 2002
(*Afternoon*)

Session 1

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EUROPEAN COMMITTEE

7th Meeting 2002, Session 1

CONVENER

*Irene Oldfather (Cunninghame South) (Lab)

DEPUTY CONVENER

*Mr John Home Robertson (East Lothian) (Lab)

COMMITTEE MEMBERS

*Sarah Boyack (Edinburgh Central) (Lab)
*Colin Campbell (West of Scotland) (SNP)
*Dennis Canavan (Falkirk West)
*Helen Eadie (Dunfermline East) (Lab)
Mr Lloyd Quinan (West of Scotland) (SNP)
*Nora Radcliffe (Gordon) (LD)
*Ben Wallace (North-East Scotland) (Con)

*attended

WITNESSES

Donald MacKinnon (South of Scotland European Partnership)
Gordon McLaren (Eastern Scotland European Partnership)
Dennis Malone (Highlands and Islands Partnership Programme)
Councillor Christine May (Convention of Scottish Local Authorities)
Chris Miles (Scottish Natural Heritage)
Christine Mulligan (Scottish ESF Objective 3 Partnership)
Laurie Russell (Strathclyde European Partnership)
Tom Sullivan (Convention of Scottish Local Authorities)
John Thomson (Scottish Natural Heritage)

CLERK TO THE COMMITTEE

Stephen Imrie

ASSISTANT CLERK

David Simpson

LOCATION

Committee Room 2

Scottish Parliament

European Committee

Tuesday 7 May 2002

(Afternoon)

[THE CONVENER *opened the meeting at 14:03*]

Cohesion Policy and Structural Funds Inquiry

The Convener (Irene Oldfather): Welcome to the seventh meeting of the European Committee in 2002. I have not received apologies from any members, but I understand that Sarah Boyack may be a little late.

The first item on our agenda is to hear evidence from a range of bodies that are involved with European structural funding. I welcome the witnesses to the meeting. First, Laurie Russell will provide us with an overview. After that, the other witnesses will make short opening statements.

We are very short of time today, so without further ado I ask Laurie Russell to make his presentation.

Laurie Russell (Strathclyde European Partnership): I will begin by introducing my colleagues. Gordon McLaren is from Eastern Scotland European Partnership. Until today, Christine Mulligan was acting chief executive of the Scottish ESF Objective 3 Partnership; her successor, Brian Wright, is sitting in the public gallery. Donald MacKinnon is from South of Scotland European Partnership. Dennis Malone is from the Highlands and Islands Partnership Programme.

In my presentation today, I will remind the committee of how structural funds operate in Scotland, and of the functions that the programme executives have in order to ensure that the programmes are implemented effectively. I will finish by highlighting some issues to which we may want to return in the long term, as well as some issues that affect the current structural funds programmes.

The structural funds are used for three basic activities: investing in small and medium-sized enterprises; investing in people—training and skilling people to enable them to enter the labour market or to improve their position within it; and investing in places to create competitive locations in Scotland. Investing in places involves providing sites and premises for businesses, environmental improvements, tourism facilities and, in some

cases, transport and other infrastructure improvements. The examples are mainly from the west of Scotland's programme, but they provide an indication of the types of projects that structural funds support.

A number of programmes are operating throughout Scotland in the period up to the end of 2006. The Highlands and Islands programme will finish a year earlier than that, because it is a programme of transition from objective 1 status. The other programmes will operate until the end of 2006. Before that date, we must commit funds to individual projects. Spending can take place for another two years after the end of 2006. However, we expect the next set of programmes to run from the beginning of 2007 onwards.

The figures that we have provided illustrate that Scotland still receives significant funding benefit under objectives 2 and 3, and through the Highlands and Islands objective 1 transition programme.

Over the past 12 or 13 years, we have managed structural funds in Scotland through the programme executives. The executives are involved in a range of activities to implement the programmes. Someone asked me whether the slide that is on-screen now was intended to reflect the fact that we are totally confused, very busy, or trying to do everything at the same time. In fact, it is intended to reflect the range of issues in which we are involved—projects, preparing for audit, preparing annual reports and preparing documents that will be submitted to the committee, to the Scottish Executive or to the European Commission.

The programme management system was first set up in Strathclyde in the late 1980s. The other programme executives were established in 1994. We have experience of running every kind of programme that the European Commission has supported, including objective 1, objective 2, objective 3 and former objective 5b programmes. I am sorry for using European jargon. The programme executives deal with both the European regional development fund and the European social fund. The Highlands and Islands Partnership Programme also deals with the agriculture and fishery funds. In addition, the executives are involved with the various Community initiatives for which Scotland has been eligible under previous programmes.

With the exception of Dumfries and Galloway European Partnership, we are all set up as companies limited by guarantee. I have provided the committee with an overview of the membership and board set-up of Strathclyde European Partnership. The programme executives are established by the main public sector agencies that are involved in economic development.

Normally, those include councils, Scottish Enterprise and local enterprise companies, and college partnerships. Strathclyde and the other programme executives have also co-opted board members from the voluntary sector and other agencies that are involved with partnerships.

The role of programme executives is primarily to focus on all aspects of projects, from the development phase, during which we advise potential project applicants on the eligibility rules and help them to develop a project, through to the management of the project application appraisal process, whereby we carry out technical assessments on the project applications that we have received. Those applications are then judged against selection criteria by various partnership committees, which come to a view about which projects should be supported.

We also track the progress of projects. We track the financial progress of projects as well as their performance against the targets that were stated in the applications. We also have a role in helping to prepare programmes, developing policy and promoting and publicising the programme and projects. We also liaise with the European Commission, the Executive and Parliament.

In late 1999, Jack McConnell, who was then the minister responsible for the structural funds, set up an independent committee to review how the structural funds were managed in Scotland. The committee included Councillor Christine May, who is here this afternoon, and was chaired by Lex Gold. That committee endorsed the current processes and procedures. Although it found that the processes were quite complicated, it recognised that significant added value could be brought to the process of selecting projects by having a series of advisory groups that bring together people from different agencies and different parts of the eligible regions. It also recognised the value of having programme executives that were dedicated to one purpose—the implementation of the structural fund programmes.

As one might expect, the committee also made some recommendations on improvements to the processes. It was intended that a further review would take place in 2003, but I do not think that any decision has been made on how that will take place.

Most of the programmes involve a significant number of organisations in partnerships. The programmes in the east, the Highlands and Islands, the west and the objective 3 programme each involve about 200 organisations, which includes the main public sector agencies that are involved in economic development. The programmes also include the third sector—the community groups that have played a prominent

role in the structural fund programmes over the years.

I will finish with two slides on the issues that affect the current programmes, which might lead us into some of the issues that we should think about in the longer term. First, the new European Commission financial rules, which go under the term “N+2”, are fairly crude financial penalties for regions that have not spent their structural fund allocations two years after the year that the funds were budgeted for. In Scotland, we have not yet got to the end of a two-year period without spending the money, but we run the risk of the money's being automatically sent back to the European Commission if it is not spent within that time. That applies throughout Europe. Therefore, we now operate under a much more crude and draconian financial system.

Secondly, Scotland's regional programmes work with core eligible areas and with transition areas. That is proving to be quite difficult because the areas are designated ward by ward. That has added to the complexity of certain kinds of projects.

Thirdly, it is my view that the European Commission has gone a bit audit crazy. It is driven by an audit mentality under which it constantly makes checks. Its permanent assumption is that agencies are either making mistakes or trying to fiddle the systems, which I do not think is the case.

Fourthly, complexity has got worse despite the fact that we always try to simplify the structural funds. Fifthly, in some parts of Scotland and in some kinds of projects, we have found that project applications have been slower than in previous programmes. We have also generally tightened up the eligibility criteria to focus structural funds on certain kinds of activity.

The final slide examines what we might lose should Scotland fail to receive structural funds beyond 2006. First, we would lose the focus on regions in Scotland, and on regional economic planning and regeneration. Secondly, flexible co-finance and flexible budgets for economic development projects have been mentioned. Although structural funds are consistent with Executive policy, they are slightly more flexible than the mainstream budgets of the main economic development agencies.

14:15

Thirdly, currently we have partnerships in which every agency has equal status, so representations from small voluntary organisations are as important as representations from larger organisations. Fourthly, resources are currently targeted on areas of economic need. The structural funds attempt to bring up to the norm the

parts of Scotland that are lagging behind. Fifthly, the structural funds provide a clear example of how Europe operates on the ground. The tens of thousands of people who go through training programmes that are funded by the European social fund are aware of that—Europe means something to them. Finally, it is important that we share our knowledge and experience of the structural funds, in particular with the accession countries. As the committee knows, Scotland has an increasingly strong record in working with the accession countries. We hope that that will continue in the longer term.

The Convener: That was a helpful background report, which contained a lot of interesting and useful information for the committee. Before we get to questioning, I invite Gordon McLaren, Christine Mulligan, Donald MacKinnon and Dennis Malone to make short opening remarks.

Gordon McLaren (Eastern Scotland European Partnership): I endorse Laurie's overview of the situation regarding the implementation of the current programmes. It is clear that there are a number of issues. We are dealing with a different European Commission, which is less engaged and less constructive in terms of the day-to-day management and implementation of structural funds programmes.

Increasingly, the implementation of programmes is audit driven and bound by regulations, which makes life more difficult. As we all recognise, implementing structural fund programmes—or any regional economic development—in whatever region of Scotland is difficult for a variety of reasons, and necessarily requires a flexible approach. Also, structural funds offer in a limited way the opportunity to be more innovative and to test new approaches but, to an extent, that is becoming constrained by the new rigid and audit-orientated approach of the Commission. That is unhelpful, and it is disappointing for us. We have to deal with that.

Complexity has been introduced in the new programmes. In the east of Scotland, where we have a large transition population that is slightly bigger than the eligible population, the map is complex. We must operate on a postcode basis, which removes some flexibility and makes the process even more rigid, which is difficult. That said, I point out that we in Scotland argued collectively—through all the different public sector agencies—for transition coverage during the last reforms, so we cannot complain too much, because the funding maps would have been even smaller had we not done that. Nonetheless, it means that we are in a sense managing two separate budgets within the programme structure.

Laurie Russell pointed to some of the operational difficulties that we face. There has

been a slowing down in the number of applications. We are not able to determine exactly what is behind that, but there are issues about available co-finance throughout the public sector. We must recognise and acknowledge the complexity and the bureaucracy of the process, which we have tackled seriously recently. Some of the outcomes of that work will be welcomed positively by all concerned. However, we must be alive to the extent to which people might start to disengage, which would be unfortunate.

Laurie Russell pointed out some of the positive benefits of the structural funds. The wider policy effects of structural funds are very beneficial—the funds are about more than money. For example, we led on some key policy areas—we call them the horizontal themes—such as sustainable development and equal opportunities, and we have developed good practice in those areas. The idea is that we will cascade that good practice through organisations. We will do that not just in the context of structural funds, but more broadly in order to change people's approaches and behaviour. I hope that, in the longer term, we will change the culture of how economic development is conducted throughout the country.

The Convener: Thank you. I will try to keep our questions until later, but I cannot help but comment that I am a bit shocked and alarmed to hear about the problem with complexity. One of the principles that was supposed to underline previous reforms of the structural funds was simplification. From what you say, we are making things more complicated rather than simplifying them.

Christine Mulligan (Scottish ESF Objective 3 Partnership): I endorse what the previous witnesses said. However, despite the complexities of the objective 3 programme, which deals only with the European social fund, about 800 applications are made every year, the majority of which come from the voluntary sector. On complexity, one of our greatest concerns is that all the projects need support, but we are being stretched more and more so that we can give them that support.

Our management of the projects also faces other problems that arise because we cover all of lowland Scotland and therefore deal with a diverse population and a diverse geography. That said, our committees are exploring the possibility of bringing some flexibility to the programme by examining how we manage the funds to ensure that we support the projects that are of the highest quality and have the greatest need. The capacity-building part of the programme is being stretched more and more. That work covers not only building capacity in order to deliver European programmes, but assisting organisations to diversify and to look

for other sources of funding. Therefore, we are bringing in exit and continuation strategies, which will be key over the next few years.

Donald MacKinnon (South of Scotland European Partnership): I will put a slightly more positive slant on the structural funds. In the south of Scotland area, we view them as augmenting the sources of finance that are already available to agencies to address serious economic structural difficulties. I am sure that we have the same complexities and bureaucracy, but we must overcome those difficulties so that we can address the economic fragility that was brought so sharply into focus last year by the foot-and-mouth crisis in the south. That fragility arises from over-dependency on agriculture throughout the south of Scotland but, within individual communities, there are particular dependencies in particular towns on particular industries. There is an urgent need to diversify the economy. It does not matter whether one says that Hawick is over-dependent on cashmere, that Stranraer is over-dependent on transport or that Dumfries is over-dependent on the rubber and plastics industry—we need urgently to diversify and to achieve higher average wages. We have a very low gross domestic product, a sparse population, out-migration of young people and low wages. I am sure that Dennis Malone will also refer to those issues.

The similarities between the rural south of Scotland and the rural north are what we keep on coming up against. My team and I are responsible for managing the structural funds—both the European social fund and the European regional development fund—which are useful in addressing those problems.

The only other thing that I will say is that it must be recognised that rural development must involve not only economic development, but social and environmental development. That is something that the structural funds' focus on horizontal themes helps to emphasise. I am not saying that the main agencies do not do that already—I just want to emphasise the point.

Dennis Malone (Highlands and Islands Partnership Programme): I have only a couple of points to add because most things have already been mentioned. One of the interesting aspects of the Highlands and Islands Partnership Programme is the continuing emphasis on investment in infrastructure, and particularly in information and communications technologies. That is an important component. The other important thing about the Highlands and Islands Partnership Programme is that it is already in transition, which is reflected in the significant tapering-off of funds under certain priorities and measures. We are already managing that transition, the effect of which is more competition for less money, so we

must attempt to ensure that the partners are working much more collaboratively.

My final point is about what will happen post-2006. Some of our funds run out post-2005 and others continue to run into 2006 in specific areas. For example, the regional development fund will still apply in the islands in 2006, but not elsewhere in the Highlands. That presents us with the additional problem of managing a tapering flow of funds.

The Convener: It is interesting that Dennis Malone mentioned more competition, whereas Laurie Russell said that his area was experiencing a bit of a slow-down. I know that committee members have some detailed questions that they would like to put, but before they do that I would like to ask all the witnesses to do a little crystal ball gazing on what will happen after 2006. Will there be an emphasis on transnational projects after 2006? If so, how will Scotland gear up to that?

Laurie Russell: The European Commission has, over the past two or three years, supported the accession countries by twinning them with existing member states. Scotland has been involved in leading the project with the Czech Republic, and some of us have been involved in twinning covenants that have been led by London-based Government departments. Strathclyde European Partnership is involved in such covenants with one of the Polish regions and with Romania. We have expertise and knowledge to share and there is certainly a need in most of the accession countries for the kind of agencies that we take for granted in Scotland, which can come up with economic development projects. There are in those countries few equivalents of Scottish Enterprise, the voluntary sector or local development companies to do project development and implementation.

There are opportunities for the public sector to assist the accession countries, which could have a spin-off for industry in Scotland. If we develop good relationships, they can be exploited by private industry and the public sector. There are also opportunities for us to work under programmes such as INTERREG—which I know is on the committee's agenda for later—but that has limits. Most interregional, international and transnational projects take quite a bit of time and effort to set up, and we must be careful that the results that they produce are worth it in the long run. We must be careful about which projects we get into, but there are opportunities that we have not yet exploited fully.

The Convener: Would that support a request for transitional payment? Should we continue to seek transitional help post-2006, or will that requirement end after 2006? Dennis Malone said that his area is particularly affected.

14:30

Dennis Malone: We are in transition. I know that the public sector partners in the Highlands and Islands are considering opportunities relating to sparsity and island and mountainous locations. Some of those opportunities would build on the experience of the northern periphery programme and the links with Sweden and Norway.

I imagine that locations such as the Highlands and Islands will continue to benefit from assistance provided through the national objective 3 programme. Our ESF programme is built into the traditional financial envelope. We in the Highlands and Islands will have to compete with the rest of Scotland, and I suspect that there will be further assistance for agriculture and fisheries.

It is a little bit too close to the bone to say that funds will stop. There will be some additional funding. The question is how it is managed and targeted. The funding might be a bit more focused in particular areas, unlike the present generic programmes.

Donald MacKinnon: The most important question for rural Scotland is what happens to the common agricultural policy and the tie-in with the structural funds. The CAP is far more important than structural funds in terms of pounds per head of population, so if we are trying to keep our eyes on all the different balls bouncing in the air, I would say that the CAP is more important.

Gordon McLaren: Transnational activities will continue to be a priority. They have been a priority throughout the various reforms, but there has not been the level of activity that the Commission might have wished. The more that regions work together and exchange good practice, the more that the Commission will want to continue to promote that work. At the moment, collaboration is taking place through a number of initiatives, and there will be opportunities to collaborate on a thematic basis across a range of key policy areas.

The Convener: We turn now to the principles governing regional policy.

Helen Eadie (Dunfermline East) (Lab): I note Laurie Russell's comment about the Commission having "gone a bit audit crazy". I recognise that all officials in the public sector are caught up with audits, best-value initiatives and lots of paperwork. We should have probity and high standards, but it is a question of getting the right balance. The comment was not lost on me.

I apologise for this long preamble. My question comes down to the principles that govern Community intervention. The first is Community actions being taken in partnership. They should complement or contribute to the corresponding national operations, and should be drawn up in

close consultation with national bodies.

The second principle relates to programming, which covers the organisation, decision making and financial processes that are involved in the various stages of implementing joint action by the Community and member states on a multinational basis.

A third principle is additionality. To achieve a genuine economic impact, the appropriated funds may not replace public or other structural expenditure by the member state.

The fourth principle is compatibility. Operations that are financed through structural funds or the European Investment Bank should conform to the other rules in the Treaty of Rome, in particular those on competition, environmental protection and the promotion of equality between men and women.

Post-2006, which of those principles, if any, should continue to govern Community intervention in regional development funding? Which new principles should be adopted?

Laurie Russell: In general, we agree with all those principles and want them to continue. The structural funds have always been additional to national budgets and have had to be consistent with national and Community policy. Increasingly, there is little difference between the Scottish Executive's and the European Commission's policies. Structural funds help to implement policy better and more quickly and sometimes in a more targeted way. I have no disagreement with those principles.

The principle of targeting is important throughout Scotland. My colleagues have spoken about the different kinds of targeting that the structural funds have supported in rural communities and in urban ones, through social inclusion partnerships for example. For me, targeting is the most important principle; it is not new, but I stress its importance for the longer term. The transition programmes—such as those that exist in the Highlands and Islands—should target certain geographic areas and one or two policy issues such as sustainable development or equal opportunities.

Gordon McLaren: We must use the structural funds as an additional funding source and as an opportunity to join up, align or add value to what we do in other areas. Targeting has taken place in the current programming period, but we must target far more than has been done in the past, because the volume of funds has reduced. It does not seem such a long time since the beginning of the programming period, but we are now almost into the mid-term evaluation. The planning phase takes a long time because a lot of consultation and negotiation are required to reach a consensus about the programme areas to which the funding

should be devoted and what the funding should be used to tackle. We cannot do everything, much as we would like to. The planning process has started in earnest.

If we can carry on our work post-2006—there is a big question mark about that—we will use the mechanisms and approaches that we have developed to target resources in the wisest and most effective way. That will mean hard choices. People will have to accept that the resources can go towards only certain activities from the broader spectrum of what is possible. The funds will limit the choices.

The Convener: Laurie Russell said that the new financial regulation—N+2—is crude. Is not it more efficient if money must be spent within two years? Why is the regulation crude? Does not it tighten up efficiency, which the voluntary sector should welcome?

Laurie Russell: From a European perspective, it might be seen as efficient to insist that member states must spend the allocated resources within two years, but that system does not build in flexibility to allow for difficulties with spending within the period. With previous programmes, we have had more discretion to transfer resources between the years of the programme. In Scotland, we have a good record of spending the allocation by the end of the programme. I do not think that the regulation was brought in for areas such as Scotland, but we have made use of the flexibility of being able to shift money between the years of a programme.

One difficulty with the current programme, which had finance available to it from the beginning of 2000, was the overlap with the previous programme. Members will recall that spend could continue for two years after the end of the period for which funds had been allocated. That meant that the 1997-99 programme could spend on projects until the end of 2001. The overlap meant that the allocation for many agencies was tied up in existing projects, especially with capital projects in economic development.

The national lottery and the Millennium Commission also had an impact. At the end of the 1990s, more funds were available for capital projects, which were also eligible for structural funds. Some co-finance issues exist, particularly in Scottish Enterprise, where less flexible finance is available in the local enterprise companies. If all those factors are considered together, we might need a bit more time to spend the structural funds allocation within the programme than we have been given under the new financial rules.

If the funding is not spent after two years, it is lost. That cannot be appealed against. If the European Commission faced pressure from

several member states, it might relax the rules but, at present, a cut-off date operates. The system is crude.

Nora Radcliffe (Gordon) (LD): What does added value mean? Gordon McLaren said that some activities would have to be targeted because of an expected emphasis on added value. Will you expand on that and give examples of its effect?

Gordon McLaren: The Commission describes it as Community added value, so it acknowledges that alongside the additional resources is the prospect of producing wider benefits.

Nora Radcliffe: When you say “Community added value”, do you mean European Community added value?

Gordon McLaren: Yes. The move from the European Community to the European Union can cause confusion.

Nora Radcliffe: Benefits will be Europewide.

Gordon McLaren: The added value is wider, as it relates to the Community. That involves wider benefits through the broad principles of partnership programming, which was a new approach to regional development in many member states. Partnership has probably evolved to a greater extent in Scotland than it has in some member states, but they are moving in that direction.

The idea of programming—developing a programme over time and developing priorities within that—has added value to the process. People have worked in different ways. It could be argued, cynically, that they do that just to access the funding, but given the various reforms that have taken place, some of the processes are deep-seated and part of wider practice. Partnerships emerge in many forms at different levels in programmes. The level of collaboration among agencies and between sectors that have never worked together in the past is an indication of the added value of structural funds and the way in which we operate.

I mentioned the policy effects. We are all signed up to social inclusion, environmental sustainability and equal opportunities. The EU dimension to some of those key policy areas, which we are all addressing, has been fundamental and has played through the structural funds. The Scottish partnership model offers opportunities. We are a dedicated resource. We can help to raise awareness and can organise training workshops on how those issues can be tackled, with an economic development perspective. We must not forget that the programmes are for economic development, first and foremost. Such issues can play strongly, if we get the system right. Those are the strong policy effects and wider benefits of the

structural funds. We do not impose those as a condition. The aim is to improve and to do things better than before.

I hope that that is helpful.

Nora Radcliffe: That was a helpful explanation.

I want to move on to another issue. The threshold for deciding whether a region is eligible for the main strand of funds has always been GDP being 75 per cent of the European Union average. Will that change post-2006?

Dennis Malone: The 75 per cent threshold was applied to regions that are eligible for objective 1 assistance. In 1994, the Highlands and Islands just managed to squeeze into that category. I suspect that the threshold will significantly alter with the emergence of new member states. When member states with lower GDPs are brought in, the position of other states, such as Scotland, will increase significantly in comparison with the average. The Commission must address that issue post-2006 to determine eligibility.

14:45

Colin Campbell (West of Scotland) (SNP): What should happen to regions such as Highlands and Islands that receive transition funding, assuming that they are no longer eligible? Will that be the end of such funding? What about regions that are currently in receipt of full objective 2 funding? Should they receive transition money post-2006, if they are no longer eligible?

Dennis Malone: I will refer to objective 1 funding. The full area is currently in transition, which is reflected in the phasing-out arrangements across the financial table and the management arrangements for tapering levels of assistance. As I said in respect of post-2006, the local partnerships, the local authorities and Highlands and Islands Enterprise are considering a more focused approach to funding to target islands and mountainous areas and areas of sparse population. I suspect that that, perhaps combined with a more targeted approach under our objective 3 programme, which might apply in the Highlands and Islands, and investment in rural development through CAP or agriculture and fisheries will deliver a package. However, the shape of that package remains to be seen.

Colin Campbell: The package is unlikely to be comparable.

Dennis Malone: I suspect that the package is not likely to be comparable.

Colin Campbell: Should regions that are in receipt of full objective 2 funding receive transition money post-2006, if they are no longer eligible?

Laurie Russell: At the moment, it is difficult for

us to answer such questions, as the whole debate about how structural funds will operate is just beginning. That is why we are here today and why the committee is beginning to debate the issue. A lot must happen before we reach conclusions on such issues. At the moment, we can offer only our personal views on whether it makes sense to have a transition programme. I think that it does and that the idea of tapering and phasing out support is sensible. It would also be sensible to consider how to replace the structural funds. If there is no further support, can we do something at a Scottish level and set up some kind of regional regeneration budget to replace the benefits that the regions have received from structural funds? There are many such questions that we should discuss over the next few years as the debate takes place at a European level.

Donald MacKinnon: For most of rural Scotland, the key issue is what is happening to the CAP, rather than reform of the ERDF and the ESF. Whatever happens in respect of structural funds must be responsive to that major change.

Ben Wallace (North-East Scotland) (Con): I want to return to the current programme and ask about current issues. How many of the applications that you receive are rejected, including those that are not relevant to you? Who applies to you? How many applicants apply directly to you? How many applicants go through the local authorities or other agencies?

The Convener: Perhaps in answering that, the witnesses could tackle a point that was raised earlier. Whereas Dennis Malone is finding that there is a lot of competition, Laurie Russell is finding that applications are slowing down. Is that a regional thing or is it to do with the difference between objective 1 and other programmes? Do you have any views on that?

Laurie Russell: I suspect that each programme is quite different. Perhaps we could all give you a flavour of the position.

In western Scotland, 72 to 75 per cent of applications are approved. We are getting sufficient applications to meet the overall programme commitment. Our programme is split roughly into three parts: support for businesses, competitive locations and infrastructure projects and social inclusion. We are getting sufficient project applications for social inclusion and almost enough for business development support. We are slower in receiving applications for capital funding.

Approximately 30 per cent of applications come from local authorities, 30 per cent come from the Scottish Enterprise network and the other 40 per cent comprises applications from further education colleges, higher education, area tourist boards, various local development companies and the

voluntary sector. The two main sectors are Scottish Enterprise and local government, followed by further education.

Gordon McLaren: The east of Scotland programme is achieving a reasonable commitment across the three priorities, but there is a discernible slow-down. We are picking up signals that suggest that there might be difficulties ahead in committing the programme. We have built a significant level of spatial targeting into the programme. In some respects, it is similar to the programme in the west of Scotland, because we target strategic locations and community economic development, or the social inclusion priority.

We also factored in an overlay in terms of the locations for targeting strategic sectors across the programme area, recognising that there were some major growth sectors. It was interesting that, when we undertook the planning, one of those growth areas was optoelectronics. There has been a worldwide slow-down in that sector and the West Lothian area has suffered badly with closures and redundancies. The problem is probably cyclical but it might be some years before we come out of it. Other sectors are fairly slow in proposing projects.

The major sectors again include local authorities and the enterprise network. Further education has been quite significant because of a range of training infrastructure projects. The programme focuses on assistance to SMEs. It does not train individuals per se but focuses on the extent to which FE is targeting support for SMEs. The funding available for that is pretty much exhausted, so it will tail off in the coming years. There is also a reasonable level of voluntary sector participation through social inclusion priority 3.

We are seeing indications that there are difficulties with the map of the eligible area in the east of Scotland: it is patchwork. Some of the bigger organisations are considering their position because the area coverage limits how much ERDF they can draw down. The targeting of SMEs then means that they have to reduce further the grant rate.

There is also an optimum threshold below which the amount of administration involved means that it is not worth bidding. We are uncomfortable with that. We do not know it to be a fact but we think that an element of that is starting to come in. That is not helpful in the longer term.

The Convener: Thank you.

Did Ben Wallace have another question?

Ben Wallace: I just wanted to hear about objective 3.

Christine Mulligan: We have a large number of applicants for objective 3. At the moment, after the

first and second rounds, approximately 60 per cent of applicants have received funding. The other 40 per cent come into a number of categories. Those with a lower quality of bid are not approved. However, in the social inclusion and employability parts of the programme, we often receive bids which are of sufficient quality but for which we do not have enough funding. As I said, our committees might be keen to consider—perhaps in the mid-term review—moving the funding percentages about to meet the demand highlighted in the first half of the programme.

Voluntary sector applicants account for about 40 per cent of our programme. However, we recognise that not all the funding comes from voluntary organisations alone and that such projects also have a high percentage of local authority and local enterprise funding. The Community Fund and other bodies play a large part in match funding those projects. So far, the business development parts of our programme have been underbid and we are trying to increase the number and quality of bids in that area.

Dennis Malone: I want to address the convener's question about competitiveness. Our problem in the Highlands and Islands is the competition for the European social fund part of our programme. Each year, we are overbid by about £2 million on a £7 million programme, which means that we have to turn down about a third of the applications that we receive for the social fund. Of course, that third brings with it an element of co-finance, and we just do not know what that co-finance is then used to fund.

We have also tried to make the Highlands and Islands programme more strategic by being a little more prescriptive, particularly in relation to transport and ICT. The monitoring committee is almost making decisions in advance about the type of projects that it wants, which largely are those that reflect the Scottish Executive's priorities. In a sense, we are trying to ring fence funding in advance of those high-priority projects coming through our process over the next three or four years.

Donald MacKinnon: In the three rounds of the south of Scotland programme, we have allocated approximately 45 per cent of the finance available. As with all the other area partnerships—apart, perhaps, from the Highlands and Islands Partnership Programme—the main agencies are concerned about whether discretionary finance will be available to match European funding. At the moment, we are trying to aggregate by asking all partner bodies about their expected spend profile and about projects that could be augmented by European structural funds. We expect to report back on that to our management committee in June.

Ben Wallace: I am aware that the European social fund covers pretty much the whole of Scotland. Have you found that the areas that are not picking up objective 2 funding are more proactive in applying for the social fund? Are deprived areas not as able to prepare successful bids? Those who live in better areas might well be able to receive better assistance, or certain local authorities might provide more help with such bids. As a result, people might be excluded because of where they live, which is something that happens with lottery applications. Do you find that that is a problem?

Christine Mulligan: No, we do not find that. There are not many such areas. We do not find that they are very proactive in making bids. That is linked to the co-finance issue. The most excluded areas are receiving match funding through the social inclusion funding, the partnerships and the Community Fund. However, the issue is the capacity to apply and deliver. I am happy to say that that is improving, and we are seeing more partner-driven bids coming from those areas. In our view, that is a better approach to applying for funding and seems to be making it easier for projects to be successful.

15:00

Nora Radcliffe: I am interested in a remark that you made about what happened to the match funding that was available for bids that did not go ahead. Does that finance go to the same sorts of projects, in a more limited way, or does it just disappear back into the pot to be used for something entirely different? Has anybody done any work on that? Do you think that such work would be valuable?

Dennis Malone: We have not undertaken any research specifically on that. I suggest that projects might still proceed, but at a significantly lower level, depending on the priorities of the respective training organisations.

Nora Radcliffe: I was just interested to know where the money went.

The Convener: That brings us neatly to the balance of priorities between EU issues and regional issues.

Dennis Canavan (Falkirk West): I have a supplementary question about the slow-down in applications. Gordon McLaren referred to the situation in the East of Scotland European Partnership area. Could the partnership not be a bit more proactive in raising awareness of the European structural fund money that might be available to help, especially in the voluntary sector? In areas of deprivation—to which Ben Wallace referred—people may have problems in preparing an application or may not know that the

money is available. A lot of people in the voluntary sector in various parts of Scotland have probably never heard of the partnerships. I know that some people in local authorities are at pains to go out into their communities to try to get people interested in devising projects and seeking funding for them, whether through European structural funds, lottery funding or whatever. Could the partnerships not adopt a higher profile? Are you allowed to advertise or produce user-friendly leaflets that explain in simple terms that the money is available for people to help their community? Could you not do more in that respect?

Gordon McLaren: We all have a communications action plan and we are charged with the responsibility of publicising the available structural funds. We do that in a variety of ways. We all have websites and we produce leaflets and newsletters, but we do not take out press adverts. There is a good level of awareness of the funds in the programme areas.

On the issue of voluntary sector organisations and communities, you are right that it is important that we reach the parts that other funding streams do not always reach. However, because of the method of targeting that we have to employ, that is difficult. In the east, through the partnership, we have insisted on a level of engagement throughout the designated communities. They have to go through a process involving all the local actors in the communities, who have a say and an opportunity to start to identify what the priorities should be for those areas. There is a co-financed genuine partnership-building process in the targeted areas even before projects are submitted. The local authorities take a lead on that because they have a lot of contacts, but we pay for an independent facilitator to bring everything together. There is a genuine ownership of the process within the community.

Some awareness raising goes on at community level. I accept that more could be done but, again, the issue is one of resources. To an extent, we rely on partnership organisations to raise awareness, but there are limitations on what they can do. However, there is a good level of publicity and raising of awareness about what is available in the areas.

The issue is co-financing. I dare say that there are good project ideas, but the issue is how we can bring them forward and finance them. In the broad spectrum of organisations, finance is more of a constraint and more of a hurdle than the level of awareness.

Dennis Canavan: My second question relates to the level at which decisions are made on regional development funding. We hear a lot about the principle of subsidiarity, but is that principle being correctly applied in regional funding? How

much of the decision making should be at European Union level and how much of it should be at member state level? For example, should the EU seek to fund areas that are undergoing industrial decline or should it focus mainly on infrastructure funding? Are far too many of the decisions being taken higher up the tree instead of at the member state or even sub-member state level?

Dennis Malone: We are slightly ahead of the objective 2 programmes, because the programme in the Highlands and Islands started slightly earlier. Therefore we have had the benefit of being able to reflect in a bit more detail, which is what we have done.

Next week, we will present a report based on that reflection to our monitoring committee. The report will highlight the fact that our strategic context for operating programmes is much stronger than it has been hitherto. The work that the Scottish Executive has done over the past 18 months has given a much broader context to the application of structural funds, which has allowed us to develop the process of subsidiarity much more effectively.

In the Highlands and Islands, the initial appraisal of projects that are submitted to the programme is undertaken by advisory groups, which consist of technical experts from the local partnerships. Those advisory groups ultimately make the recommendation to the local management committee, which comprises members and officials of the local partnerships. That recommendation is made within the context set by the monitoring committee and the Scottish Executive.

There is every case for arguing that subsidiarity is being applied stringently in Scotland.

Laurie Russell: I will add a bit of factual information. Only very large projects—those that have a total cost of over €50 million—go outside Scotland for a decision. In previous programmes, the threshold was €25 million, but it has gone up for the current programme.

In the previous programme in western Scotland, there were only three projects that required that the decision be taken by the European Commission. The Commission's decision was based on a recommendation from the management committees in Scotland. The three projects were the millennium link, the Glasgow Science Centre and the Loch Lomond visitor centre. In each case, the Commission listened to the recommendation.

The European Commission formally becomes involved only for projects that are over €50 million. As Dennis Malone said, every other decision is taken within the programme area. The responsible

minister is required to endorse the recommendations that come from the programme area.

Dennis Canavan: Do the decisions on the boundaries and the map have to be submitted to the Commission for approval? Is there not a case for saying that the regional assistance map should be roughly the same as the objective 2 map?

Gordon McLaren: I will have to be careful what I say. There is an absolute logic in what you say. To be fair, we are being rather critical of the Commission. When the objective 2 map was being drawn up, roughly contemporaneously with the review of the assisted areas, the Commission argued that we should have the same boundary. That would make sense. The UK position—not the Scottish position—was to resist that. That led to delays in drawing up the objective 2 map and to the two maps having different boundaries, which has added to the complexity of the different aid thresholds under state aids. In retrospect, we would have all preferred the boundaries to be the same—that would have been simpler.

Laurie Russell: There was a strong political argument for having different boundaries, because regional selective assistance focuses on businesses and on where businesses are located, whereas the political view from the Executive was that structural funds should focus on communities in greatest need. As members know, businesses are not usually in the same area as communities. There was a political reason for the decision.

The Convener: That seems a valid point.

Sarah Boyack (Edinburgh Central) (Lab): I will follow on from the key issue that Dennis Canavan raised, which is the Commission's idea that programmes will be renationalised and the member state will decide centrally on an allocation of money and priorities according to a set menu. What would be the impact on Scotland? When we went to Brussels a few weeks ago, that was certainly on the Commission's agenda. What implications would renationalisation have for Scotland, given that in the eyes of the Commission we are a constitutional region? To what extent have you thought about that? Have you examined the Scotland Act 1998 to see what the implications would be for us in terms of who would take the final decisions?

The Convener: That is a fairly big question.

Laurie Russell: Sarah Boyack is right that renationalisation will be one of the key debating issues over the next few months. We were at a meeting with the Executive this morning and as far as we are aware there is no UK line on what view we should take. The Department of Trade and Industry has commissioned a consultancy study—it is being carried out by two Scottish consultants:

the European policies research centre at the University of Strathclyde and Alex Fraser Associates—to consider the added value of structural funds. It comes down to whether member states can implement regional policy to the same extent as the structural funds have done over the past 15 years.

The view in the 1980s when the structural funds started was that there was a closer alliance between local authorities and others in Scotland and Brussels than there was with London. It is not for me to judge whether that has changed. However, we can point to the added value that has come from the European Commission funding regional policy and economic development. There is a case to be made for continuing that. The debate has just started and we need to hear the arguments from both sides.

If I were to make a suggestion to the committee, it would be for it to seek evidence from John Bachtler, when the research that he is carrying out on behalf of the DTI is complete. That would allow the committee to consider the information that comes out of the research.

The Convener: Thank you. We have already spoken to John Bachtler and we are trying to arrange a time for him to come to the committee. I understand that the National Assembly for Wales has been considering the issue and is keen to keep the programmes at Community level, rather than renationalising them. We would certainly want to consider that in our deliberations on our report.

15:15

Sarah Boyack: The issue of funding comes up. Who would be responsible and whose budget would the funding come out of? We also have to consider the point that was made about the visibility of Europe on the ground. We are keen for the witnesses to start thinking about the issue as well, because we are conscious that we will have to engage with it over the next few months.

The Convener: I had one other question, but I am reluctant to mention it. I will throw it out there and perhaps you could give us written information on it. I understand that the programming period to 1999 throughout Scotland was underspent by about 1 per cent of the budget. Have you identified reasons for the underspend, perhaps relating to complexity, and have we sorted that out in the 2000-2006 programming period?

Laurie Russell: At the end of any programme, thousands of projects in Scotland have to produce their final accounts, claims and audited accounts. Agencies store up their underspends. They do not tell us that they have not spent their full allocation of funds until the end of the programme, at which

time it is too late to reallocate the funds. That is why the expenditure always comes in a bit below the commitment level to some projects.

You are right that there was a dip throughout Scotland between the final level of commitment to projects and the expenditure level that came out when we examined the final claims and audited accounts. That exercise is not quite complete so we do not have accurate figures, but we expect them by the end of the month. We expect expenditure levels to be a couple of percentage points below the commitment levels.

That has been a standard experience throughout the life of the structural funds. I suspect that it is the same in other projects of that nature and is not unique to structural funds. We get round it by trying to allocate slightly above the level that we expect to spend.

The Convener: Thanks very much. I thank everyone for coming along. We have had a very informative session. We are inviting written submissions until September and we look forward to receiving any written submissions that you want to send. We will take a short break to have a change of witnesses and allow Laurie Russell to sort out his technology.

15:17

Meeting suspended.

15:24

On resuming—

The Convener: I formally reconvene the meeting. I welcome Councillor Christine May and Tom Sullivan from the Convention of Scottish Local Authorities. We have received COSLA's written submission. I understand that Councillor May would like to make some opening remarks.

Councillor Christine May (Convention of Scottish Local Authorities): For the committee's interest, I also chair the lowland Scotland objective 3 partnership. Quite a lot of what I heard earlier and many of the committee's questions were relevant to the debate that we have been having in the objective 3 partnership and to the discussions that COSLA is having.

I will base my remarks on our written submission. I will be as brief as I can. I welcome the initiative that the committee is taking. It is right that we should start the debate and be part of the discussions that are going on across Europe. I heard with interest the comments on transnational co-operation. I know that the Executive is already building links with major regional Parliaments throughout Europe. That is to be commended. In this debate, we should build on that relationship.

COSLA has a task group on regional policy and enlargement, which I chair. When the group met in March, we agreed on the submission that we have sent to the committee.

The first thing that we asked and that I ask the committee is whether there should be a European regional policy, outwith the accession countries and those regions most in need, after 2006. If there should be one, what shape should it take? The European Commission is asking us those questions. We need to produce answers and that can be done only after we have debated and considered all the issues.

The starting point must be the future of the European Union, so the two debates are intertwined. How many times do we need to be reminded that the people often do not perceive any real benefits from membership of the EU? We have been reminded of that by the Irish no vote in the referendum and the success of Le Pen and others. There is a need to demonstrate the positives of European integration. The funding of projects at a local and national level by the use of structural funds has been a clear and obvious way of demonstrating to our communities the benefit of membership of the EU.

In the context of the debate on governance in the EU, it seems equally important to connect local authorities and other public bodies with the top-down policy making that happens in Brussels and member state capitals. A recent good example of that for the committee to consider might be the acting locally for employment initiative, which sought to inform the process of co-ordinating national employment strategies. EU regional policy remains a great driver in promoting local engagement in European policy making and transnational co-operation. It has raised awareness of the European dimension and it should continue to play that role.

Obviously, other political and technical arguments exist for the maintenance of a regional policy for disadvantaged areas. Economic and social cohesion is a major cornerstone of European integration and disparities of wealth within member states are not declining. There is concern, as the committee has heard, that the incorporation of new member states will shift the economic and political centre of gravity towards the east and accentuate Scotland's peripheral position.

The structural funds have provided the impetus for a broad range of innovative approaches to economic development, among them the partnerships from which the committee heard earlier. The issues may not have been tackled in that way and those partnerships may not have been built up in the absence of that European funding. For that reason, there is benefit in the

continuation of some pan-European focus on regional development, although the sums involved may not be enormous. The benefits of some of the smaller funds, such as INTERREG, obviously outweigh the value of the fund. They are highly visible, as folk see the logo.

Such schemes play a role in disseminating best practice. People can see something that is the product of ideas in their local community going all the way to Brussels. Again, that demonstrates positive aspects of European membership.

I would argue that those aspects alone demonstrate that Europe needs a regional policy outwith objective 1. If there is no regional policy and we apply strictly the criterion that only those regions with a GDP per head that does not exceed 75 per cent of the European Union average are eligible for objective 1 status, Scotland will be excluded from that. In Britain, only Cornwall will be just about eligible. We may get away with arguments based on ultraperipherality and sparsity of population in small regions, but those would be so small as to make the impact of objective 1 status negligible.

15:30

What shape might a post-2006 regional policy take? Today, the committee has considered a number of models. We must stop thinking about objectives 1, 2 and 3, and start thinking more imaginatively and creatively. The debate is broad and involves polycentric development of a menu-driven approach. Sarah Boyack has already mentioned that. Regional competitiveness is also important. If we think about the possibilities and issues arising from a menu-driven approach and a focus on regional competitiveness, that will help us to move the debate forward.

The idea of a menu-driven approach cropped up repeatedly in discussions with the Commission. It is suggested that the EU could accompany restructuring in areas that are affected by its policies. Structural assistance could underpin the Lisbon agenda, but it could be for member states and regions to decide how and where to allocate funding from a European menu. That would ensure that pan-European regional themes are retained, but would allow much more local flexibility. There would have to be an overarching framework, or we would end up with renationalisation under a different name.

The Conference of Peripheral Maritime Regions of Europe has proposed that detailed consideration be given to the use of regional competitiveness as a means of designing a future cohesion policy. Work on that is under way in the European Commission, in the context of the Lisbon agenda reports. More controversial is the issue of the flexibility of EU competition policy. As

members will know, the Commission maintains that it alone has the competence to act in that area. That position is not due to be reviewed until 2004. However, with tighter budgets, the arguments of wealthier member states, including the United Kingdom, and regions for expanding the scope of domestic regional aid in return for allowing all EU structural funding to be focused on the east may gain momentum. That idea is worthy of more detailed consideration. Many of the regions that are currently arguing for such an approach are the subject of reports for infraction, so it could be argued that it would result in fairer competition and fewer reports.

The polycentric approach is championed from the perspective of European spatial development. Its main tool is INTERREG. We need to ask whether it would be worth having more small funds like INTERREG. What benefits would those have? What form might they take? What themes might they support?

A successful enlargement would benefit Scotland. Laurie Russell has talked about the twinning arrangements between the accession countries and us, which are all to our benefit. However, enlargement will increase disparities and make us seem wealthier in comparative terms. This is the start of a debate and it is important that we engage in that. Local authorities are anxious to do so alongside the committee, so that we can put to the UK Government and Brussels a Scottish position that is supported by the different levels of government here, with their various competences, and that reflects the ways in which those levels of government interact with communities. We do not want to return to the sort of last-minute horse-trading that took place in the past. Our nerves were shattered at the end of that process, which would be much harder to justify this time round, given that we know well in advance that enlargement is coming.

Let us identify our allies across Europe and in the UK, and work together to reach a common position, if possible. I am happy to answer any questions that members would like to ask.

The Convener: You are right to say that this is the start of a debate. On this occasion, we have begun to debate the issue of structural funds at an early enough stage in the process. Sometimes we are told that we are too early or too late. I hope that this time we have pitched things just about right. From what you have said, it would appear that you agree.

How could Scottish local authorities and partnership projects prepare for the move away from dependence on structural funds towards more transnational projects that will take place after 2006? Has COSLA discussed that issue?

Tom Sullivan (Convention of Scottish Local Authorities): We have had some discussions, on INTERREG in particular. At the end of last year, we held a seminar in Haymarket on councils' engagement with that project. As a result, a number of councils have begun to identify suitable partners in other member states. In the past, our approach was more scattered; we would do a partner search to find out who wanted to do a project with us, rather than identify beforehand the areas of best practice that we wanted to learn about. The process has now begun, although not at a national level.

Recently, local economic forums have begun to identify transnational strategies, and that approach should be encouraged. For any transnational programme, there must be well-developed local partnerships—it would be pointless for councils to work on their own. Such partnerships are different in different parts of the country. COSLA is not trying to lead this in any way.

Councillor May: One area for transnational projects that merits some serious thought is energy. The north-east of Scotland is eligible for funding in a programme that includes Norway and parts of Russia. There are serious possibilities there that we should consider.

The Convener: John Home Robertson has some questions on priorities.

Mr John Home Robertson (East Lothian) (Lab): Polycentric? Spatial objectives? I am afraid that some of us do not speak the language.

I am the MSP for East Lothian and I was previously the MP. We have received precious little—apart from some RECHAR funding—because we have not qualified for years. Such issues are a sore point in some parts of Scotland. Every time that a local company comes up with a bright idea and wants to expand, it moves somewhere else, which means that local people have to travel further and further to work. There has been a distorting effect in some areas and things could probably be done better.

I read with envy stories about objective 1, objective 2 and objective 3. You slid round the question of prioritising, but I would like to try to pin you down. Objective 1 covers depressed economies, objective 2 covers structural difficulties and objective 3 covers the modernisation of education, training and employment. Would you like to have a stab at prioritising those areas?

Councillor May: Rather than having a stab at prioritising objectives 1, 2 and 3, I want to begin from a different point.

Mr Home Robertson: You sound like a politician.

Councillor May: Indeed.

The mid-term review of the current round of structural funds is designed to show how well we have done, halfway through. We are measuring our performance against the objectives that we set, which were improving the capacity of the work force and improving the lot of SMEs. Once the mid-term review is complete, we will have a better idea of where need will most likely persist post-2006. It would be better to start from there and then tie our work into the various strategy documents. If we consider "A Smart, Successful Scotland: Ambitions for the Enterprise Networks" and the emphasis that Scottish Enterprise puts on clusters, we can see a relationship between, on the one hand, work that has been done in the Lothians on giving support to clusters and, on the other hand, areas where there could be transnational partnerships.

That is a different way of looking at things, but it might allow us to focus more on the areas of structural need in Scotland. Such areas will persist. It is impossible to imagine that all the areas that currently suffer percentage unemployment levels in the high teens will have resolved their problems by 2006-07—they will not. We must think a bit more out of the box. Does that mean polycentric? Well, yes. It fits nicely with the cluster model, which already exists in terms of the national enterprise agency, and which is also being developed with the local economic forums. Perhaps it is about getting together all the bits of our policies—social and economic—in Scotland, then seeing where we need to argue for support.

Mr Home Robertson: But it will be terribly difficult to work up objective criteria to make that stick in Scotland. I agree with you that we all have problems and we all want to achieve the same things, but if we compare our problems with the problems in Poland, it will be difficult to work up criteria—polycentric or otherwise—to ensure that we continue to get something out of the cake. That is going to be rather difficult, is it not? That is what we are trying to do here.

Councillor May: We should not compare apples with pears, and that is what we would be doing. Instead, we should take a slightly different approach. Somebody made the point earlier that we should not forget reform of the CAP and fisheries policy. Let us not forget the need to move from supporting production to supporting the rural infrastructure. That was tried previously, but we did not succeed. Let us see whether we can take a better stab at it this time.

Mr Home Robertson: I endorse that view.

Dennis Canavan: I want to press you on the point that John Home Robertson made about objective criteria. Is it all that impossible to draw

up a set of objective criteria and to apply them to member states or regions within member states? Whatever you think of the 75-per-cent-of-GDP rule, at least it is measured and applied objectively. It is above board and people can see it operating. Is it impossible to take criteria such as unemployment and deprivation in different member states, regions, or even parts of regions in member states, to measure them accurately according to some universal European Union definition, and then to decide, on the application of those criteria, whether areas are eligible for assistance?

You referred to horse-trading, and there are all sorts of allegations of political intervention. I know of areas in my constituency that are more deprived than other areas, yet the less-deprived areas qualified for objective 2 whereas the others did not. That caused all sorts of local difficulties. There are similar national and international difficulties within the European Union. I cannot for the life of me understand why we cannot draw up a list of objective criteria and apply them fairly and transparently throughout the Community.

Councillor May: You would think that it would be possible, but as far as I am aware, GDP is the single criterion that can be measured on a common basis throughout the current member states. In addition, because the accession states will be using the same criteria to measure GDP, it will be a common measurement. Other measurements are not comparable between the EU member states. That is the difficulty of using measures of deprivation and, for example, unemployment—as Dennis Canavan will know from his previous life, unemployment is measured in different ways in member states.

I agree that we should be looking for objective criteria. I was suggesting to John Home Robertson that we should not make comparisons with the accession countries, given that GDP will probably remain the only consistent indicator. We should look for other objective measures, but they should be based on our experience of meeting the objectives that were set in the 2000-06 round—the current round—and on what we know from our better labour market information, which is being pulled together, largely because of the Scottish Executive's demand that we should have common measures throughout Scotland.

The Convener: You are right. I recall that COSLA raised the difficulty of collecting statistics throughout the EU. One would think that it would be straightforward to measure homelessness or child poverty levels, for example, but there are huge difficulties in doing so. In the last round, we got across to the European Commission the fact that it is important that we start to collect such data now, so that, five years on, we will be able to put

in place other objective indicators of poverty and deprivation.

15:45

Sarah Boyack: I have a question for Christine May. In your opening remarks, you made a point about state aid. I think that the West of Scotland European Consortium made the same point in a submission to the committee. I interpreted it as a trade-off: if we do not get regional money, we can slacken the rules on state aid. To what extent is that a kite that you are flying and to what extent have you thought it through? Would the exemptions from the existing state aid rules be blanket or negotiated? Where are you coming from? I know that a lot of infrastructure can be built, such as roads and railways, and that ferries are covered by state aid. Have you thought about that or are you just kicking the idea into the discussion at an early stage?

Councillor May: That kite has a tail a mile long—it is literally floating up into the air—because work is being done on it in various centres throughout Europe. However, it is very much a kite: I have not thought it through. I have not even considered in any great detail, for example, what the financial impact of complete repatriation might be on Scotland. We should consider that before we come to a definitive view on what to present as Scotland's point of view. I do not know whether some or all schemes should be exempt, under what circumstances they should be exempt and where the trade-off would come. I would need to do a lot of work on that.

Ben Wallace: Ronnie Hall, the chef de cabinet in the regional policy directorate-general in the Commission, talked about some of the member states pushing for a change in the rules on state aid. If some repatriation were to happen, at what level should state aid come back to us? Would you want it to come to local authorities rather than into the UK Government or the Scottish Executive? If those were the options that you were given, where would you like it to go? That would help to define the type of state aid and how to give it. Obviously, a local authority or the Scottish Executive could not give state aid to British Midland Airways or ScotAirways, but it might be able to support areas that are more deprived or in need of a boost.

Councillor May: Tom Sullivan will comment first, then I will answer the political bit of the question.

Tom Sullivan: COSLA was not trying to float the state aid kite at all: we were just drawing attention to the fact that it was there. It has come more from Germany than from this side of Europe. It is a very dangerous road to go down. We have noticed, particularly in the Committee of the Regions, that a number of German Länder have

been outspoken about state aid. They want greater flexibility. I point to the fact that many of those Länder flagrantly flout the state aid rules. Some Spanish regions do the same.

Do we want to go down that road? We cannot open up that question easily because it is the explicit competence of the European Commission. It is not up for review, and I do not see why the Commission would want to open it up. It must be discussed with ministers with responsibility for industry. We have to be aware of it. Certain exemptions already exist under the structural funding policy: a region with objective 1 status has higher ceilings for state aid. It is too early for us to get into such debates.

The Convener: Last time round, COSLA argued for a pot of money to be set aside for use in crisis—for example, flooding—or if a region had been hit by an asymmetric shock to its regional economy, which did not affect the rest of Europe. Is that something that you might argue for this time around, to avoid Council of Ministers meetings sitting day and night to reach agreement? Might there be some support for that in other regions in Europe?

Tom Sullivan: It was in the context of economic and monetary union that the point about members of the euro receiving an asymmetric shock was raised last time around. Such a measure would have support from other member states—certainly in relation to crisis intervention, for example in cases of drought or flooding, which particularly affect southern member states. We might give further consideration to that.

Councillor May: I return to the general point. If one had an overarching European strategy that contained elements of discretion, one would want to examine the detail of the scheme before deciding with which sphere of government that discretion should lie. The appropriateness of the decision-making body—the subsidiarity principle—would come into play. That is worth considering.

Ben Wallace: Given that the DTI will be heavily involved in discussions about reform at the Commission, have you had discussions with the DTI or with your counterparts in the English local authorities?

Councillor May: No. The COSLA group has met only once and you have our document. We have not undertaken discussion on a pan-UK basis, although I am aware that meetings are taking place. We have not got into the detail and we have not been to the DTI.

The Convener: We are short of time, so I thank the COSLA witnesses for coming along and for providing a written submission. We are taking evidence until September. We appreciate and welcome COSLA's contribution to the present

debate and to previous debates on structural funds. We hope that we will continue to have dialogue on the matter during our inquiry.

I invite the Scottish Natural Heritage witnesses—John Thomson and Chris Miles—to take a seat. We have invited all our witnesses to make a short opening statement, but I hope that you will forgive us if we go straight to questioning, as we are running short of time. We have your submission, which we discussed at some length at an earlier committee meeting. We were quite impressed with a number of your suggestions, although we wondered whether you were flying kites on some issues. Would you be happy if we proceeded straight to questioning?

John Thomson (Scottish Natural Heritage):

Yes, although I would appreciate having an opportunity at the end to pick up any points that I wanted to make that did not arise in questions.

The Convener: That would be fine. You made suggestions on natural handicaps and pointed out that wider areas of Scotland might be included in a future programme of the European Commission. What led you to those conclusions?

John Thomson: I echo what some of the previous witnesses have said about the need to examine together the future of the structural funds and the CAP. In particular, we must consider the development of the second pillar of the CAP—the rural development regulation—which starts to spread the benefits of CAP spending beyond the land-managing community into the wider rural community.

I make that point because the idea of disadvantaged areas is already present in the CAP, in the form of less favoured areas, which account for 84 per cent of Scotland. Even in an enlarged EU, those areas would probably remain among the most geographically and climatically disadvantaged areas in the Community. That provides at least one relatively objective criterion for targeting EU funding in the future.

If we link that to the fact that a significant proportion of those areas are also designated for their natural heritage importance under European directives, we have the makings of a strong case for some geographical targeting, which reflects both natural disadvantage and the importance of the environment to the wider community.

The Convener: Have you had any discussions on this matter with the European Commission? Are there regions that take a similar perspective to ours in advancing arguments such as those that we have been discussing?

John Thomson: I would not say that we have had discussions with the European Commission specifically on this topic. One of the issues on the

Commission's agenda is the future management of the sites in the NATURA network and how that network is to be funded. As I have indicated, that is relevant to at least part of the rural area of Scotland.

We are aware of a number of initiatives in train in other member states. For example, we are studying the future of the remote and mountainous areas of Europe, which I think Dennis Malone of the Highlands and Islands Partnership Programme mentioned. A conference at which some of those issues will be explored will take place next week in Inverness. There are certainly opportunities for at least parts of Scotland to make common cause with other parts of the EU on the basis of what are at least relatively common conditions. You might argue that there is not much similarity between the Alps and the outer isles, but the conditions there can in fact be expressed in a rather similar way, which allows the building up of partnerships.

Mr Home Robertson: We have been discussing objective criteria in relation to other aspects of structural funds. What kind of objective criteria could you establish to measure peripherality—which is an awful word—or mountainous terrain, for example? You have just cited a comparison between the Alps and the Western Isles. If you are to do that, you need to work up some comprehensible criteria. Can that be done?

John Thomson: There are things that can be done in relation to the potential productivity of soil and so on. I accept that that is not addressing the whole of the agenda that you want to address, but it highlights some issues. My colleague, Chris Miles, might want to add to that.

Chris Miles (Scottish Natural Heritage): Another factor is density of population, which is similar in the areas cited. In Scotland, there are areas with significantly low population densities, which creates serious problems for those areas in addressing rural development issues in particular.

The Convener: I imagine that you would find considerable common ground with Scandinavian countries on the issue.

Chris Miles: I think so. There are already links on natural heritage issues between us and Scandinavian countries, which are engaged in similar projects.

The Convener: Would that be compatible with the ideas that will be presented on urban funding?

John Thomson: Although we said in our submission that we think there is an argument for special treatment for Scottish urban and peri-urban areas from an environmental standpoint, I suspect that it may be a bit more difficult to state that Scottish urban areas are particularly highly deprived in European terms. One thought that

occurred to us—although this is not strictly within SNH's remit—is that Scotland's very bad health record, even taking into account the health records of eastern European countries, is well known. Our initiatives in and around cities aim to provide more opportunities for people to walk, for example, which contributes to improving the health of the nation. Therefore, health might be an area that you could pick up on. However, that is outside SNH's immediate terrain.

The Convener: We were very impressed by the creative approach that you took in your submission. Do you have any indication of how much of Scotland might be covered by some of the suggestions that you have made, particularly with reference to the southern uplands and the Highlands?

John Thomson: We do not have a precise estimate. I suppose that we could start with the proportion of Scotland that is likely to be covered by the Natura 2000 network of environmental designations, which is approaching 10 per cent. The Community has a special stake in the future of those areas, but most people would acknowledge that the special environmental areas go a long way beyond those areas. It would not be difficult, using environmental and disadvantage indicators, to put together a pretty convincing case that up to 50 per cent of the country should be covered.

16:00

The Convener: We are nearly out of time. I invite John Thomson to make any concluding remarks.

John Thomson: Many of the issues that we wanted to bring out have been raised already. I echo some of the points that were made by the representatives of the European partnerships about the recent experience with the evolution of European policy. For example, we were strongly in favour of the establishment of the rural development regulation. We still believe in that as a way forward, but we have been slightly taken aback by the relative inflexibility of its application. The combination of the audit-crazy approach at the European level, which has been mentioned, and the need to put together a programme quickly in Scotland probably meant that there was less opportunity for discussion or the application of imagination in the implementation of the rural development regulation. We discovered that some of the benefits that came in the past from the objective 5b programmes, which took an integrated approach, were beginning to be lost with the divergence of the rural development regulation and the structural funds. We want those two to be put back together through the partnership working at a regional level that has

characterised the structural funds until now.

We are keen to retain the European dimension, partly for the narrow reason that Europe got the environment on to the agenda in the first place, but more broadly, because we feel that the EU's encouragement of partnership working at the regional level and of community involvement has enabled the programmes to be as constructive as they have been. We do not want the situation to retreat into the more centralised and slightly ghettoised approach that was characteristic of national programmes in the past.

The Convener: Your comments were interesting and we will include in our report some of the suggestions that you made. Thank you for your written submission and for coming along today.

Community Initiative (INTERREG III)

The Convener: Item 2 on the agenda is our paper on INTERREG III. The clerks produced the paper as a result of a request from the committee for further information. Do members agree to note the contents of the paper?

Members *indicated agreement.*

Enlargement

The Convener: Item 3 is the Executive's response to the enlargement report. The negotiations with the accession countries are reaching a crucial stage and I understand that if negotiations are to be completed by the end of 2002, a considerable amount of work is still to be done. The chapters on regional and agricultural policy, which account for about 80 per cent of the budget, are still to be completed. The Commission is preparing responses to some of the issues that have been raised.

I invite Ben Wallace to comment on the Executive's response, which was generally helpful and positive.

Ben Wallace: I read the Executive's response a number of times. The only outstanding matter is that the Executive said that its access to the United Kingdom Government would allow it to be involved in the enlargement process, but there seems to be no notion that the Executive should be responsible for doing more. For example, the Executive could consult with candidate countries and their business sectors about the enlargement process.

Paragraph 99 of the Executive's response, under the heading, "Domestic Reform", states:

"The Executive has not encountered problems in obtaining information."

That might be so, but many other people have had such problems. I feel that there is still something lacking. The Executive's job is to find out what people are worried or happy about and to provide input on that.

The Convener: I regard the Executive's response as part of a work in progress, because enlargement will continue to be a big issue for the committee. The more we do to build alliances, benefit our businesses and build on trade links, the better. The committee should have a developing perspective on enlargement.

Sarah Boyack: I agree. Our discussion on the following agenda item could show how the committee could play a role in the enlargement debate, which would perhaps plug the gap that Ben Wallace identified.

I picked up from the Executive's good response a point that John Home Robertson mentioned earlier, which is that the CAP is fundamental to regional policy. We should log that point and return to it when we return to our report.

Mr Home Robertson: That point about the CAP cannot be over-emphasised. The Scottish Executive spends, nominally, more than £300

million a year of European money to support the rural economy. Any analysis would demonstrate that that CAP spending is an inefficient way of supporting the rural economy and any analysis needs to address that point.

Ben Wallace: Sarah Boyack made a point earlier about state-aid rules. Our report recommended that the Executive should promote direct transport links to the candidate countries. The Executive's response is that that is a matter for the private market and that we could get into difficulties with state aid. That is only partly true, but there are probably few people in Europe who understand the intricacies of state aid. That point brings us back to the new structural funding.

The Convener: Perhaps the matter is also about moving away from price supporting mechanisms towards rural development mechanisms which, I gather, are pillar 1 and pillar 2. I was surprised that the Executive did not state that it would prefer money to move away from price support towards rural development, which would be a positive move.

Helen Eadie: I, too, welcome the Executive's response, but I have two or three points to make. My first point is about paragraph 99. The committee asked for further investigation of practices and processes throughout the EU. I am a bit disappointed that the Executive's response did not say more about that particular point. I do not know whether members agree with my feeling.

My second point concerns paragraph 101 of the Executive's response. I thought that the European members information liaison exchange network currently met twice a year. The Executive states that it wants EMILE to meet regularly. I thought that the committee was asking for the situation to be enhanced by having EMILE meet more regularly than twice a year. I do not know whether that is a fair reflection of members' views.

My final point—I have a couple of others, but they are not as important—is about paragraph 102, on the development of the Scottish international forum. The Executive refers only to building relationships with different consulates. How are the committee, the Parliament and the Scottish Executive addressing that issue? Some of us meet consulates informally, but we need to think about what we do as a committee. That is not the Executive's responsibility—we are accountable for ourselves and can organise that internally.

The Convener: I thank Helen Eadie for those comments. I do not know whether Ben Wallace wants to respond to them. I met the Scottish Council for Development and Industry last week, to which Ben Wallace spoke about his report. I emphasised the committee's continuing

involvement in the enlargement process. I am keen to find out how Sachsen-Anhalt developed business links with Estonia through its Parliament. We could explore such regional partnerships.

Ben Wallace: I agree.

Helen Eadie: I would like to give a commercial for places on the European Movement's all-party visit to Estonia. Does anyone want to go? The one-week visit will cost about £700.

Ben Wallace: I thought that the visit was free. I was just about to say that I would go.

Helen Eadie: It is an educational visit.

The Convener: Consider the trip well and truly advertised.

Future of Europe (Scottish Parliamentary Forum)

The Convener: Item 4 concerns the idea of holding an autumn conference on the future of Europe, which would link with everything that we have talked about this afternoon. Members will recall that we asked the clerks to develop that idea and to bring proposals to the committee. We have a helpful paper that develops matters. I would be happy to hear members' comments. Otherwise, we can agree to the report and look forward to convening that forum in the autumn.

Ben Wallace: Sarah Boyack talked about this issue—is there scope for widening the forum? The paper says that we do not want to see just the usual suspects. If we make the scope too narrow, we will hear from only the usual suspects. If we included enlargement and the future of how Europe makes its decisions, we might have more participation and the forum might appeal to different people and different ages.

The Convener: I agree that we should not have only the usual suspects. I would like us to involve more young people in the debate. The future of Europe debate arises from the enlargement process—those matters are intrinsically linked. However, I do not know whether I want to call it a forum on the future of Europe and enlargement.

Nora Radcliffe: If we are not to have the usual suspects and are to involve ordinary people, the funding of attendance is important. If we want representative people from our communities, such as somebody from the women's institute, somebody from the playgroup movement or a local farmer—people who would not normally become involved in such an event because it would never occur to them to attend one—we will have to pay their expenses.

The Convener: That is a good point. We are considering a bid for civic participation money, which I believe is available.

Sarah Boyack: The idea in paragraph 22 is exciting. We could identify the people who would—if they were given the chance—be interested in participating in such a debate, rather than leave it to a high-level discussion. Everything in Europe pushes us to such involvement. We should bring in ordinary people who have views on Europe to have a proper discussion with us. I like the idea of inviting constituents to the event.

I will leave a question about paragraph 26. If we are trying to open up discussion and have a wider debate about Europe, it could be argued that having something like a discussion under the Chatham House rule—which allows people to

speak off the record—would do the opposite. However, it could also be argued that if discussions were hyped up and leaked, they would receive huge press coverage. I am thinking through what we are trying to do. Giving people extra political space to have discussions without everything being quoted verbatim can be useful, but the forum aims to make the discussion wider and obtain wide community, media and civic Scotland coverage and engagement. That is an issue to think about.

The Convener: I agree. There can be a parallel debate—that is almost inevitable—in which the usual suspects will probably be involved.

16:15

Helen Eadie: We do not need to exclude any of those suggestions. I agree with Sarah Boyack, but we should consider going out more into communities, rather than having everyone come to Edinburgh. There will be many reasons why people cannot come to Edinburgh. Perhaps we ought to think about going to places such as Inverness. We could take advantage of the Parliament's going to Aberdeen and have a wider forum event there—although that might be too late to organise—or have an event down in the Borders. We should promote Europe as part of our job. We should listen to people's concerns about it, engage with them and contrive ways in which we can work in a more positive way and share information about Europe. The proposal to have the forum is first class as a first step, but we should also consider going around communities.

The Convener: I can share the Health and Community Care Committee's experience in respect of the community care inquiry—Ben Wallace will be aware of what happened. We took the bulk of the evidence in Edinburgh, but individual members or small groups of members went out into local communities and held small meetings during the recess. That worked well. Members were tasked with taking information back to the full committee. Members acted almost as mini-rapporteurs. If members are willing to do that, there might be an opportunity to do so during the recess, particularly in their own areas.

Sarah Boyack: That is a good idea. Even those of us who represent seats in Edinburgh have found that people can still be put off from coming to the Parliament. We should get into people's communities because they can talk there. We should go directly to people rather than have them always come to us.

Helen Eadie: The issue relates to comfort zones—people are more comfortable in their areas and communities. The Parliament represents officialdom, bureaucracy and other off-

putting factors. It would be useful to think about that.

The Convener: Members of the Health and Community Care Committee went out in communities and invited representatives from forums of the elderly and all kinds of local community groups. That approach works well, but it depends on local members taking on a rapporteurship for a local area. Members of the Health and Community Care Committee were willing to do that and the community care consultation exercise was promoted in communities, which was important.

Nora Radcliffe: I want to pick up some threads from today's discussion. Community involvement exercises are good. John Home Robertson mentioned Europe not being too visible in his constituency, as a result of funding issues. However, there are European funding logos everywhere in the Highlands and Islands, as Christine May said. Perhaps we should prioritise areas that have not had the same direct benefits from Europe, in order to try to promote pro-Europeanism.

The Convener: In the Health and Community Care Committee, members were asked to take a geographic area, organise a couple of meetings in that area and assume responsibility for reporting back to the full committee. Perhaps we could do the same during the recess. That would be another way of taking the debate and the consultation out to communities.

Nora Radcliffe: Was the consultation conducted on a semi-structured basis? Was there a set of questions?

The Convener: Yes. We had a set of questions and we reported back to the committee.

Ben Wallace: I want to caution that, like it or not, Europe is a politically charged issue. The committee is not big enough to go across the regions. I am a Conservative and Nora Radcliffe is a Liberal Democrat and I am sure that we could raise a number of people to come to see us—our parties are dominant in the rural areas of the north-east. However, would we get enough people involved in the process?

I agree that it is right to have a forum. Perhaps the committee should meet outside the Parliament from time to time and have a public forum after a short, structured meeting. We meet on a Tuesday, so it would be possible to make a day of it. Perhaps we should have a convention. When Hugh Henry was the European Committee convener, he raised that idea. The cross-party group in the Scottish Parliament on cancer found a sponsor whose funding enabled it to hold an event in the Edinburgh International Conference Centre, to which 300 people turned up. It would not be too

difficult for the European Committee to do a similar thing. Perhaps we could get a private sponsor—I am sure that companies such as BT and other companies that are trying to project a European image and expand into the east might want to sponsor an event.

If we have a conference, we will need a certain number of people to create a dynamic. Of course, we might decide that we want a simple forum.

The Convener: The two are not mutually exclusive. I would envisage holding the forum in the autumn, as is proposed in the report. I would like each member to go—on a voluntary basis—to one or two communities during the summer recess at a time of their choice to invite community groups to give evidence to a forum that would be similar to the one that the Health and Community Care Committee convened. As I said, we would work on a voluntary basis. A group of two or three MSPs who were available on a certain day could go to an area that was geographically close to them, for example. We can think about that.

Dennis Canavan: There is a lot of merit in the ideas that are expressed in the paper, particularly paragraph 19, which refers to a sponsored day-long event in the chamber. We would need to ensure that the invitations were as open as possible and that we got a fair cross-section of people from various walks of life who have a variety of views on the future of Europe. That will allow cross-fertilisation of ideas and so on. It is more appropriate that the Parliament sponsor such an event rather than the Executive, which is suggested earlier in the paper. The Parliament has a duty to monitor the work of the Scottish Executive and, at times, to encourage criticism of it. People might feel restricted or reserved if the event was organised by the Executive.

If we deal with all the business in a plenary session, some people might feel a bit shy or reluctant to express themselves. It might be a good idea, if we get a good response, to split up into workshops that would deal with various subjects: one might deal with business opportunities in an enlarged Europe; another might deal with the governance of Europe; another might deal with human rights; and so on. A member of the committee could act as a rapporteur for each workshop and report back to a plenary session later in the afternoon.

The format of the event would depend on the number of people who wanted to attend and what their interests were.

The Convener: The idea of having parallel working groups is a good one.

Do we agree to ask the clerks to progress some of the ideas and expand the concept of the convention further to examine the possibility of

linking with local communities and adding in a couple of working groups?

Members indicated agreement.

Sift

The Convener: Item 5 deals with the sift of EU documents. The paper is fairly routine this time. Do we agree to note the sift document?

Members indicated agreement.

Convener's Report

The Convener: We have before us a letter that was due for discussion at our last meeting, but which members had not had time to read. It is from the Minister for Education and Young People on the idea of changing the schools curriculum in relation to the single currency.

Do we agree to note the letter and thank the Executive for its response?

Members indicated agreement.

The Convener: We have received a letter from the Executive on the proposal for a directive on environmental liability. I suggest that we note the contents of the letter and the continuing consultation and that we consider returning to the issue when the results of the consultation are known. Is that agreed?

Members indicated agreement.

The Convener: I want to update the committee on the parliamentary activities to mark Europe day this Thursday and to invite members to participate, if they are available.

Seven school groups are visiting from throughout Scotland. At lunch time on Thursday, pupils from primaries 6 and 7 will tell us about their views on Europe, take part in a quiz and visit the chamber. I hope that members will attend the member's business debate on Europe on Thursday evening as well. I am sure that we all welcome the fact that schools are interested in coming to the Parliament on Thursday. It is nice to see the next generation participating in Europe in that way. I am grateful to Stephen Imrie, David Simpson, Nick Hawthorne and Aileen McLeod for all the work that they have put into organising the events on Thursday and on the workshops with the children.

At the next committee meeting, we hope to take evidence from the Conference of Peripheral Maritime Regions of Europe. I remind members that a delegation from the Basque Parliament will be in committee room 1 on 15 May. I might be in Brussels on that day, but it would be good if other members of the committee could attend.

I thank members—and the members of the public who persevered to the very end—for their attendance.

Meeting closed at 16:27.

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