# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 27 June 2007

Session 3

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# **CONTENTS**

# Wednesday 27 June 2007

	Col.
Interests	11
Work Programme	12
PROPOSED ENERGY EFFICIENCY AND MICROGENERATION BILL	34
BUSINESS IN THE PARLIAMENT	36

# ECONOMY, ENERGY AND TOURISM COMMITTEE 2<sup>nd</sup> Meeting 2007, Session 3

# CONVENER

\*Tavish Scott (Shetland) (LD)

### **DEPUTY CONVENER**

\*Brian Adam (Aberdeen North) (SNP)

### **COMMITTEE MEMBERS**

- \*Gavin Brown (Lothians) (Con)
- \*lain Gray (East Lothian) (Lab)
- \*Christopher Harvie (Mid Scotland and Fife) (SNP)
- \*Marilyn Livingstone (Kirkcaldy) (Lab)
- \*Dave Thompson (Highlands and Islands) (SNP)
- \*David Whitton (Strathkelvin and Bearsden) (Lab)

### SUBSTITUTE MEMBERS

Nigel Don (North East Scotland) (SNP)

\*attended

# THE FOLLOWING ALSO ATTENDED:

Sarah Boyack (Edinburgh Central) (Lab)

# THE FOLLOWING GAVE EVIDENCE:

Graeme Dickson (Scottish Executive)

Jim Mather (Minister for Enterprise, Energy and Tourism)

### **C**LERK TO THE COMMITTEE

Stephen Imrie

# **SENIOR ASSISTANT CLERK**

Katy Orr

# **ASSISTANT CLERK**

Douglas Thornton

# LOCATION

Committee Room 4

# **Scottish Parliament**

# Economy, Energy and Tourism Committee

Wednesday 27 June 2007

[THE CONVENER opened the meeting at 09:00]

## **Interests**

The Convener (Tavish Scott): Good morning and welcome to the second meeting of the Economy, Energy and Tourism Committee in the third session of the Scottish Parliament. I ask everyone to ensure that their phones and pagers—if anyone still carries that obsolete technology—are switched off. Given that members all carry BlackBerrys, they should be switched off too. I had to reprimand one of my colleagues who sat playing with his BlackBerry for a whole meeting yesterday. I texted him to say, "Switch the damn thing off"—please do not write that in the Official Report.

Item 1 is a declaration of interests. In accordance with section 3 of the code of conduct, I invite Gavin Brown to declare any interests that are relevant to the committee's remit.

Gavin Brown (Lothians) (Con): I have been a director of a training company called Speak With Impact Ltd for about five years. I anticipate spending about a day a week with that company, for which I anticipate being paid between £10,000 and £15,000 per annum.

**The Convener:** Thank you. That is very clear, which we appreciate.

# **Work Programme**

09:01

**The Convener:** Item 2 is our approach to the committee's work programme. I welcome Jim Mather, the Minister for Enterprise, Energy and Tourism, and Graeme Dickson, whom I knew previously—it is nice to see you again, Graeme.

I propose to invite members to ask the minister questions on the three areas of his portfolio after he has made a few opening remarks. We are pleased that you have come to the committee, minister. We know that you have a busy diary and we appreciate your giving up time to appear before us with less than a week's notice.

The Minister for Enterprise, Energy and Tourism (Jim Mather): Thank you for those kind words. I am eager to engage with the committee, which can play a fulsome part in how we proceed with managing my portfolio and optimising results in its various elements, given the minority Government situation. You will find that we will engage with you regularly and will run an open book to get the best possible results.

We are pressing forward with the objectives that we have set of increasing sustainable growth and ensuring that it is translated into the various portfolio areas. We will engage with people who are working in those areas to help them to declutter and trim in this post-Howat era. We will involve them in a process of continuous improvement, which has worked well in the manufacturing industry and service sector, so I firmly believe that it can work well in government. What we do will be consistent with the core values that we have put in place of achieving a wealthier and fairer, healthier, smarter, safer and greener Scotland.

So far, we have made considerable progress. We have engaged five times with the enterprise agencies and three times with VisitScotland. On energy, we have had considerable engagement right from the outset. We went to the all-energy conference in Aberdeen in the first week of the new session. We are taking engagement to a new level now. That work culminated in an event in Glasgow on Monday—the first one that we have held—where we had 50 people from the energy sector in a room with a laptop computer, projector and mind-mapping software. We invited that community to tell us how the energy sector objectives could be formulated in line with the increased sustainable growth objective that we are setting ourselves. We spent the first half hour or so on that, which was useful. We then drilled down to look at the potential in the energy sector, which we had documented in a mind map, which I am happy to share with the committee. We then spent an hour and a half looking at the constraints, inhibitors and misalignments. We have ended up with an engaged sector, a better understanding of the issues and a better position from which to proceed.

After this meeting, we are doing the same thing with the enterprise sector, focusing first on the public sector element before engaging with wider stakeholders. We will then do the same with the tourism sector. That process is under way, and I look forward to sharing the information with the committee over the longer term. I look forward, too, to the committee helping me to discover how we can better measure performance and better ensure that we achieve continuous improvement.

The Convener: Thank you. We will start by considering the economy. Before inviting questions from around the table, I will kick off by drawing your attention to a quote from the Cabinet Secretary for Finance and Sustainable Growth. During the debate entitled "Wealthier and Fairer", he said:

"I confirm that our target for this session of Parliament is to raise Scotland's growth rate to the UK level by 2011."—[Official Report, 30 May 2007; c 194.]

You have just made that point. Would you expand on it, to give the committee a feel for what you hope to achieve in your portfolio over the next four years?

Jim Mather: The target is challenging, but we feel that we can achieve it. There has been a degree of latency in Scotland: for 40 years, we have grown at 1.8 per cent per annum while the average figure for the United Kingdom has been 2.3 per cent per annum. We feel that we can catch up and reach that higher level. We can create a climate for a trimmer and decluttered enterprise agency. We can also create a more motivated tourism sector-and I am talking about more than just VisitScotland, which has been very motivated and has stepped up with tangible targets. Tourism in developed countries is growing much more slowly than tourism in developing countries. Growth of 50 per cent in real terms by 2015 is therefore challenging, but I believe that we can achieve it.

Scotland will have to run both sides of its profitand-loss account. It will have to have revenueraising and tax-raising powers, so that we can create a genuinely competitive Scotland—moving on and achieving results beyond those already achieved. The legacy of 40 years of growing at a lower rate than the rest of the UK is that there is a real propensity for us to get up to the United Kingdom rate. I believe that we will achieve that.

The Convener: You have been fair and have expanded on what the cabinet secretary said, but

how did the Government conclude that that target was the right one to aim at? How, specifically, will you hit that target?

Jim Mather: I think that I have explained the first "how". We have had a period of lower growth than the rest of the UK, and there is a propensity to grow. I like to believe that the climate that we are creating—with a decluttered and trimmer Scotland—taken together with the increasingly inevitable implication that we will gain tax powers, will motivate more people to invest in Scotland, to come back to Scotland or to come here for the first time. From my personal dealings, I know a Canadian gentleman from Simon Fraser University who is coming back to Scotland, having left here in 1972, because he thinks that Scotland is now a happening place, which it was not in 1972; and I know an American gentleman from New York who is coming back because he thinks that things here are moving forward.

Could you remind me of the second element of your question, convener?

**The Convener:** It might be an unfair question, given that you have been a minister for only five weeks, but I am interested in the specific measures that you plan to take to increase the growth rate. As you have said, the target is ambitious.

Jim Mather: Specific measures include, for example, our business rates proposals, although we acknowledge their limits. We have to galvanise the elements of the portfolio—galvanise enterprise, galvanise tourism, galvanise energy. We have to get the key message across that the energy sector in Scotland has huge potential to create and retain more wealth.

There will be a small business bonus, which will take 120,000 businesses out of business rates. That will be another powerful element in boosting the economy. It will also send out an important signal: if we can achieve things with our powers over the business rates, think what we could do if we had further powers to create a virtuous circle and a more competitive Scotland that could grow its economy and its tax revenues over the longer term.

Brian Adam (Aberdeen North) (SNP): The convener rightly pointed out that you have already set a goal for the growth rate. Commentators often measure the success or otherwise of ministers on how much increased spending they deliver for their departments. Do you accept that criterion for success? If not, do you have other goals and targets by which the success or otherwise of your ministry might be measured? In particular, do you believe that there is a demonstrable link between inputs in your department and outcomes?

Jim Mather: Those are interesting questions. I have a disinclination for pork-barrel politics. I want us to achieve a better economic outcome for Scotland and I believe that we can do that by galvanising what we have just now. I believe that it is right and fair to get whatever pro-rata resource is available into the enterprise sector, but we must start focusing on how we achieve a much higher level of effectiveness and make it more contagious. Essentially, I want to VisitScotland and Scottish Enterprise's energy sector a bit more permeable, so that enthusiasm becomes contagious and more people are persuaded to invest their private sector money in building up Scotland's economic muscle, on the basis that there is latent growth potential, that people will come back, that we will gain economic powers in the fullness of time and that Scotland can achieve an enormous catch-up.

I sometimes play a "What if?" game and map out scenarios. For example, what if Gavin McCrone had produced a different report in 1972, had made it public and had set the heather on fire, with the result that we had the same growth as Norway's from the 1970s, with 50 per cent more economic growth and 50 per cent more gross domestic product than we currently have, an extra 800,000 working-age people in the economy and so on? I want signals to be sent out and a chemistry to be created that causes a chain reaction throughout Scotland.

**Brian Adam:** Can you spell out a little more how you plan to declutter the landscape? It is fine to say that that is an ambition, but how exactly will you do it?

Jim Mather: We start by mapping it. For example, there is Scottish Enterprise, Highlands and Islands Enterprise, VisitScotland, the Scottish Industrial Development Advisory Board, the Scottish Further and Higher Education Funding Council, local enterprise companies, local economic fora, metropolitan boards, Futureskills Scotland, Careers Scotland, community planning partnerships, local government economic development agencies and so on. We will map the landscape, then sit down with the professionals.

My use of the term "continuous improvement" implies, for example, the approach taken by Sir Gerry Robinson in doing his bit with the health service as shown on the BBC or the classic approach of people such as Deming in transforming Toyota, manufacturing industry and the service sector. The key is to involve professionals in continuous development. I want to work closely with the professionals in Scottish Enterprise, HIE, VisitScotland and, of course, the Government to start working on the change process.

People's natural inclination is to resent change, but that is usually because change is imposed on them. We will invite people to participate in change and work with us so that we can genuinely galvanise the whole structure in Scotland that seeks increased economic growth.

**Brian Adam:** I hope that they catch your enthusiasm.

Marilyn Livingstone (Kirkcaldy) (Lab): Good morning, minister. I have a number of questions on the skills agenda, because I have not heard you mention it so far. If we are to achieve the economic growth to which we all aspire, we cannot separate the skills and enterprise agendas. This committee must surely take a major interest in those crucial areas.

Following on from Brian Adam's question about decluttering and mapping, surely your mapping must include mapping what is happening in workforce development, at least. I want to hear your comments on that.

I have a number of specific questions. First, what role do you see the committee having in relation to the skills strategy, including workforce development and planning; modern apprenticeships; the group who are not in education, employment or training; and Careers Scotland? Those all have an impact on the agenda that you have alluded to this morning.

Secondly, what role will the local enterprise company network have in delivering and planning training and workforce development?

Thirdly, how will we involve local economic forums in progressing the skills strategy? In Fife, the Fife economic forum has played a crucial role.

Finally, further and higher education colleges have played a crucial role in Scotland's economic development. How will the committee have an input into that important sector?

09:15

**Jim Mather:** I trust that you know that there has been a change in alignment in—

**Marilyn Livingstone:** Exactly. That is why I ask those questions.

Jim Mather: I will work closely with Fiona Hyslop, who has responsibility for pretty much most of what you listed. I am working on the demand side, ensuring that we maximise the effectiveness of the enterprise agencies to grow the economy, increase demand and so on, and I am looking to her side to manage the process. She is doing exactly what I have been doing with the energy and enterprise sectors—that is, engaging with the stakeholders to formulate how to move forward. We have a strong aspiration for

the LECs to be merged with local government. As that goes forward, local economic forums might play a more proactive role, which I would welcome. I am looking to work in close cooperation with Fiona Hyslop on that. That is how we have worked in the past and it is how we will work going forward.

Marilyn Livingstone: On all those issues I am asking what role the committee will have. I do not think that you can split the skills and enterprise agendas, although I know that they have been split as far as ministerial portfolios go. I chair the cross-party group on construction, and I work with many local and national agencies. The committee must have a role to play in the skills strategy. Separating skills and enterprise is bad news for the economy as far as the committee is concerned. What role do you think we will have?

Jim Mather: I met representatives of the construction sector yesterday in the Carlton hotel and talked to them about an interesting phenomenon that is happening in Scotland. The financial services sector is coming forward as a self-nominating cluster. That follows on from what happened two weeks ago, when the aerospace sector came forward as a self-nominating cluster, and other sectors have volunteered themselves to be recognised as self-nominating clusters. I have promised that I will engage with them as we have engaged with the energy sector.

The committee should feel free to call Fiona Hyslop before it from time to time, to get her feedback. She and I will liaise closely on the issues to ensure that she is producing the skills and that we are producing the demand. It is just a different way of tackling the job, I promise you. We have a clear-cut view of it. The key thing for me is that we deal with the business community in Scotland, which has produced some great egalitarian success stories in recent years. People such as Tom Hunter, Jim McColl and Willie Haughey have a keen desire to fix the NEET problem, both by providing skills in later life for those youngsters and by engaging them properly in the education process at the nursery end. They will get my full support and they will galvanise me to make the connection, I promise you.

**The Convener:** Marilyn Livingstone has raised an important point to which we will return, both with the appropriate committee and with your ministerial colleagues.

Dave Thompson (Highlands and Islands) (SNP): I am interested in your views on how we develop our economic growth while, at the same time, reconciling any negative impacts on the environment. I am thinking specifically about tying in economic development with renewables, such as the carbon capture proposals for Peterhead

and the development of wave and tidal power, which are good for the environment.

Jim Mather: I got off to a good start in my post by being sent up to Aberdeen for the day and coming back again by car-using a BlackBerry in the back of a car is not conducive to good health. Going up there and attending the all-energy conference was galvanising and proved to me loud and clear the potential of economic growth to be compatible with a sustainable and improving environment. What I saw at the conference-I am keen to labour this point—was like a combination of the oil industry excitement that I experienced in the 1970s and the personal computer revolution in the 1980s. Large and small businesses were galvanised, motivated and funded in many cases to tackle the problem from lots of different standpoints.

I have a meeting next week with Professor John Kay, a native of Edinburgh who writes regularly for the Financial Times and is involved with the London School of Economics and Political Science. He wrote a wonderful book called "The Truth About Markets: Why Some Countries are Rich and Others Remain Poor". He talks about the need for what he calls discipline-diverse plurality, which was the nature of the all-energy conference. If we can make diverse plurality happen throughout Scotland, there will be lots of runners, some of which will fail, some of which will be hugely successful and some of which will be consolidated into bigger companies. There is enormous excitement. That is why, when we had a brainstorming session on the subject in Glasgow, we had 50 people in the room, many of whom had made that same journey to Aberdeen that I found daunting. They were all fired up as a result of that conference.

**Gavin Brown:** You mentioned business rates, which I have asked you about before. You will know from your business experience that what matters is not when the announcement is made but when the cut hits on the ground. Will you give us and finance directors a precise indication of when the business rate cut will hit, such as a month or a quarter?

Jim Mather: We would like it to happen sooner rather than later, but it will depend on the will of the Parliament. I will look to you and others to help us accelerate that date. As I said, the cut will have a dramatic effect on the down-at-heel parts of cities, rural towns and villages throughout Scotland. It will also impact more than just the retail sector—lots of small businesses will be affected. We are motivated to have that key signal in play and reflected in business rates bills, or the absence thereof, as soon as possible.

Gavin Brown: Assuming that you have the support and good will of the Parliament, which is a

possibility from our side, is there a target date for when the business rate cut will bite?

Jim Mather: As soon as possible.

Gavin Brown: I have another question on a different point. The target of matching UK growth by 2011 is bold. In advance of today's meeting, I read an excellent report from the Scottish Parliament information centre that mentioned a couple of anchors that could hold us back, some of which are quite concerning, such as what one might call the grass roots of business. Marilyn Livingstone mentioned one of them-the percentage of young people who are not in education, employment or training. The other ones that concern me are expenditure on research and development, which sets a path for the future; the number of business start-ups, which is a big concern, because if we do not set up more businesses than other places we must ask how we will keep going; and exports as a percentage of GDP. Those are big barriers at one end of the business spectrum. Do we have specific plans to tackle them?

Jim Mather: Yes, but they are within our currently limited powers. The core problem with expenditure on R and D and business start-ups is our lack of tax powers. A smaller number of head offices and business entities have their fiscal footprint fully in Scotland than is the case elsewhere, which means that we have less private sector R and D, in particular, than elsewhere. I have immediately focused on those key issues, because they are important. When I compare and contrast those issues with some of the measures in "A Smart, Successful Scotland", I find the former more compelling. We must start to focus on them, because focusing on the numbers and measures in the first instance takes us a good step towards improving them. I will go through each of them in sequence.

On NEETs, we have the following wind of the business community and education, both of which recognise the issue. We were enlightened when James Heckman came to Scotland as part of the Allander lecture series and gave us a road map of how to solve the problem at the earliest possible stage and on a cost-justified basis.

Expenditure on R and D is a difficult issue, given the relatively small number of head offices in Scotland, but through the enterprise agencies we will make people clearly understand the absolute link between spend on R and D, economic growth and the creation of valuable jobs.

On business start-ups, we will ensure that we galvanise the process and make it more focused, so that we have a crisper mechanism for young businesses to engage and get started.

On exports, we have a chance to put Scotland on a higher platform, to broadcast Scotland more, and perhaps to engage with the diaspora to a greater extent. There are 29 million people abroad who are susceptible to Scotland. Yesterday, I talked to Gavin Hewitt and Campbell Evans of the Scotch Whisky Association. I said that their aspiration should be for all of those 29 million people to have a bottle of malt and a bottle of blend in their homes, not just as customers but as marketing outlets.

We have the propensity to start bringing Scotland's light out from under a bushel and augment the brand, which is important. Professor Michael Porter, working for Scotland the Brand, identified that Scotland is one of the 15 or 16 countries on the planet that mean something to people, and that we have a great reputation for integrity and reliability. If we can get that integrity and reliability into everything we do, make it synonymous with Scotland and connect with the community, we can start to move forward on the export front.

**The Convener:** That was an interesting comment on bottles of whisky, but we will leave it for the health ministers to sort out.

**Jim Mather:** The Italians have been selling Strega and Chianti on the same basis for many years.

**The Convener:** Indeed, and rather successfully too.

Jim Mather: Exactly.

lain Gray (East Lothian) (Lab): I hear what the minister says about a contagious chain reaction of enthusiasm, but our experience is that the market sometimes fails in a number of areas, such as investment in R and D and the availability of venture capital for early investment in innovation-driven new businesses.

I take Mr Mather's point about his view of the limited powers that he has. Nevertheless, "A Smart, Successful Scotland" introduced a range of interventions in the market in relation to productivity, R and D and venture capital. For example, we have the proof of concept fund; the Scottish co-investment fund, which was designed to lever in the investment that we know we need; and similar measures with regard to business start-ups. It is still not clear to me which of those interventions Mr Mather believes are worth while should be continued and what new interventions he is considering, to try to raise the significantly low levels of, for example, investment in R and D. The SNP has spoken about a Scottish investment fund, but I am not sure what its form or purpose would be. I would like to hear more detail on the interventions that the minister believes he can make within his powers.

09:30

Jim Mather: There will be an attempt to rationalise, streamline and tidy up the present interventions to make them simpler to understand and more universal in purpose; to try to make them more effective; and to ensure that their outcomes can be more effectively monitored. I want a running total of how much we have invested through, for example, the co-investment fund and the intermediary technology institutes; how much private sector money has come in; the net total of jobs that have been created; the valuation of that investment; and the turnover of the companies.

Although such monitoring and control will increase the process's integrity, I feel in my heart of hearts that we need to understand how market failure and the lack of venture capital might be related to the fact that Scotland does not have the financial powers to create a uniquely competitive proposition. I have always been taken by Charlie McCreevy's simple explanation of Ireland's success. He said that it had four steps: first, you have to become as competitive as possible; secondly, you have to sharpen your pencil; thirdly, you have to invest as much as you can in skills and infrastructure; and, fourthly, you have to get as many people as possible into the world of work. At the moment, the lack of such a dynamic is damaging Scotland because, in the absence of that four-card trick, other things begin to happen. For example, instead of people staying in Scotland, they are leaving for better opportunities elsewhere. We have to play the ball as it lies, but we will rationalise the tools.

As for the Scottish trust for future investment, it is aimed mainly at finding a more effective, more open and accountable and better value mechanism for investing in public sector infrastructure.

lain Gray: You mentioned in passing that investment in infrastructure is one of the ways in which we can facilitate possibilities for economic growth within the powers that we have in Scotland. How will you take forward the central objective of increased sustainable growth through, for example, the Administration's transport policy? After all, there is a transport debate this afternoon, and some of us feel that the Administration appears not to support one particular infrastructure project—the Edinburgh airport rail link—that would have significant economic benefits for business.

Jim Mather: We will look at the numbers associated with that project as we go into the debate. I ask you to compare and contrast our current position, in which we have to deal with a relatively limited, but potentially endless, list of infrastructure projects with very limited capital, with the position in Ireland. In their national

development plan, the Irish will spend €184 billion between 2007 and 2013—or £20 billion a year for six years—to build up their economic muscle.

**lain Gray:** Given your responsibility to drive economic growth, which infrastructure projects will you support in that relatively limited list?

Jim Mather: I will discuss the issue with colleagues and make my views very clear to them, but I will not attempt to second-guess them. I see the link between infrastructure and increased economic growth and, indeed, acknowledge the wonderful benefits that can emerge from investing in infrastructure rather than in other areas. For example, with the whisky and tourism industries, infrastructure investments are rooted in place and cannot be removed at the stroke of a pen. The smart, successful Scotland approach does many of the right things that other countries are doing, but if Scotland does not have tax powers, the policy's key by-products of smart people, intellectual property and fledgling companies can dramatically disappear at the stroke of a pen.

The fact is that far too many of our best and brightest are still going abroad. When I was giving my PowerPoint presentation around the various boardrooms, a gentleman very much at the top of the financial services food chain told me to go back and rethink my figure for the talented, qualified Scottish graduates who are leaving Scotland, because we are, in fact, losing a much higher proportion of graduates from our best universities and courses.

I am looking to ensure that, over the piece, this Scotland of ours has the mechanism to root in Scotland for the long term more of the wealth that is created in Scotland. I and my colleagues will be in proactive mode on infrastructure projects.

Christopher Harvie (Mid Scotland and Fife) (SNP): My questions are on three general areas. The first concerns growth rates and the associated issue of social capital. The second is about cooperation with European high technology regions. For the past 27 years, I have served as what is gloriously called an academic consultant to the Government of Baden-Württemberg. I was in a position similar to that of a dancing master at court: an employee of the king, who in this case was the first minister in Stuttgart. Thirdly, I want to look at peak oil, which is a wild card that might well impact on us in the next few years, or even months.

On social capital, we all talk about growth in general terms but, oddly enough, no one talked about it before the second world war. It was only then that we got national income statistics. No one has gone back to looking at the distinction between the growth of public goods, as Adam Smith would have called it—and we ought all to

look to Adam Smith today, on Gordon Brown's birthday, so speak—and his murky duo of 18<sup>th</sup> century figures, luxury and corruption, which come on stage immediately after.

In the time we have available, I would like to find out about some basic economic research into the areas of the Scottish economy where growth is genuinely sustainable. We have a booming recreation and entertainment sector, but we have to subtract from that the expenses of accident and emergency because, too often, entertainment means exactly what we know it to mean—a huge burden on the public purse. I would like the department to judge what growth in the net sense turns out to be.

Secondly, I am very glad that the minister has John Kay onside, because he was the man who described Gordon Brown's economics as somewhat close to those of Haiti. He is of my generation of the Royal high school; a good man and a good thing.

I will bundle my questions and throw them at you. We should be looking more at co-operation with high technology European regions, of which Baden-Württemberg is the most prosperous. Various comments made by the British chancellor about the superiority of the British economic order to that of Germany use the complete size of the German economy, including, of course, the euphemistically named neue Bundesländer. Baden-Württemberg's growth rate is well ahead of them.

Nine per cent of people coming out of school in Baden-Württemberg do not have further employment, education or training. In Scotland, that figure is 25 per cent. I worked with a lot of those people. Some years ago, I was chairman of the Baden-Württemberg forum on postgraduate education—

**The Convener:** Chris, we are pressed for time. Could you focus in on a couple of questions?

Christopher Harvie: The Baden-Württemberg Government will be worried about the nature of infrastructural investment in the same way as lain Gray. It has developed a remarkably fine public transport system, but I am afraid I do not see a parallel development in Scotland.

On peak oil, various estimates of where our falling supply and rising demand for oil are going to lead us suggest that a \$200 barrel is possible within the next five to 10 years. That means a £12 gallon of petrol. What will the impact of that be on the Scottish economy?

**Jim Mather:** Right. I feel like I am a student back in Tübingen now.

**The Convener:** Your answer does not have to be as long as the question. We have only 20 minutes left.

Jim Mather: I will start with the point about social capital. Last week, I attended an event in Rothesay that was looking at building up social capital on the west coast. I was galvanised by the presence of a lady called Kate Braithwaite from the Carnegie UK Trust, who has the answer to how we bring communities together, get new businesses embedded in communities and move things forward.

There are already some noble experiments in Scotland, with ideas about community-owned heritage centres, ferry facilities and nursing homes. I can see how we could build on that. For me, the wonderful dynamic of that, especially in the current climate, is the fact that those things are rooted in place. They enhance quality of life and create a virtuous circle with a propensity for spinouts, which can move things forward.

I am very open to ideas of co-operation. There can be a tendency to co-operate in the short term, linking with the Scottish diaspora in the first instance, as they could be said to come preloaded. When I talk to members of the Clan Donald Society in Glencoe, for example, who are interested in battles, blood, genealogy and so on, I find that their society is in fact one of the fingerprints that shapes where Scotland comes in the world. When we talk to them, not as individual MacDonald clansmen but as, say, Captain MacDonald from Toronto or John MacDonald from Adelaide, they want to get their tuppenceworth in and to move things forward.

Are we open to new ideas? Absolutely. The Deming approach, which I adhere to greatly, involves a worthy goal, a commitment to perpetual improvement, the involvement of all stakeholders, having the whole process under statistical control and getting ideas in from outside. However, those ideas from outside must be consistent with the goals. Otherwise, organisations could lose the plot.

I see the peak oil issue as an opportunity for Scotland. There is further evidence that, with diminishing supplies, the value of oil will increase. The leverage that the people of Scotland will have with that commodity increases. Very excitingly, the viability of opening up west-coast oil fields becomes realistic. In the meantime, it makes an immense amount of sense to press ahead with renewable energy, clean coal technology and so on. At \$200 a barrel, we might want to do something more clever with oil than burn it.

**The Convener:** I call David Whitton and thank him for his patience.

David Whitton (Strathkelvin and Bearsden) (Lab): That is quite all right. "Galvanise" seems to be a favourite word of yours, minister.

Jim Mather: Yes.

**David Whitton:** We have heard you use it several times. When are you going to galvanise the Parliament into action by launching a legislative programme that we can have a look at? What does your decluttering and trimming mean for Scottish Enterprise? You said that you have had five meetings with Scottish Enterprise. Does that mean that you have set a timetable for shutting it down? If so, what is it?

You have spoken about local enterprise companies and the Scottish National Party's policy of rolling them into local authorities. Basically, that means neutering Scottish Enterprise as it stands at the moment. What is the timetable for that?

**Jim Mather:** Such negativity, David. As far as legislation is concerned, it will happen when the Cabinet decides on the legislative programme and brings it forward.

David Whitton: When will that be?

Jim Mather: We will know in due course. The process is under way. I note Alex Neil's responses to that point on "Newsnight" last night. They will give you a clear idea about how similar our position is to the one that you and yours were in back in 1999 and then in 2003. It will happen when it happens, and you will hear about it, the programme having been ratified by the Cabinet.

Scottish Enterprise is pretty much the only tool in our box. Are we going to shut it down? Absolutely not. We are going to declutter it and we are going to galvanise it. We are going to encourage Scottish Enterprise to make itself much more focused and effective. We want it to enjoy better results and a better press from a demanding business community. That is the key thing. We will give the professionals in Scottish Enterprise a chance to genuinely shine and to focus, ensuring that there is a nice division between what the business gateway does and what Scottish Enterprise does, so that the right focus and engagement are achieved.

I refer to the suggestion from Chris Harvie about learning from those who have had a second run at the process. We can see how the Finns are managing their process and how the Irish are managing with Enterprise Ireland.

The LECs will be merged with local authorities. We are determined to do that. In essence, we will empower local authorities and achieve a better and closer alignment with what happens locally. We will give them the data so that they can measure the statistical impact of changes in the working-age population in their areas. Does that

mean that we will still have regional offices of Scottish Enterprise to deliver on that which really belongs to Scottish Enterprise? Probably, yes. Does that mean that they will link more closely with the local enterprise forums? Probably, yes.

As I said at the outset, the key point is that people resent having change imposed on them. We want to work with the professionals, who have solid goals and objectives, to get to a better place, as far as possible under their steam and their stewardship.

09:45

**David Whitton:** It is interesting that you accuse me of negativity. If I recall rightly, Alex Neil, who is a member of your party, attacked Scottish Enterprise because of an underspend or an overspend, I cannot remember which. Anyway, I will put that to one side.

You mentioned the on-going business gateway tendering process. Can you bring us up to speed with the latest on that?

Jim Mather: As you would expect, we are conducting a close review to understand exactly what has happened across the piece and the experience of the various subcontractors. We want to understand the effectiveness of the new web service, which looks interesting and which creates a new climate that will make things easier for startup businesses. We should remember that it is in the nature of such businesses that they involve younger people who are already web enabled. New mechanisms are being put in place. We seek to ensure that, as that process continues, the key focus is on maximum value for the taxpayer's pound and a really motivated community in the business gateway. As the business gateway is the reactive part of Scottish Enterprise, it needs to be as reactive as possible and as encouraging to progress as possible. We want people to introduce ideas that are working elsewhere.

There are some noble experiments going on in Scotland just now, such as those involving the Sirolli movement, which is based on the guy who wrote "Ripples from the Zambezi". Have you come across that?

David Whitton: No.

Jim Mather: Sirolli is an Australian who tried to get economic development going in the Zambezi. He persuaded folk that they needed a cash crop and he gave them tomatoes, but then came the ripples from the Zambezi: hippopotami that ate the tomatoes. He came to the conclusion that we should never initiate a new project with potential entrepreneurs and should never motivate them artificially. Instead, we should find out the viability of projects and, once the viability test has been

passed, facilitate the entrepreneur and ensure that they have a balanced team and funding in place. I want to inculcate that culture in future.

**David Whitton:** Okay—we look forward to seeing hippopotami all over Scotland, although not eating tomatoes, I hope.

Jim Mather: The absence of hippopotami.

**The Convener:** I will finish the questions on the economy, after which we will go quickly on to energy and tourism.

I understand that you probably do not have the authority to tell us when a legislative programme will be put before Parliament, and cannot do so. I appreciate that you are constrained in relation to the date, but I would like to know whether the committee can expect any proposed legislation. If I understood your answers to David Whitton, Iain Gray and Gavin Brown, you will not reform Scottish Enterprise through legislation. Is the committee to expect any proposed legislation in the economy portfolio area in the next year?

**Jim Mather:** There are proposals in the hopper, but paragraph 3.2 of the ministerial code states:

"Ministers should not give undertakings either in or outside the Parliament to introduce primary legislation on any issue without the prior agreement of the Cabinet."

I apologise if I appear coy, but I want to watch my p's and q's. I want to focus primarily on the governance and stewardship of the entities that are covered by the portfolio, as that will give the committee and the Government more justified focus in the short to medium term to get the cultural change through and to give a degree of comfort to the senior management of those organisations and the people throughout them so that all the stakeholders believe that there will be a new approach. More important, the stakeholders outwith the organisations, whether that is guest houses, in relation to tourism, or small or large businesses, must feel that we are working with a common cause.

**The Convener:** That is very helpful. I think that I can read the code in all that—it is clear to me what you are saying.

Shall we go in reverse order for questions on energy and tourism, starting with David Whitton? And can we keep it snappy as we have only 10 minutes left? Questions to the minister should be short.

**David Whitton:** You are making a big play about renewables and what they can do. What plans do you have for developing the Saudi Arabia of wave power that awaits us in the Pentland Firth?

Are you really going to change the name of VisitScotland and waste millions of pounds of public money?

Jim Mather: Let us start off with the Saudi Arabia of tidal power, which we will build on pretty dramatically. What was interesting in the session in Glasgow on Monday was that wave and tidal power-tidal stream energy in this instancedominated the conversation when we spoke about the potential. It received a lot of focus, and there was a huge amount of interest in it. We intend to facilitate that development and press forward in every possible way to make it happen. I will make a point of getting myself up to Orkney to see the European Marine Energy Centre, having met people from it and having had an extensive conversation with them at the oil energy conference. I will see how that facility can attract more developers and more new technologies that are liable to make the harvesting of that energy a reality.

I am keen to get the message across on tourism—and on enterprise and energy—that the Government is not going to throw any babies out with the bath water. The "Welcome to Scotland" soubriquet is more likely to be the message that we put across to people as they land in Scotland. It might well eclipse slogans such as "Pure dead Brilliant" down at Prestwick airport or "best wee country in the world". It will create an atmosphere that ensures that, once the visitors from around the world are here in Scotland, they are genuinely made welcome. It will also put down a marker that will motivate everybody in the tourism industry and in the generality of Scotland to be more welcoming to visitors who are substantially bolstering an enormous element of the Scottish economy.

**David Whitton:** Yes, but VisitScotland is a brand, not a slogan. A lot of money has been invested, and you said yourself that Scotland is one of the 15 or 16 countries around the world that mean something to people. VisitScotland is building on that brand, and you are just going to throw it away.

Jim Mather: You will be able to go back and look at the *Official Report* for my earlier statement. I said that we are not throwing babies out with the bath water. We will use "Welcome to Scotland" more as the message once people have landed here. The VisitScotland element will sit nicely nested in as a key part of our overall enterprise strategy while retaining autonomy to leverage that brand.

Christopher Harvie: I have two points about tourism. First, we are running a huge deficit in tourism, as far more people leave the country than come here. We should tackle that—people ought to be induced to do much more of their tourism activity at home. Secondly, we have an enormous

opportunity because the Alps are melting. The Swiss tourist season is one third down on what it was, and Europe's craftiest tourism entrepreneurs will be looking for new places to develop. We ought to be in touch with them.

Jim Mather: Excellent points. The low-hanging fruit for tourism in rural Scotland are the people in the central belt and the cities, and the low-hanging fruit for tourism in the cities are the people in the rural towns. We need to work hard on that, and I am keen to do that. I am also keen to bring the diaspora back to Scotland more.

If we can motivate individual guest houses, hotels, golf courses and so on to be part of the process to meet Philip Riddle's target for a 50 per cent increase in revenue in real terms by 2015, and if we start tooling up and investing for that, we will not only meet the target easily but ensure that those people are building businesses that will grow exponentially.

lain Gray: You said that a strong message came through from the energy stakeholders meeting that you attended about the potential of marine and tidal energy. I am sure that it did, but what messages came back from the stakeholders about the timescale for developing a large, commercial-scale base-load offering security of supply—as opposed to intermittent supplies of energy—about the grid and network investment that is required, and about the role of nuclear power?

**Jim Mather:** Lunar Technologies said that it would have a 1MW system up and running by next year. There was momentum and a feeling that the system was entirely scalable and that it would change—

lain Gray: But we are talking about a potential of 20GW.

**Jim Mather:** Sure. I understand that. Lunar Technologies thought that, having got what was essentially a demonstration system up and running, investment flows would be forthcoming. We will watch what happens, pay close attention to it and encourage developments. Indeed, I will visit Lunar Technologies.

As I said vis-à-vis John Kay, we are seeing an industry waking up to the fact that the Government is avowedly anti-nuclear and is looking to grow renewables of all sizes and shapes and to develop technologies such as clean coal technology. The Government is looking to create a climate that makes investment in such things more lucrative. Recent developments are making the likes of combined heat and power systems much more lucrative—I refer to the recent United Kingdom white paper and the changes in renewables obligation certificates. The beauty for us is that we are talking about investments, long-term revenues,

incomes and jobs that are rooted in Scotland. Therefore, we will give such technologies every encouragement.

**Gavin Brown:** You have again said that you have ruled out nuclear power as an energy production method, but it produces between 25 and 35 per cent of our energy output, depending on what one reads. Replacing nuclear energy entirely by energy from renewables is a tall order. By percentage, how much will be replaced by wind power, offshore wind power, tidal power, wave power and energy from microrenewables?

Jim Mather: That is a bit like asking somebody in 1974 exactly what the future make-up of the computer industry would be in terms of desktop PCs, servers, mainframes, mid-range computers and so on. There is a hungry market that is determined to take advantage of things. You would have seen tangible evidence of that if you had been with me at the all-energy conference there were 500 people in the room even for one of my speeches. Something material is happening not only in Scotland—it is happening in California, Michigan and Pennsylvania. Our big advantage is that, because Scotland has won the lottery of life on renewables-on wave, tidal and wind powerthere is a material propensity to attract investment dollars here to get better returns in those fields. We must encourage such investment in every way that we can.

That takes us back to Chris Harvie's idea of engaging with more people. Websites show that massive things are happening in Pennsylvania, Michigan and so on. Michigan is landlocked. Members may therefore be interested in making a side bet on Scottish wave and tidal energy.

**Dave Thompson:** I want to ask a couple of questions about tourism. First, will you comment on the impact of public bodies on local businesses? I am thinking about bodies such as Historic Scotland, which runs visitor centres, and the possibility that such bodies could have a detrimental effect on small local businesses in the vicinity.

Secondly, on reading the SPICe report on tourism, I found it interesting that a major constraint on the development of tourism is the part-time and seasonal nature of employment in the tourism industry and the low wages that are paid in it. Will you comment on that?

Jim Mather: Those are interesting questions. I am keen to persuade Historic Scotland that it is part of the wider Scottish economic system, that its offices are part of communities' economic systems, and that it has a duty of care to help to maximise the effectiveness of local economies. I am looking for cohesion. I do not want to see islands of Historic Scotland activity; I would like to

see it mesh in with the communities and allow the communities to be all that they can be. In Mull, I carried out an exercise that was similar to the one that we carried out for the energy sector. The cri de cœur from the people of Mull was that they wanted to be meshed in and for Caledonian MacBrayne, VisitScotland and Historic Scotland to play a more important part with them. I am keen on that.

### 10:00

I am also very hot on constraints these days. My thinking is that, although we keep trying harder, there is sometimes a case for trying at the same level but removing some of the constraints. In that way, things can really change. I am of the Jean Urquhart school on constraints. Wearing my tourism hat, I should deny the existence of a tourist season and start to sell Scotland as a place for all seasons. I am thinking of a place such as Drumnadrochit in the wintertime and being able to get out and walk on a frosted path for just long enough to justify lingering over a dram in front of the fire and enjoying a quality meal—and the full benefit of the central heating, the hot water and the duvet.

**Graeme Dickson (Scottish Executive):** I do not think that you need VisitScotland, minister.

**The Convener:** Given the current weather, I agree that we should deny the seasons.

Marilyn Livingstone: My question is on the theme of constraints. If you speak to people in the tourism sector—as I am sure you do—they will tell you about the need for a skilled workforce and the difficulty in getting young people to work in the sector because of its image. I would like to hear your views on that.

Another issue, especially in the east of Scotland, is the lack of infrastructure. If people are to come off the bypasses and motorways and into places such as my constituency, infrastructure needs to be addressed. As lain Gray said, infrastructure for us is a new bridge, a rail link and trams. Without the hub of the rail link, the constraints will continue to exist.

I would also like to hear a lot more about clean coal technology. What research has been done on that, and what impact do you think such technology could have on the environment?

Jim Mather: The need for a skilled workforce and the need for adequate infrastructure are linked. Successful countries and companies that have solved the problem in the past have done so by unleashing an era of perpetual improvement. They have sought to ramp up and improve things gradually. Given that we currently have suboptimal outcomes, we should just roll up our sleeves and

get to work. It helps very much if we are able to take the competitive approach that Charlie McCreevy put in place. It also helps if we can retain our skilled people and have competitiveness in businesses, so that average wages can increase and staff can be motivated and retained. In that same climate, it helps if Government has the ability to be rewarded and to reward people for doing the right things in terms of accumulating surpluses and having more money to reinvest in the infrastructure. For example, of the €184 billion that Ireland will spend on its economic muscle over the next six years, only €3 billion will come from Europe. The Irish have turned the tide right round.

Clean coal technology is exciting, and I am delighted to see that Scottish Power/Iberdrola is rolling up its sleeves and showing enthusiasm to get into it. It plays to Scotland's strengths, given our coal reserves, and promises to keep more of the wealth that is produced in Scotland in Scotland. If what we pay for our energy consumption rewards people who produce coal in Scotland and Scotlish energy companies, more money will stay in Scotland to be reinvested in Scotland in the long term.

Currently, Brian Adam: Scottish the Government has power over things such as renewables obligation certificates, which will have a big influence over the direction that renewable energy takes. Have you any plans to encourageas you describe it—a wider diversity in renewables using the mechanism of ROCs? To what extent do you think that the current arrangements for access to transmission lines and the costs associated with that—particularly the ones that are driven by the Office of Gas and Electricity Markets-are a significant constraint on the development of renewables? What steps do you plan to take to address that with colleagues south of the border?

**Jim Mather:** We have already taken steps on ROCs, and we are reviewing the latest output from the UK energy white paper, which has dramatically changed the proposition of combined heat and power. We will look beyond that to the whole panoply of renewables.

Ofgem was at the head of the list in terms of infrastructure issues, transmission charges, and so on. When we got down to the inhibitors, at our meeting in Glasgow on 25 May, happily, Ofgem was in the room and it is now engaging. We will continue to keep the pressure on the UK Government to amend Ofgem's remit to make it more compatible with maximising the potential of renewable energy in Scotland in the next phase.

**The Convener:** I am pleased to hear that last answer. That is very helpful.

I have a final question on renewables, which my colleagues have asked about this morning. My understanding is that there is to be a moratorium on onshore wind farms for the next year. Am I right in thinking that, or has the position changed? It would be helpful to know what the Government's policy is on onshore wind farms.

**Jim Mather:** The position is best described by the words that the First Minister used—not at any place at any price. However, there will be projects that are compatible with local interests, in which local participation will be a key element, which will deserve to go ahead.

The Convener: Thank you for your time this morning. We will review the evidence that you have given us and will write to you with any questions that we have. We are grateful for your attendance this morning. Thank you for taking time out so soon in your new ministerial position.

We will take a five-minute comfort break. I suspend the meeting until 12 minutes past 10.

10:07

Meeting suspended.

10:13

On resuming—

# Proposed Energy Efficiency and Microgeneration Bill

The Convener: We said that we would resume at 12 minutes past 10 and it is now 13 minutes past, so we will carry on with item 3, which concerns the proposed energy efficiency and microgeneration bill.

I welcome Sarah Boyack—it is funny to see these role reversals—to the committee to speak to her statement of reasons for not consulting on her proposed bill.

Sarah Boyack (Edinburgh Central) (Lab): Thank you, convener. I am grateful to you for placing the bill proposal on your agenda before the summer recess.

I will recap for colleagues. Consultation on my proposal took place between December 2005 and March 2006. In putting the consultation together, I took advice from the Parliament's non-Executive bills unit—I have Rodger Evans from the unit with me this morning. Those of you who are long in the tooth as members or who lobbied the Parliament before you arrived here know that NEBU dealt with scores of consultations over the past two parliamentary sessions. We analysed consultation, which some of you will recognise. We summarised it last year and published the paper on the Parliament's website. All the individual consultation responses are held in SPICe, so they are available for members to look at if they want to.

10:15

My view is that to consult again at this stage would not add to our knowledge and would only serve to duplicate the work that I and others who have been interested in the subject have undertaken. In line with the requirements of the standing orders, I have lodged a draft proposal for this session and have prepared a statement of reasons, which has been circulated. I hope that members have had a chance to study the statement, which is a technical statement of why I consider further consultation to be unnecessary at this stage.

The original consultation was presented clearly and undertaken thoroughly in accordance with advice on best practice. Ample materials have been published on the issues by me and others. Responses to the consultation widely support the use and promotion of microenergy and energy efficiency initiatives, as suggested in the bill proposal. Strong parliamentary support was offered, too. My final proposal had support from 43

members from the Labour, Liberal Democrat, Green, SNP, Conservative and independent groups. That is a strong indication of cross-party support.

The proposal is essentially the same as it was before. We have adjusted it in a minor way to reflect Executive policy initiatives that have taken place in the meantime. To consult again would duplicate the work that has been done. Since we did the consultation, an awful lot of work has been done to move the policy proposals forward; ideas have been suggested to the Executive and work has been done on the proposals with all the groups that responded. Therefore, we are in a good position to make proposals to the Parliament should the committee allow us to continue with the proposed bill.

**Brian Adam:** Little would be gained from further consultation. We should be satisfied with the statement of reasons that has been provided and the proposed bill should be allowed to proceed to a final proposal.

**The Convener:** I do not wish to prevent anyone from asking questions, but is anyone against the proposition that Brian Adam put?

Members: No.

**The Convener:** That is fine. Members have no more questions.

**Sarah Boyack:** That is super. I talked to colleagues before the meeting started and I can say that I would be more than happy to have a relatively informal briefing after the recess to bring people up to speed with where we got to and the key issues, before we have the final proposals. That would allow new members in particular to feed in any ideas. I thank the committee for considering the proposal.

The Convener: Not at all—thank you.

# **Business in the Parliament**

10:17

The Convener: Item 4 is on the business in the Parliament conference. I am sure that all members will have had a chance to peruse quickly the paper that was circulated. I look for clearance or a steer from colleagues on two issues. We are looking at February next year for the conference. The event's theme is business, sustainable growth and climate change. With agreement, we can get on and make arrangements with the Executive through the appropriate minister. Working that out is proving to be an exciting little challenge, but we will get through that in due course, as we saw earlier.

Do members have any questions on the general proposition in Katy Orr's paper?

**Gavin Brown:** Are we so far down the track with the title that that is that?

The Convener: No.

Gavin Brown: The paper says that the theme should closely match the business audience's priorities. As a business owner, I have attended one or two such events, which were pretty good. If we quizzed 100 businesspeople on the main challenges that they face in running their businesses, I question where climate change would figure in that list. I suspect that it would figure in some responses. In the questions that we asked the minister about the economy, climate change figured once or twice, but not heavily. Should climate change be the main theme? Is it more appropriate as a sub-theme for when delegates break into six or seven groups? To have climate change as a subject for one of the seven groups would be appropriate, but I question whether it should be the conference's overarching theme.

The Convener: That is a fair point. I understand from my predecessor that the theme came from feedback after the previous business in the Parliament conference and from pretty significant discussions with the Confederation of British Industry Scotland and other stakeholder bodies. I assure you that the theme was not suggested by MSPs; business organisations pushed for it.

I agree that the title is not the most desirable that we might have. I had a brief informal discussion with Jim Mather about it and he expressed the same view. We will consider that and come back to members in the summer. By the away day, we will have that nailed down.

If members are broadly content, I take it that we will proceed on the basis of the couple of bullet points in paragraph 7 of the clerk's paper. I thank members for their attendance.

Meeting closed at 10:20.

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