

TRANSPORT AND THE ENVIRONMENT COMMITTEE

Wednesday 2 May 2001
(Morning)

Session 1

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TRANSPORT AND THE ENVIRONMENT COMMITTEE

12th Meeting 2001, Session 1

CONVENER

*Mr Andy Kerr (East Kilbride) (Lab)

DEPUTY CONVENER

*John Farquhar Munro (Ross, Skye and Inverness West) (LD)

COMMITTEE MEMBERS

*Bruce Crawford (Mid Scotland and Fife) (SNP)

*Robin Harper (Lothians) (Green)

*Maureen Macmillan (Highlands and Islands) (Lab)

*Fiona McLeod (West of Scotland) (SNP)

*Des McNulty (Clydebank and Milngavie) (Lab)

*Bristow Muldoon (Livingston) (Lab)

*Mr Murray Tosh (South of Scotland) (Con)

*attended

WITNESSES

Chris Bronsdon (Scottish Energy Environment Foundation)

Robert Forrest (Scottish Renewables Forum)

Nick Goodall (British Wind Energy Association)

Councillor Stephen Hagan (Highlands and Islands Strategic Transport Partnership)

Councillor Charles King (Highlands and Islands Strategic Transport Partnership)

David Langston (Wavegen)

Murdo Murray (Highlands and Islands Strategic Transport Partnership)

Roy Pedersen (Highlands and Islands Enterprise)

CLERK TO THE COMMITTEE

Shelagh McKinlay

SENIOR ASSISTANT CLERK

Tracey Haw e

ASSISTANT CLERKS

Alastair Macfie

Neil Stewart

LOCATION

Committee Room 2

Scottish Parliament

Transport and the Environment Committee

Wednesday 2 May 2001

(Morning)

[THE CONVENER opened the meeting in private at 09:30]

09:47

Meeting continued in public.

The Convener (Mr Andy Kerr): Good morning. I welcome everyone to the 12th meeting this year of the Transport and the Environment Committee. In particular, I welcome the witnesses who have joined us for the agenda item on the budget.

We have received apologies from Maureen Macmillan, who has to attend another meeting. Fiona McLeod will have to leave slightly early and Des McNulty has to attend an Enterprise and Lifelong Learning Committee meeting. There will be various movements due to clashes and other commitments. I apologise for that.

Items in Private

The Convener: As members may have seen in today's business bulletin, there is an extra item on the agenda, inviting the committee to review the evidence that it has received on the budget after it has heard from the witnesses. That will allow us to think of further questions that we may wish to put, for example to the Executive and others, at our next meeting. I suggest that we review the evidence in private—as is our normal practice—so that we can discuss lines of questioning for future witnesses. Are members agreed?

Members indicated agreement.

The Convener: Next week, as members know, we are taking evidence from Highlands and Islands Airports Ltd, the Minister for Transport and Planning and the Minister for Environment and Rural Development. Do members agree to meet in private before that meeting to ensure that we have discussed adequately our lines of questioning?

Members indicated agreement.

The Convener: At that meeting we will also want to consider a further draft of our report on water and the water industry. As it is a draft report, do members agree to consider it in private?

Members indicated agreement.

Budget Process 2002-03

The Convener: Agenda item 3 is the budget process. This is the committee's first evidence-taking session on the Scottish Executive's expenditure proposals for 2002-03. As members will be aware, our approach this year is to take a strategic overview of the expenditure plans in the Scottish budget and to take a special interest in two particular areas—spending on renewable energy and Highlands and Islands Airports Ltd—on which we will focus this morning.

I welcome our first set of witnesses, on renewable energy. They are: Nick Goodall from the British Wind Energy Association; Chris Bronsdon from the Scottish Energy Environment Foundation; Robert Forrest from the Scottish Renewables Forum; and David Langston from Wavegen. We will try to keep the discussion as informal as possible, within the constraints of the forum.

I remind members that today's discussion is about the Executive's spending plans. The committee will address the stated aims of the Executive's policies as they relate to our remit, whether those aims are appropriate and whether funding is sufficient to meet them. We may also want to consider whether spending is appropriately targeted.

I reassure the witnesses that we do not expect them to take a view on everything. If you have not had a chance to consider an issue prior to the meeting, you should feel free to say that you do not wish to comment. We will follow up any such issues with the Executive.

Members have interests in specific areas and if members or witnesses want to come in on a question, they should wave an arm at me or give me a nod. We have set aside 45 or so minutes for this part of the meeting.

The committee would welcome some short introductory remarks from the witnesses. Thank you for your various submissions, which we have read with great interest.

Chris Bronsdon (Scottish Energy Environment Foundation): The Scottish Energy Environment Foundation has been established formally for about one year, although we have been operating for only three and a half months. We were set up to take an overview of the key issues in energy and environment, which need to be addressed to take forward development and innovation in Scotland. The organisation is independently funded and receives support from Scottish Enterprise, the Scottish Executive and the industry through the three electricity companies in Scotland. Our academic partners are the

University of Edinburgh and the University of Strathclyde.

Our aim is to highlight the importance of energy and environmental issues and to balance the vested commercial interests of anyone who asks us to represent them. We are trying to create a holistic view, so that we can talk from the viewpoint of planners and developers and consider the reduction in energy use and how we can replace carbon-based generation with renewable development. We also hope to provide a service in facilitating the commercialisation of new opportunities in energy.

It is often said that Scotland has the best renewables resource in Europe, particularly wind and wave. The fact that the policy area is not devolved is even more reason why the Scottish Executive should support the development and promotion of the renewables industry. If it does not, we will be at the mercy of the markets and Westminster and will have to accept what they hand out, rather than demand our pro rata share of what we expect to be able to deliver.

Some funding is available, but to a degree it is hidden. Spending is allocated under the Scottish renewables obligation to support technologies, but that cannot be considered in the context of today's discussion. It would be better to look at the opportunities for moving forward, rather than to discuss previous arrangements.

Robert Forrest (Scottish Renewables Forum):

I am director of the Scottish Renewables Forum, which has existed since 1996. Our organisation has a broad base of members with interests in renewable energy, including manufacturers, developers and other people in the industry, as well as Government organisations, non-governmental organisations and individual members. We have a wide remit; we are not simply a trade association.

In essence, the Scottish Renewables Forum exists to support and promote the development of the renewables industry in Scotland, primarily because we believe that that is in many ways good for Scotland. All members of the committee will be aware of the potential benefits of renewable energy in relation to global pollution—that is now an accepted fact—but we are keen to remind people that renewable energy has other benefits that go beyond global emissions savings. Those include employment creation, significant potential for manufacturing and export opportunities. Renewable energy is the fastest-growing part of the global energy market, so there will be huge opportunities in the years to come.

At local level, we can support rural diversification. Farming is in particularly difficult times. Renewable energy has the potential to

support the economy of rural and Highland areas. We can also provide elements of social inclusion. Renewable energy is not only about large generators generating power; it includes everything down to solar water heating on the roof of a house and the other benefits that passive solar design can provide. Therefore, renewable energy has a bearing on all the people in Scotland and has considerable benefit.

We reviewed the expenditure plan documents and were slightly concerned that we could not find any details about spending on renewable energy, so it is hard to comment specifically on aspects of the plan. We noticed also that some other areas we are involved in, such as planning, are not mentioned in the expenditure review. We do not know exactly what the Executive's expenditure plans are, but we hope we can give some advice on where we think the priorities should lie and what the key issues are.

I have a short briefing paper containing some background information, which I will pass round to members and which may be useful for further reference. I am happy to answer members' questions.

David Langston (Wavegen): I am the business development manager for Wavegen. I have worked for the company for more than two years. My background is mostly in the offshore oil and gas industry. Wavegen is a private sector small or medium enterprise, which has undertaken research, development and commercialisation of wave-power technology over the past 10 years. We have a team of engineers and our own wave tank in Inverness. Wavegen owns and operates the world's first commercial-scale, grid-connected wave energy converter, called LIMPET—land-installed marine-powered energy transformer—on the island of Islay.

Scotland undoubtedly has a vast, untapped, natural, clean and renewable energy source off its coasts. Scotland has the lead in wave-power technology. It also has the skills and resources of the declining offshore oil and gas industry available to it. The wave-power industry has the potential to become a major industry worth billions of pounds. A strong home market is essential to develop that opportunity. That can be achieved only if the Scottish Executive gives it a high priority.

Denmark has roughly the same population as Scotland. Denmark supported the development of its wind industry. Now the Danish wind industry employs about 13,000 people and has 60 per cent of world sales. Scotland has the opportunity to repeat Denmark's success, this time with wave power. A growing number of countries are showing an interest in developing wave power. The country that demonstrates commitment is the

country that will win the prize of a major sustainable industry in the future. It is more than likely that, as with wind power, one country will dominate the market. If Scotland does not capitalise on its present opportunity, in a few years' time, it might well be importing wave devices from the new market leader.

Scotland is at the forefront of a major new technology. Wave power can make a significant contribution to the 2010 renewable energy target and become a thriving export market, but that can be achieved only with support in the near term.

10:00

Nick Goodall (British Wind Energy Association): I have been the chief executive of the British Wind Energy Association for four years now. In those four years, the association's membership has tripled; it currently represents some 150 companies. Yesterday alone, two companies joined—John Mowlem and Company and ABB Zantingh—which gives an idea of the industrial interest in developing wind energy in the UK market.

I spend a lot of time talking to my continental colleagues, who often rib me about the fact that I represent the wind energy association of the windiest country in Europe, yet Britain has one of the worst rates of wind energy development. I tell them, "Watch and wait. We shall develop it in due course." That is the nub of the issue. There is an enormous wind energy resource in the UK and particularly in Scotland. We have not developed much of it thus far, but the good news is that it does not go away; it is waiting to be harnessed. If we can harness it, we will be able not only to fulfil the aim of achieving a sustainable, diverse and secure energy mix, but to take advantage of the large spin-off of creating the indigenous industries to support it.

That is the only point I want to make. The disadvantage of speaking last is that it is difficult to disagree with anything that has been said. I shall not repeat the points that have been made, but I take the opportunity to emphasise one point. The one part of the Westminster Government that talks to me is the oil and gas directorate of the Department of Trade and Industry. It sees the future of the oil and gas industry as technology transfer and it foresees the associated jobs moving into the renewable offshore industries, including wave and, notably, wind energy.

I would be delighted to answer any questions.

The Convener: I take your point about repetition. I hope that witnesses will bear it in mind that we want to keep things fairly tight. If the point has been covered, please leave it alone. If it has not been covered, please feel free to add to what

has been said.

Robin Harper (Lothians) (Green): I take Chris Bronsdon's point about moving forward and Rob Forrest's point that we are no clearer than he is about what money might be forthcoming from the Executive.

Given that the majority of funding and the overall energy policy comes from Westminster, how crucial will the Scottish Executive's role in promoting and funding the industry be?

Chris Bronsdon: The role of the Scottish Executive is crucial. It has to act as an honest broker. Consider how the devolved policies work. The Scottish Executive has access not only to agriculture but to the natural heritage sector. We must examine the opportunities in the areas where policies spill over from the non-devolved side. It is clear that pulling together support and funding to allow more development in those areas is key.

At the moment, Scotland has targets that it has accepted by default from the UK's commitment to Kyoto and to the national carbon dioxide emissions targets. If there is a pro rata share of that commitment in Scotland, surely the Scottish Executive should be looking to pull together a series of projects or initiatives that will secure a pro rata share of the funding.

Robin Harper: So that is one clear objective: we want the Scottish Executive to get a pro rata share of available funding.

Chris Bronsdon: At least, yes. If there are better projects that dictate that we should aim to get a larger share of the available resource, we should try to get it, but at the very worst, we should aim for a pro rata share.

Robin Harper: We should work out the pro rata share of the resources available, rather than make a purely monetary calculation.

Chris Bronsdon: Yes.

Nick Goodall: I baited the DTI recently about work that the Executive has done and which the DTI has never managed to do—a study of public attitudes to wind farms. It is available on the Executive's website. It is a scientifically definitive piece of work. The Executive took the initiative to answer one of those imponderables. I am sure that members expect me to say that people like wind farms, but the Executive has proved it with an independent study that we had nothing to do with.

The Executive grabbed an opportunity to be aspirational. It saw the opportunity and took a step towards achieving it. The industry regularly asks the DTI to tackle the issue at a UK level. We now constantly refer people to the example that the Executive has set in helping to inform—not

educate—the public about the opportunities and in debunking some of the myths that surround the development of renewables and particularly wind power.

I suggest that the Executive's role is much greater than had been expected. It is not merely the servant producing the background numbers; it has the opportunity to initiate the promulgation of information. Other territories, such as a part of Australia, have analogous arrangements.

Robert Forrest: The Executive is not only setting the targets and being influential in determining the shape of the renewables industry and the market in which we work, it is being responsible for national planning guidance and tasks such as encouraging inward investment in Scotland. The Executive can take a holistic and overarching view. When the Executive was formed to take responsibilities from the Scottish Office, it had a minister who was responsible for renewable energy and planning. We welcomed that holistic approach. That joined-up thinking in government was great, because the person who set the targets was also responsible for seeing how they were delivered.

We do not know yet how the changes in ministerial responsibilities have influenced that position, but two or three ministers now have some influence over our work. It is important that Executive departments use joined-up thinking for delivery, because the new renewables obligation is extremely encouraging for the industry. We can work towards and deliver that market in the next 10 years, but we must have a planning system that allows that to happen. We are worried that, having produced national planning policy guideline 6—the revised planning guidelines for renewable energy—the Executive may decide to sit back and say that that is done. We are concerned about the implementation of planning policies locally. As Nick Goodall said, the Executive must sell the message that renewables are good.

How is expenditure divided between Westminster and Scotland? I often hear discussions about pro rata financing for Scotland. Scotland has an incredible wave resource. If we are to encourage a wave industry, the initiative must be driven in Scotland. I do not think that Westminster ministers will say that they must do something about the wave companies up in Inverness or Edinburgh. The initiative must be locally driven. We must ensure that adequate funding and support are available for those new technologies. Wave energy is a classic example. We also have the potential to play a significant role in biomass technology. We seem to be losing that to south of the border. We would like that to be encouraged back north of the border for its future manufacturing and development

opportunities.

The Convener: We have written to the First Minister to express some of the concerns that you raised about ministerial portfolios.

Bruce Crawford (Mid Scotland and Fife) (SNP): When the meeting started, I was not too sure what value it would have for us, but two key markers have already been set down. The first is about the pro rata issue—whether Scotland is getting not its share, but the funding it needs to develop its own renewable energy industry. The enterprise and lifelong learning section of the budget document makes the spending figures available, but I do not know what relation they bear to the overall resources that are available in the UK.

To answer the pro rata question, we will have to dig a bit further with the minister and ask how much from the fossil fuel levy is going to the Department of the Environment, Transport and the Regions budget or the DTI budget to support renewable energy, and what percentage of that we receive. We must compare that with development costs for renewable energy. I did not expect to learn about that issue, but that was useful to know, particularly when the establishment of 19 offshore wind farms south of the border has been announced, while nothing seems to be happening here. One such wind farm may be established in Scotland, but we are not yet sure about that.

The other issue concerns the targets that the Executive sets. The convener said that we have written to the First Minister. That is an immediate and clear example of the environment portfolio including responsibility for targets—

The Convener: I do not want to sound like the Presiding Officer, but what is the question?

Bruce Crawford: I apologise for making statements and not asking questions. I ask the gentlemen whether they know the level of spend from the fossil fuel levy and how that compares with what is available in the enterprise and lifelong learning section of our budget. Would the witnesses wish the expenditure that is available to the Scottish Executive through the SRO to be transferred into the environment budget so that target setting and spending were located in one department?

Was that good enough for turning my statements into a question?

The Convener: You worked the question in magnificently.

Robert Forrest: The answer is complicated. The fossil fuel levy that is raised through the old renewables obligations and the non-fossil fuel obligation does not go into civil servants' coffers. It is a tax on the purchase of electricity, which is

passed directly to the generators. The levy may appear in budget items because it is considered a tax, but Government departments do not have spend control over it. I have assumed that the only item in the Executive's budget that is notified as being under the SRO is that levy, which is passed on to the generators. The money does not go into the Executive's budget to spend on renewables. It would be nice to have some clarification. I assumed that that was the position because the item said SRO, which is the old Scottish renewables obligation, as opposed to ROS, which is the new renewables obligation (Scotland). The ROS is not a Scottish Executive funding process, because the obligation is on supply companies to pay for renewables. That cost is passed on to the consumer, so it does not involve the Executive's budget.

Chris Bronsdon: I will add to Rob Forrest's first comment. At present, a renewables spend line is not identified in the budget. All that exists is a marker for already allocated spend under the non-fossil fuel obligation. My perception is that nothing is available in the budget. The marker should be set down: to make progress, we cannot consider the existing budget, because it contains nothing relevant.

David Langston: The ROS will be funded by people who buy electricity through suppliers. Another element that must be considered is the capital grant. Such grants have been made available for offshore wind and will be made available for biomass. The consultation document on the ROS asked whether capital grants should be available for wave. The majority of respondents—86—said that they should, but that availability is not identified anywhere. The question has been asked and the answer has been received, but there is currently not a line to pay.

The other issue is a wave energy test centre. That is an extra budget item, if you like, but having an independent test centre that can attract companies from outside Scotland to Scotland would follow on from the Danish wave energy success story. It is important to recognise that Scotland is the centre for wave energy.

Mr Murray Tosh (South of Scotland) (Con): It was clear from the Scottish Executive's briefing note that there was almost no discretionary budget under the renewables heading. I think that it gave a figure of £1.2 million over three years. All the capital items that David Langston mentioned are DTI matters. In our report, we might usefully reflect that the reader would not be able to work out the reality from the presentation of the information. That is a flaw within the budget and we should comment on it.

I want to pick up on what Robert Forrest said in

his introductory statement, his leaflet and just now—that there is no budget for implementation of issues relating to planning. I want to be clear what he thinks is missing and what he is asking us to look for that is buried somewhere in the tables. We can then be clear that there is a problem.

10:15

Robert Forrest: We could not find anything for the planning system at all, let alone anything relating to renewable energy in planning. I mentioned that planning policy guidance has come out and that the Scottish Executive has launched its national policy on renewable energy. It is now up to local authorities to do what they will. Most local authorities read the document and say that they see the comments but will have a policy that broadly says something such as they support renewable energy except where that has a significant adverse environmental impact. I could lift that phrase from numerous local plans and structure plans throughout the country.

I have talked to local authorities and they have said that they need some guidance from the Scottish Executive—or from somebody—on what capacity of renewables might be expected in Scotland, what form that might take, where it might be and when things might happen, for example, so that they can factor that into their planning system.

Perhaps Nick Goodall might want to comment on the fact that the British Wind Energy Association has looked at the issue from a UK perspective. Because nobody else was doing so, it tried to evaluate where wind energy might spread around the UK. A significant percentage—39 per cent—was identified for Scotland. We do not have anything like that in Scotland.

There is a gap within the various Government systems and we would like the Scottish Executive to take a leading role. If the industry told the planners what it thinks, we would be seen to have vested interests. We think that the Scottish Executive has an important role to play in the process.

Mr Tosh: I lost a wee bit in the transmission. I understand what you say about the guidance not being clear enough and the local authorities not responding to it. That is a real issue. However, I cannot see where the budgetary implication comes in. What money should there be? What should we be looking for? What points should we be making about the money?

Robert Forrest: I do not have any budget figure in mind. We have spoken to each local authority and the general view is that they need to spend time and money to get a grasp of the issues. We do not think that 32 local authorities should look at tens of local plans. That work should not be re-

created at each local authority level; it should be done at a national level to allow promulgation of planning policy to the local area.

Robin Harper: In the interests of brevity, I want to put my next two questions together, so the question might sound rather long. With the experience of the SRO behind you—and still continuing—what is your view on how effective the ROS will be in delivering extra renewables? How quick will the roll-out be? Do you think that the 5 per cent target is reasonable, or could we do much better? You have begun to answer the question in a sense, although it is a bit difficult to define, but if we could do much better reasonably easily, is there enough funding under the new arrangements? On a rough calculation, would enough money be produced? What extra would be required?

Nick Goodall: I would like to comment on that and offshore sites, if I may. There are very good reasons why the first offshore sites were south of the border—quite simply, that was easier initially. I am sure that there will be something off Scotland in due course, subject to the Crown Estates agreement.

The way in which the large offshore pattern was announced surprised many people. My view was that it was a direct consequence of people who consider the future of the utilities saying that the obligation will bite very hard and that large volumes of electricity are needed very quickly to avoid paying what the DTI insists is not a fine, but which is in effect a fine. Such people asked how the obligation could be reached most quickly, given the utilities' culture of large generating plant. The answer was to build large offshore wind farms.

As companies become educated in the new arts of using small-scale renewables—even the large offshore wind farms are still relatively small—it is not beyond the imagination that other technologies will be similarly embraced. As the penny drops, I expect that the way the obligation will work in Scotland will follow a similar pattern. I would not want to predict what technologies will be deployed, but the issue links into the question of the Parliament's aspiration and imagination.

With the greatest respect, any number—such as 5 or 10 per cent—can be picked. Scotland has more than enough renewable resources for its power supply over and over again and to sell to England, Wales and Northern Ireland—and possibly Denmark—and it still would not have exploited its full resource. Perhaps we should think not from 0 per cent up but from 300 per cent down and consider the optimum level that will create the related spin-offs.

With the greatest respect again, it is not rocket

science to figure out that where there is sufficient volume in a territory or a country, wind turbine manufacturers build locally because doing so is cheaper, faster, more efficient and works well for community relations. The reason for there being no sizeable turbine manufacturing facilities in the UK, despite its excellent resource and its enormous promise, is that there has been an episodic support mechanism in the past. The spin-off of the obligations in the north and the south is that there will probably be a sufficient volume—which may already have been instigated with the announcement of 500 to 600 wind turbines that will be sited offshore in the next three years—for local manufacturing assembling plants.

I do not speak for wave energy but, as I said, an opportunity for permanent, large-scale and relatively high employment lies in the prospect of establishing a significant, consistent and predictable domestic industry. Although Denmark—arguably—is dominant in wind energy, it is certainly not dominant in offshore wind energy. It is true that there are wind turbines in common, but even the wind turbines are not the same species. The related civil engineering work is an enormous prospect.

I will refer briefly to England and Wales. I noticed in the regional development agency propaganda that at least three publications feature wind turbines on their covers. That is quite amusing, because there are no wind turbines in one region—but the agency sees wind turbines as a future technology for which the region will become the home. Scotland has an enormous opportunity to become a home for offshore wind or wave energy. The determining factor will be the ambition that is expressed by the Parliament and how the Executive deals with it.

Chris Bronsdon: Mr Harper asked about the extent to which the ROS will deliver renewables. To a significant extent, that will tie in with how the market operates. My experience in the energy industry is that there has been a significant lack of clear policy guidance on energy. As a result, the market has been given an increasing role. That has resulted in the provision of electricity at least cost. Competition has driven forward commercial ideas. Competition has been successful but, at the same time, it has introduced a significant barrier, which is the gap between the current market price for some generating technologies and the technologies that lie beyond that market. We should be focusing our attention on enabling technologies to transfer from outside the market into the market.

The Scottish Executive has the power to set the profile of the percentage it wants to be achieved. We are trying to meet a CO₂ reduction target that may be up to 60 per cent below 1990 levels, if the

Royal Commission on Environmental Pollution's recommendations are used. I agree that setting a future limit and working backwards from there is a good way to look at what we should be putting in place now.

The funds that are available will be determined by how the Scottish Executive sets the profile. If it sets a high initial target, the value of the green certificates may be a significant benefit. People would start buying into the technologies and setting in place the growth that is required. There will be far more success if commercial organisations see certainty in the benefits that are available through the high price of the green certificates and that a longer-term target has been set. I will add the caveat that if the price of the green certificates is too high, expectations may be created that cannot be met.

The Convener: We need to move on to another area that I am interested in, with a question from Bristow Muldoon.

Bristow Muldoon (Livingston) (Lab): Which renewable energy sources should qualify as part of the ROS? Do you have a view about the exclusion of hydro in the Executive's consultation document? The Executive expressed concerns about the inclusion of waste incineration as that may weaken the drive towards recycling. Do you agree that the inclusion of waste incineration might encourage waste to be shipped to Scotland for incineration? Do you have a view on the financial implications for customers if certain sources of energy are included or excluded?

The Convener: Bristow Muldoon has covered a lot of areas, but his questions wrap up many of the issues that we are trying to draw into the budget process.

Chris Bronsdon: The committee should not be looking to pick winners from the sources that should qualify for ROS funding. In the past, through banded obligations, it has been possible to provide support for technologies that had initial high capital and development costs. They showed dramatic reductions in that initial cost to become some of the best operators in the renewable market today. If some technologies qualify, by definition others will be excluded. Members should perhaps look at market mechanism of a price range being set for support, beyond which any technology that can show a benefit should receive capital grants. That is the way for the opportunities to be spread on more of a product basis. That mechanism would allow far more diversification and so promote growth.

I agree that waste-to-energy schemes are not an answer to the waste problem in Scotland. We do not want to attract imports of waste. However, if the Scottish Executive is going to license waste

incineration schemes, it should be ensuring that they include that benefit.

Robert Forrest: We have thought hard about the qualifying technologies, because as an organisation we represent a wide range of technologies. As Chris Bronsdon says, we do not want to see any technology excluded just because it might not be perceived as cost-effective at the moment. Our view is to give technologies the opportunity to compete in the market. If it develops, that is great. If it does not, nothing has been lost.

The energy-from-waste issue has been hard for us to consider. One of our major concerns is not whether energy from waste should be supported by a renewables obligation, but that we should not have in Scotland a different qualifying approach from that in England and Wales. Electricity can be traded across the border and the green certificates also will be traded across the border.

10:30

We are facing the prospect, in a couple of years' time, of a GB-wide electricity trading system. If energy from waste was permitted in Scotland but not in England and Wales, market distortions would be introduced. We could see the entire Scottish obligation being met by large numbers of lorries driving up the M6 and the M74, bringing waste into Scotland. That is not a good thing socially. It is also not good for the other technologies, as it has the potential to push out other viable technologies.

There has been a lot of discussion about hydro and the inclusion or exclusion of large hydro. In our response, we support the exclusion of large hydro. We also raise some significant questions about proposals that have been mooted by others for including refurbished large hydro. In response, we have asked them questions about the ability to measure and meter that refurbished portion. I have spoken with the Office of Gas and Electricity Markets about that and it has had technical people look at the issue, but there is no easy solution.

Our main concern is not to exclude support for technologies or to fail to see them continue to generate and contribute. If a decision were taken to include those technologies, we would like to ensure that there was sufficient incentive and capacity for the new technologies to come on board. There may be a case for considering the technologies and the capacity of the ROS, to ensure that we continue to have incentives for the new technologies.

Bristow Muldoon: Both witnesses said that they do not want any of the longer-term technologies that may have high initial capital costs to be excluded, but if there is competition

between the technologies, it is likely that the cheaper ones will be chosen in the short term. How should support be made available for some of the longer-term technologies, given their high capital costs? What level of funding is required to ensure that those technologies are explored?

David Langston: I cannot answer the question about the level of funding, but there is not a lot of point in giving support over a long period and in a small dribble, as it will take a long time and it will not achieve what is wanted. From the point of view of wave energy, capital grants were a big issue in the Executive's consultation document. Capital grants will be required to enable wave energy to compete in the early phases; without them, it will not be able to compete.

Fiona McLeod (West of Scotland) (SNP): The committee is aware that the grid, especially down the west coast, does not have the capacity to take in a lot more energy. Perhaps David Langston could give us the figures on how much it cost to lay the Islay connection to the grid? Given that we have no items in the budget that allow us to identify that, do you think that there is a case for the Executive funding the upgrade of the grid?

David Langston: In the short term, it is not an issue. Certainly, in the medium term, if substantial quantities of wave energy were to be put into the grid, something would have to be done. In the short term, a study should be undertaken to assess the cost and location. That cannot be taken individually; it has to fit into an overall strategy. A grid connection to the west coast could also be used for other technologies. It is a big issue, but at the moment, we do not have sufficient information to be able to answer that question.

On the question of the Islay plant, it is only a small, half a megawatt plant. The maximum that we can export at the moment is 150 kilowatts due to the constraints of the grid.

Fiona McLeod: Did it cost your company money to take your energy from Islay to the grid?

David Langston: Yes. I cannot remember the exact cost of the short-term upgrade that was required, but it was around £80,000. We have the option of making a larger upgrade as well, but I cannot remember what that would cost.

Robert Forrest: It is worth noting that the Scottish Executive has a number of working groups at the moment, one of which is the network study group, which has been examining the electricity grid throughout Scotland at the transmission level, which is the high-voltage level. There are a number of constraints on the system and there is the question of how much it might cost to overcome them, but before the upgrades can be put in place a decision about where the

capacity should be must be made. We are awaiting some information from the group, on which we sit, about where the available capacity is now. That information has not been publicly distributed, so developers and people promoting projects have not always known clearly exactly where they should be going as they have not had directional directives.

The group is also examining the renewable resources of Scotland. Given that the resources lie across pretty much the whole country, the aim is to filter the information according to certain criteria to come up with an evaluation of where the economic resources lie. A consultant is being appointed today to carry out that work. We hope that those elements will come together to give us a clearer steer.

The issue is one of technology. I understand that, in terms of renewables as a whole, there is a lot of available grid capacity in Scotland—far more than we need to enable us to meet the 10-year target that the Executive is setting. By and large, however, that capacity is not where development has taken place, which means that there might be a need for a relocation of development.

A policy issue that must be decided is whether we should try to upgrade the grid to go where people have been trying to develop. That is fine in relation to onshore wind energy, which tends to dominate that area, but it clearly does not answer the question that is posed by wave energy, which has a specific locational need. The network study group is likely to pose the large political questions: whether there should be an upgrade of the grid towards some of the areas with better resources, as wind energy can generate power at a lower cost, and whether developers, consumers or the Government should meet that cost.

The Convener: Those are key questions.

Fiona McLeod: You mentioned criteria for supply. The committee understands that the cost-effectiveness of supply is one of the key criteria that are used in determining support under the SRO. Is that the case? If it is, do you think that other criteria should be used? Do you think that factors such as capacity and the need to meet our international obligations should be part of the criteria?

Robert Forrest: Under the old Scottish renewables obligation, a lot of scrutiny tests had to be passed but decisions were ultimately made on the basis of who was offering the power at the lowest price. The new renewables obligation is an obligation on the electricity companies to buy from companies that produce energy from renewable sources and there is a market mechanism to allow the trading of renewable power to take place.

One of the key developments is that the

potential price for renewables has gone back up again. For the onshore wind power sector, that has reduced the pressure to locate in the extremely windy and exposed locations in which environmental conflict can arise. That is not to say that all those windy places are bad for that sector, as there have been some good locations of that type, but the fact that the market has resulted in a ceiling price for the energy means that the sector can make decisions about the areas in which a much larger roll-out of capacity can best be delivered. Now, developers are much more free to consider the environmental constraints and the connection issues and decide to go to areas that have the most capacity to absorb the projects. In the short term, that will result in a slight increase in the cost of renewable energy, but it will allow a greater capacity to be developed. As you can imagine, a curve of capacity and cost can be drawn and, if we want to increase capacity, we will have to push back up that curve a little.

Chris Bronsdon: In the medium term, if the UK and Scotland want a large penetration of renewable generation into the market, we must consider where the resources are. Typically, they are at the edge of a grid. However, transmission of electricity over long distances incurs a transmission loss. At present, the regulator of the electricity market values power generation sites by considering issues such as their distance from the area that is to be supplied.

The fact that the largest demand centre is in the south-east of England means that there is less incentive for suppliers in those areas to contract generation at the margins of the country, as they will incur a larger penalty. The approach, which is called zonal charging, means that the price is set according to the loss that relates to a particular zone. The areas whose grids are in a worse condition incur a higher loss than areas whose grid delivers better power quality. If more resources are developed in such areas, we will start to address the commercial benefits for the supplier of accepting generation that is developed. That issue needs to be addressed in the medium term.

John Farquhar Munro (Ross, Skye and Inverness West) (LD): We have heard a lot about wave technology and renewable energy. Some schemes have been successful and others have not been as successful as we hoped they would be. You have a keen interest in gaining public and financial support for your renewable energy programmes. What sort of case will you make to convince the funding agencies and the Scottish Parliament that your case is worth supporting? What share of the renewable energy portfolio might be supplied by wave technology over the coming 10-year period? Should that technology be shore based or floating?

David Langston: Wave energy has the capacity to meet all the requirements, but a sensible approach would be to have a mix of energy generation.

The document that we have before us does not have an entry for support apart from the SRO. No support is being given to the development of wave energy in Scotland. Any support would help.

John Farquhar Munro: You must believe that the technology is cost-effective. For how many years do you think the sector would require public financial support before becoming cost-effective? Would the resulting energy be equal to that produced by the current hydro-electric and wind power sector?

David Langston: Wave energy could certainly produce a comparable amount to the hydro-electric and wind power sector.

You asked whether the technology should be shore based or floating. The ultimate aim would be to have offshore floating devices. We have been developing such devices for some time and, last week, we raised £5 million towards that, but there is no way that a new technology at an early stage in its development can be immediately competitive when it is supplying electricity to an existing market. There has to be some sort of support mechanism to enable us to get from a phase in which we are an emergent technology to a period in which we can get the quantities up to a level at which the prices can come down.

The Convener: As ever, we will want to follow up with each of you some questions that are more detailed and targeted. Robin Harper wants to ask another question.

Robin Harper: Chris Bronsdon has experience of the funding of renewables research in Scotland. Is the competition being conducted with an air of friendly rivalry? At the moment, there are quite a few bidders, such as Heriot-Watt University's Scottish Institute of Sustainable Technology, the new centre in Glasgow and the University of Edinburgh's wave power group under Stephen Salter. Is there a wide enough spread of research to cover all the renewables issues? Secondly, how crucial are the respective roles of the industry and the Scottish Higher Education Funding Council in promoting renewables research?

10:45

Chris Bronsdon: A lot of good research is being undertaken in Scotland. There is an air of friendly rivalry to an extent, by which I do not mean that the rivalry is unfriendly but that a lot of research has not made a connection with any of the groups that are working in that area. The SEEF is trying to bring together all the academics

from all the Scottish universities and technology colleges to address the problem. We understand that they have their own concerns that they want to keep and develop, but there should be a structured approach that can forge links to industry for combined research.

At the moment, academics can access a lot of funding through the Department of Trade and Industry under the Engineering and Physical Sciences Research Council, but that is a peer review process and as the leading activists in the UK and in academia tend to be the ones who have the best track record and can claim to have brought together the best people from around the world, some of the opportunities that might arise in Scotland might be overlooked and go south of the border instead. Many of the Scottish projects have not considered such grants because it takes a lot of time and effort to bring the right partners on board and work up the programme, only to be knocked back. They are somewhat disillusioned with the process.

As for the link to industry and SHEFC, that is a key area where we should be sending a signal to the Scottish economy by allocating money to create the right environment for bringing those partnerships together. We are setting up a flagship teaching company scheme that forges links between academia and industry to transfer current technology from academia into industry and then to put it into the market. However, more work needs to be done on that issue.

Robin Harper: And more money needed?

Chris Bronsdon: Yes.

The Convener: As I see that none of the other witnesses wants to add to Chris Bronsdon's comments, I will take this opportunity to say that we will write to you on some of the other issues that we did not get to this morning. This session has been a useful start to our budget considerations; as Bruce Crawford said, a few key points emerged in the opening presentation and some of your comments have provided greater insight into the questions that we need to ask the Executive. Thank you for attending the meeting.

I invite Roy Pedersen of Highlands and Islands Enterprise and Councillor Charles King, Murdo Murray and Councillor Stephen Hagan from the Highlands and Islands strategic transport partnership to join us. You will have seen that the previous witnesses handled themselves very well this morning in answering our questions as succinctly as possible and without much repetition. It is difficult to have an evidence session with four witnesses, because everyone wants to come in with separate points. Although the committee wants to cover areas that it is particularly interested in, we want to allow you to have the

opportunity to make your views known. Again we are aiming to keep this session to 45 minutes.

I will give you the opportunity to make some opening remarks and then I will go straight to Bruce Crawford for questions.

Councillor Charles King (Highlands and Islands Strategic Transport Partnership): I chair the Highlands and Islands strategic transport partnership and welcome this opportunity to represent the partnership, which was formerly the Highlands and Islands integrated transport forum. We changed the name after meeting the minister two months ago and being made aware of Deloitte & Touche's negative approach to a Highland transport authority. We have a very positive approach to such a proposal and we have changed our name to reflect the fact that we are considering strategic issues in partnership with the Scottish Executive.

We thank the committee for inviting us to give evidence. The partnership has regular meetings and includes representatives from Argyll and Bute Council, Western Isles Council, Orkney Islands Council, Shetland Islands Council and Highland Council along with Highlands and Islands Enterprise, the Scottish Executive, the Scottish Council for Development and Industry, the Scottish Tourist Board and the Highlands and Islands public transport forum.

With me today are Councillor Stephen Hagan, who is the chair of transport at Orkney Islands Council, and Murdo Murray, the director of technical services at Western Isles Council. We hope to provide a fair representation of opinion from the areas we serve. Issues connected with air services are frequently discussed by the partnership and have been the subject of two focus days. The conclusions from those discussions have highlighted the importance of air services to the Highlands and Islands and the prohibitive costs of fares on those routes.

Of course, air services rely heavily on the infrastructure provided by Highlands and Islands Airports Ltd, and we are here today to stress the importance of continuing to support that provision. Our submission shows that many improvements to air transport throughout the Highlands and Islands are required. It is somewhat heartening to see that, in recognition of that fact, HIAL's budget is set to increase over the next three years. We welcome that, as air services are key economic drivers in our fragile communities.

As I have said, there is major concern about the high cost of flying in our area. Air services are a necessary lifeline in the Highlands and Islands, rather than the luxury that they are sometimes perceived to be in the rest of the UK. Anything that can be done through HIAL to remove restrictions

on operators will help to improve the economics of flying and the social and economic well-being of the communities being served. That in turn will help the Highlands and Islands to contribute more to the economy of Scotland and the UK and to reduce the area's remoteness. Looking at the bigger picture, the long-term security of the link between Inverness and Gatwick and the ability to access appropriately timed slots at Glasgow and Edinburgh will have a major bearing on HIAL's operation.

In general, passenger statistics from HIAL's island and remote mainland airports show declining usage, notwithstanding the major loss of traffic at Sumburgh. That is in stark contrast to the rest of the UK and elsewhere, where air transport usage is growing, bringing with it major economic benefits. That is a telling sign. Reversing the trend and increasing passenger numbers through support to HIAL will most certainly be an effective targeting of resources. We look forward to discussing those issues with the committee.

Roy Pedersen will make a few introductory comments on behalf of Highlands and Islands Enterprise.

Roy Pedersen (Highlands and Islands Enterprise): Although I also serve on the Highlands and Islands strategic transport partnership, today I am representing HIE. The Highlands and Islands is a large area; it is more than 400 miles from Muckle Flugga to the Mull of Kintyre, which is further than the distance between Berwick-upon-Tweed and Land's End. The area includes about 90 inhabited islands, so it is difficult to serve. There are no motorways or high-speed railways, so air services are vital for the functioning—let alone the growth—of the economy.

The purpose of HIE is to deliver, for the Executive, economic development in that difficult area. In partnership with the local authorities, the Executive and others, it has been quite successful in doing that. The area contributes about £1 billion to the gross domestic product of Scotland, which is not bad. The work of HIE is to do with two things—wealth creation and social justice. However, without the wealth creation, we cannot afford the social justice.

As Councillor King said, air services are absolutely vital in enabling the area to function and in enabling the delivery of economic development. The enhanced budget for Highlands and Islands Airports Ltd is, I guess, today's key topic. We wholly support the Executive in going for growth. Apart from anything else, that will make for better aircraft utilisation. Poor aircraft utilisation is one of the problems with air services in our area. For example, Loganair's aircraft utilisation is three and a half hours a day—the planes are in the air for

three and a half hours a day. That is partly to do with restrictions at airports. The figure for easyJet is 10 hours.

We have identified some key development opportunities: 24-hour opening at Inverness airport, which I believe is on the agenda; new terminals at Kirkwall and Stornoway, which are also on the agenda, and extended opening hours, which is important; improved landing aids, especially at Kirkwall; and the extension of the runway at Sumburgh. I am not sure whether the last one is yet on the agenda but we believe that it is important for the provision of jet services to that island.

Bruce Crawford: Thank you, gentlemen, for those opening remarks, which were very useful. I think that I can say on behalf of the committee that we support the lifeline services to the Highlands. It is good that the Executive is putting in new resources over the coming years. However, we need to resolve some contradictions. Although the services are important—as you stress in your submissions—HIAL's accounts indicate a declining performance in terms of the number of passengers. That is linked to reductions in traffic. What are the reasons for the decline? How do you reconcile the reduction in numbers with the argument that the airports are economic drivers and catalysts? There is clearly a tension and I would like to hear your perspective on that.

Murdo Murray (Highlands and Islands Strategic Transport Partnership): The nub of the difficulty is cost, especially the cost of air travel to the islands. In our seminar on air transport, that is one of the key concerns that we highlight. Our concern is not so much the budget—that is a matter for HIAL—as with what the budget will deliver.

The main thrust of our deliberations has been on cost. Air travel to Europe or to the United States is cheap. I can fly to Brussels for £39 return. If I want to fly to Stornoway, however, it will cost me £270 return. It is possible to find cheaper options, but if people want to go at a particular time, they have to pay around that amount. The important factor is the quantum difference in the quantity of people who are travelling, but we want to get the prices down. The airlines tell us that airport charges in the Highlands and Islands are in line with those elsewhere in the UK. However, there are penalties at the margins. The opening hours, at the island airports in particular, create difficulties. If, for any reason—whether technical or something to do with the weather—the airports have to remain open beyond their usual opening hours, significant costs can result.

11:00

We would like HIAL to extend opening hours. As Roy Pedersen said, Loganair's aircraft utilisation is three and a half hours a day, as compared with 10 hours a day by easyJet. We have to increase aircraft utilisation to reduce the cost. At the moment, Loganair has to pay extra if it goes over the three and a half hours. The reason for that is partly the lack of air traffic controllers and partly the operating hours of firemen. We would like those issues to be addressed, with additional air traffic controllers brought in and trained in the Highlands, especially in the island areas, where there is a lack of work—we see no reason why there should not be training programmes for air traffic controllers in those areas.

We believe that an extension of the opening hours will aid the aircraft operators. For example, if the opening hours at Stornoway airport were extended from the current 8 am until 5.30 pm to 7 am until 7 pm, the aircraft could be positioned in Stornoway so that they can start from there in the morning, go to Inverness, go back to Stornoway and then go to Edinburgh. That would increase the number of people going across the Minch. It would also give rise to an opportunity to reduce the cost; if we can reduce the cost, we will increase the traffic.

The Convener: To follow up Bruce Crawford's question, price is important for everyone, but is there any hard statistical evidence to say that, as price goes up, the number of passengers goes down?

Murdo Murray: We do not have it now, but we could provide additional information to support that claim. Another point to make is that improved surface transport also has an impact. In the Western Isles, the introduction of an inter-isle ferry had a significant impact.

One way of addressing surface transport issues is by a public service obligation. We would like to see such an obligation on mainland to island routes, as well as, for example, the Inverness to London route. We suggest PSOs without remuneration. The main reason for having the public service obligation would be to identify the route for slot allocation purposes. It would not necessarily be the operator that got the slot; it would be the route that got the slot. We would like the Executive's support on that, because it is a UK issue. Our forum and the individual authorities made representations on the issue when the consultation document on UK aviation was issued. Pressure is required, nationally and in Europe, to ensure that we get the slot allocation. The allocation is currently based on remuneration—the big transatlantic operators can easily find the resources, whereas small regional airlines have difficulties. If the regional routes, albeit not

necessarily with remuneration, could be identified as being necessary to fulfil public service obligations, that would at least be a start.

Councillor Stephen Hagan (Highlands and Islands Strategic Transport Partnership): The original question was on the decrease in traffic. I agree with Murdo Murray—cost is the main factor in that. The other factors are the reliability of the aircraft and the problems that we have had at the airports—especially in Kirkwall with fog.

Older planes tend to be used on the routes. Obviously, if they were newer, reliability would increase. Fog is a difficult problem. As members are probably aware, Orkney Islands Council has gone into partnership with HIAL; they are putting in an instrument landing system. I hope that that will be in place by next June. The partnership supports going for the global positioning system, which would dramatically improve reliability. Using the Highlands and Islands as the pilot area is a positive approach—it is probably the only area in the country that suffers from so much low cloud and mist.

Bruce Crawford: Some good stuff is coming out of these suggestions. Between 2001-02 to 2003-04, £4 million more will go into funding a deficit—that is the way in which the figures are structured at present. The committee would like to understand how that money could be better used to get costs down and to increase passenger numbers. In other words, how can we get better bangs for our bucks? I would like to hear your suggestions on how to refocus that money, changing it from a deficit grant to something that will help to increase passenger numbers. I have a suggestion, but I would rather hear from the witnesses first.

Murdo Murray: I will refer back to the previous discussion. We believe that, if an area or areas were identified as innovation zones for renewable energy, one could attract development to those zones and, by attracting development, attract passengers. For example, given the renewable energy resources of the western seaboard, the Western Isles could easily be identified as an energy innovation zone, with the development benefits that that would bring.

In the previous discussion, we heard about the fact that there is no reliable cable link for transferring any renewables that might become available. That creates a significant difficulty for offshore developments. To date, the offshore developments that have been announced in the south are close to existing connections. We must develop ways of using renewables; the quickest way of doing so would be to relocate development. The creation of energy innovation zones would automatically mean that developers went to those locations where energy can be produced, rather

than having to transfer that energy, which takes time and money. We should use the energy that is available in those locations and we should site the developers there—the passenger numbers will follow on from that.

We should encourage the airport operators to consider ways in which they could incorporate energy innovation. We should ask them to what extent they have looked at alternative or renewable resources in relation to everything that they do. For example, airport operators could use wave power to generate hydrogen for use by their vehicles, which are, largely, for airport use only. Most of the vehicles used on airports remain there and do not have to travel far, so they are ideally suited to electric or hydrogen power. That would be an ideal opportunity to use renewables at airports. Similarly, one could have solar-powered lighting, although back-up energy would be required. Those initiatives would require capital initially, but benefits would flow from them. The main question is one of focus.

Bruce Crawford: Surely you are not suggesting that we should use the £4 million increase in the deficit grant to pursue those initiatives. I accept some of your suggestions—I am not challenging them—but my question is about how we should target that money for the deficit more cutely or sensibly.

I want to increase the customer numbers. I put one of my suggestions to you: would it be possible to use the grant in a way that would subsidise the ticket, or the bum on the seat—perhaps in this forum I should have said “bottom on the seat”—rather than the airport? That would mean that the benefits would reach the passenger and create an environment in which HIAL would have to be more progressive in attracting passengers into the terminal. My suggestion is that the money should follow the passenger rather than support HIAL's deficit.

Roy Pedersen: The answer lies in a more enterprising approach. Historically, HIAL may have functioned as a service provider, although it was not particularly incentivised to go for growth or to encourage traffic. We may be entering a new regime in which such incentivisation should be built into the contract between the Scottish Executive and HIAL.

In my view, the key issue about 24-hour opening at Inverness airport, which is the busiest airport in the network, is not just that that should pull in more passengers—although that is obviously important—but that it would create the opportunity to pull in a substantial amount of freight traffic. One would hope that, in time, the subsidy to HIAL would become a pump-priming exercise and that the airport would become more self-sufficient on the back of traffic growth. Inverness would be the

only commercial airport north of Glasgow and Edinburgh that was open 24 hours a day. Apart from the regular air traffic that might be pulled in, 24-hour opening could pull in all sorts of other traffic.

Likewise, extended opening hours in Kirkwall, for example, might be a vital aid for pulling traffic into the container terminal that we are working to create with Orkney Islands Council. If we can pull that off, there would be a substantial growth in traffic at Kirkwall airport.

As much as anything else, we are talking about setting a regime that encourages traffic growth; the present regime tends to frustrate that aim.

Councillor King: The Highland Council is pursuing Mr Crawford's idea about bums on seats on the Wick to Aberdeen flights. We are getting local businesses together and guaranteeing seats on the flight. We are considering that approach and we are trying to make progress on it.

We attach a great deal of importance to the aim of bringing freight into Inverness and of making the airport the hub for the Highlands and Islands. There is some resistance to the idea, but if the hub airport is to be open 24 hours a day, we must also be flexible with the other airports—I cannot stress that enough—so that they get a better return on their flights.

Murdo Murray: We have been considering the possibility of setting up a social inclusion scheme, because many people who travel on the high-cost flights are health professionals, people travelling on local authority business and business people. For social inclusion reasons, it is difficult for other people to get on to those aircraft.

On European resources, there might be an opportunity to consider a tapered funding mechanism, given the low population density in the Highlands and Islands. I liked Mr Crawford's suggestion about allocating an element of the subsidy for a scheme that would reduce the costs for a particular sector of the population, which would enhance the use of seats that are currently empty. That suggestion should be pursued; perhaps it could be encouraged through a bid by the partnership between HIAL and the Highlands and Islands strategic transport partnership. There is a greater need to work in partnership in order to access European resources. Perhaps Mr Crawford's suggestion could be considered further, particularly in relation to European funding.

The Convener: We must be cautious about the time—we are going into great detail and perhaps we should follow up some of these ideas at a later date. I will allow Stephen Hagan to speak next, but I advise witnesses and committee members that we should tighten up the discussion.

Councillor Hagan: I stress the need to have the infrastructure in place before we go any further. If we are to develop the economies of the islands, the infrastructure must be in place, and we must have longer airport opening hours. We must also have reliability—the planes must be able to get in and out. If we are to establish a container hub in Orkney, we will be talking about employing an additional 1,000 people—that is a big number for Orkney—and we must have an air service that can meet their needs.

The Convener: Bruce Crawford indicated that he wished to speak.

Bruce Crawford: That is okay, convener. I heard what you said.

John Farquhar Munro: Much of the question that I was going to pose has been answered already—the witnesses have given us many suggestions on how air transport in the Highlands and Islands might be dealt with.

If the decline in passenger numbers and revenue continues, perhaps you should suggest to the Scottish Executive that it reviews its attitude towards subsidising transport links in the Highlands and that it invests more in improved roads, ferry services, bridges and causeways, in order to link communities in a more affordable and direct way than has been the case in the past. I understand the plea that people must be transported between locations more quickly and economically. Addressing the situation through other means of transport might be more affordable and acceptable.

The Convener: The issue is strategic transport.

11:15

Councillor King: We certainly want more money for roads. We must look at the overall picture. In Orkney, Shetland and the Western Isles, we have to provide air services. We have ferries, but we should be trying to make the air service more cost-effective. All morning we have been trying to say that if Inverness airport was open 24 hours a day, we would have to extend the hours in the other Highlands and Islands airports. Murdo Murray is right to say that the planes are not in the air for long enough; the operators are not getting the full use of their planes. If a plane could be in Stornoway twice in a morning, rather than once, that would make a massive difference. That is one way in which fares could be driven down.

Murdo Murray: Air services in the Highlands and Islands are lifelines. There is a move to cheaper forms of transport, so it is vital that we address cost by a variety of means. It is incumbent upon us all to utilise resources in the most cost-

effective manner and that would be helped if we could take a more strategic approach to the operation of air services. For example, in the Western Isles we have a public service obligation for an air route from Glasgow to Barra, which is operated through the Scottish Executive. We have a service that is operated through the Western Isles Council—Comhairle nan Eilean Siar—from Stornoway to Benbecula to Barra, and we have the services across the Minch, which are essentially commercial. There is also a Royal Mail service from Glasgow to Stornoway and Benbecula. The tenders for the services are not coterminous, which cannot be cost-effective. We must work on a more structured and strategic way of tendering services. There must also be ways to reduce costs, to improve passenger numbers.

The Convener: Is the ultimate conclusion that you end up with a franchise arrangement for air services in the Highlands and Islands, and that you attract different players to the marketplace?

Murdo Murray: We should not close the door on any options. We must explore all possible options. It is perfectly reasonable to consider a tender—even a shadow tender—for the whole Highlands and Islands, because if the cost of travel can be reduced, passenger numbers can be increased and the deficit grant reduced.

Roy Pedersen: The trends in air traffic are not all bad, but there has been a serious decline over the past few years for four reasons: the shift of oil traffic from Sumburgh to Scatsta; the abandonment of Heathrow, which we are all anxious about; the loss of the Amsterdam service from Inverness; and improved surface transport links to various island communities. However, there are now signs of air traffic growth; for example, easyJet is running at capacity, with about 90 per cent load factors, and has doubled up its weekend flights. There is a capacity problem on the Inverness to Gatwick route. There are even capacity problems on the Inverness to Kirkwall and Inverness to Stornoway routes at times. From recent discussions with Scott Grier, the chief executive of Loganair, we know that traffic is growing on a number of routes. It looks as though the downward trend has bottomed out, and is starting on the up. One of the key things that we must do is increase capacity, which can be done by changing aircraft types, but that is up to the airlines. We must also increase operating hours to get improved frequencies.

The Convener: We have got the message about airport operating hours.

John Farquhar Munro: The new terminal facility at Inverness airport was provided by a private finance initiative. It is a magnificent building and I am sure, as you suggest, that extending the operating hours of that facility would attract

services. Is there a case for encouraging more private sector provision, not only in airport terminals, but in the services that use the terminals? Should you and the committee emphasise that more to the Parliament?

Roy Pedersen: That is worth exploring.

Murdo Murray: Because of the conditions—particularly the high winds—on the islands, it is vital that we have hangars. We have a hangar in Stornoway, but we do not have one in Benbecula. If Ministry of Defence traffic on Benbecula is to be developed, there must be a hangar. The provision of hangars could be examined by the Executive.

There is economic development potential, so there should be synergy between the HIE budget and the budgets that local authorities have to develop the airports. The cost of aircraft fuel is also an issue; for example, the cost is so prohibitive in Stornoway that aircraft will go to Wick for fuel.

Shetland Islands Council is keen to do something on its own, which we said we would mention to the committee. If the council can do something cheaper, it should be given the opportunity to do so. The Highlands and Islands transport partnership is not about amassing responsibility. On occasions, it is about devolution. If Shetland Islands Council is keen to do something and it can do it cheaper, let it do it.

Councillor Hagan: I was going to make the same point, so I will not repeat it. The idea is not necessarily that Shetland Islands Council should run the airport—it will put that out to tender—but the council would have more control over what happened, and would be able to market the services and try to improve the operation.

John Farquhar Munro: I want to highlight the point that Murdo Murray made earlier: the contracts for island communities are not coterminous. If the contracts were put out to tender at the same time, a more competitive bid could result. We should bring that to the Executive's attention.

The Convener: I welcome Maureen Macmillan, who was attending another committee this morning, and Des McNulty, who went off to another committee and has returned.

Maureen Macmillan (Highlands and Islands) (Lab): I wish to pick up on franchising and on what John Farquhar Munro said about the bundling of routes. An airline operator said to me that nobody would bid for the routes in the Highlands and Islands because there was no money to be made from them. We could be held to ransom, because the contracts would be put out to tender, but no responses would be received. How do you feel about that?

Murdo Murray: There are some PSOs in the Western Isles, one of which is run by the Executive, from Glasgow to Barra; there are others in Shetland and Orkney. They are all tendered individually. We could start off simply by looking at the current lifeline PSOs. That in itself would provide benefits in terms of coterminous tendering for all existing PSOs.

Maureen Macmillan: You said that if a plane could go to Stornoway twice in a day there would be more passengers, and therefore decreased costs. Is there a demand for that? How big a demand is there—not only in Stornoway, but in other parts of the Highlands and Islands—for air travel? After all, a finite number of people stay on the islands, and there cannot be an ever-expanding market. What is the saturation point?

Murdo Murray: In the past, British Airways and then British Regional Airlines operated a 64-seater aircraft from Glasgow to Stornoway to Inverness, so the Inverness to Stornoway and Glasgow to Stornoway routes were tied together. That was split, so that British Regional Airlines was doing Stornoway to Glasgow, but Loganair took on Inverness to Stornoway. Loganair changed to a Saab 340, which is a 34-seater—a smaller capacity—that was better on timings, because it was no longer linked with the Glasgow run.

The Saab 340 is difficult to get on. I have anecdotal evidence about people who needed to go for an operation on a Monday, but had to travel on the previous Saturday. Last week, I got the last seat on such a plane. There is a demand for that capacity to be increased. One way of doing that would be to increase the frequency of flights. Another means would be to base the aircraft at Stornoway, which could be achieved if airport opening hours could be extended. Instead of going from Inverness to Stornoway and then from Inverness to Edinburgh, the aircraft could be based at Stornoway and could go from Stornoway to Inverness, Inverness to Stornoway and then from Stornoway directly to Edinburgh. In the evening, the reverse would take place and the aircraft would end up in Stornoway. The number of people getting across the Minch could be improved, as a direct result of longer opening hours, by reconfiguring the service.

Maureen Macmillan: Is the situation the same at other airports, such as Wick? I have heard that the problem in Wick is that the planes are not there first thing in the morning.

Councillor Hagan: A plane is based in Kirkwall that leaves at 7.40 am to go to Inverness and Edinburgh. That has been a massive advantage to us in Orkney. The problem now is that the operator needs a hangar to keep that plane in overnight; he is not keen on it sitting out on the tarmac in a gale during winter. That is why an

overnight hangar is required. The way forward is to have planes based in the outer peripheral islands that start from those places in the morning and head for the hub, which is Inverness.

Maureen Macmillan: Has a survey been done, throughout the Highlands or in specific areas, on how many people would use air transport if it was more accessible to them?

Councillor King: We have had something like two air days; we have devoted a lot of time to considering the matter in the transport partnership. WS Atkins is carrying out a study on how making Inverness the hub for the Highlands would work. There is resistance, because traditionally there are flights between Glasgow and Stornoway and between Shetland and Aberdeen. The way forward has to be through a hub airport with spokes. That will bring down fares and lead to a better schedule. As Murdo Murray said, the matter is about people getting from the island to their destination at a more sensible time.

Maureen Macmillan: I have a question, although I am not sure exactly what it means. It is about models for airport control and regulation. The questions asks:

"Have you looked at other models for airport control and regulation to meet the region's social and economic objectives? Can you cite some examples?"

That was to follow on from a question about Sumburgh, which you have already answered.

Murdo Murray: There are models in other countries. In some countries all airports are centrally controlled so that any profits that are generated by one airport are used to cross-subsidise others. We have gone down the road of hiving off the big profitable airports. That is the situation and we are dealing with it at a Scottish level. In a sense, we are stuck with what we have because of the national position, but it would be worth exploring the opportunity to have a pilot project in Sumburgh to see what can be done that would provide value for money.

The Convener: Have you done international comparisons on the ownership of airports, their use, the hours that they operate and so on?

Roy Pedersen: There were conferences in Nairn and Jersey a few weeks ago, to consider such international comparisons. The matter is complicated, because every country is different. Some countries, such as Ireland, concentrate on subsidising air services; airports are expected to run themselves. We tend to subsidise the airports, rather than the air services. The biggest differences seem to have emerged in the methods of air traffic control, fire cover and so on.

Maureen Macmillan: I am sorry—I must leave because I am needed at another committee.

Roy Pedersen: The manpower that is required for air traffic control and navigation systems in Alaska and Norway is much less than in the Highlands and Islands, but the air services in those places appear to be no less safe. Highlands and Islands airports are bound by the Civil Aviation Authority's regulations, which are very strict and appear to be designed for airports such as Heathrow and Gatwick, rather than those on Benbecula and Tiree. It will be difficult to change that, but were it possible to make a change, the Highlands and Islands might be a useful place—as Stephen Hagan alluded to earlier—to conduct experimentation of that kind, as long as safety was not jeopardised.

11:30

Bristow Muldoon: My question goes back to a point that was covered earlier. Several witnesses have mentioned the slots at Gatwick and the proposals for a public service obligation to preserve slots that connect Inverness directly to Gatwick. You mentioned PSO services linking, for example, Glasgow and Barra. Are there examples of such slots being preserved within the UK?

I also note that you said that you intend that such slots should be non-subsidised PSOs. Can you expand on how you expect those to work? What has been the impact on passenger travel of the previous loss of slots from Heathrow?

Murdo Murray: Even in Scotland we have had some difficulties about the timing of flights between Stornoway, Inverness and Edinburgh. That pressure grows as the opportunities for air operators to do lucrative business elsewhere grow. The regional, small-time operators get pushed out. We want to ensure that those operators are anchored in. We are aware that that is happening in other countries in Europe and that is what we are learning from conferences. Regional slots are designated in other areas. We are looking for a mechanism to designate the route rather than the operator. Our operators have changed. Routes have changed from being operated by British Airways—Highland division—to British Regional Airlines. Part of the service has moved to Loganair and part of it has gone back to British Airways. The operators change, so we want the route to be designated.

If terminal 5 at Heathrow were to come on stream, there would be an opportunity in any new provision for the national Government to impose a regional slot allocation. We are trying to build in a slot—for example in Edinburgh, before the situation gets too tight—so that when it gets difficult that slot exists as a public service obligation. It would not necessarily require remuneration, so there would be no subsidy requirement. It would require consideration of

frequency and fares and the route would be designated, rather than the operator. We want the UK Government to consider that seriously and we believe that the EU would be happy to see that done.

Roy Pedersen: The UK Government has been averse to putting non-subsidised PSOs on routes. That is the means by which to preserve slots; once a PSO is put on a route, the slot belongs to the route, not the operator.

Other member states of the EU—and non-member states—do that regularly. The German Government recently put a PSO on the Munich to Berlin route. Munich is a city that has a population of a million people and Berlin has a population of 4 million, so there is no question of that route being subsidised. It was done purely to preserve the frequency of the service and the slots at Berlin.

Even the United States Government has a system of subsidising air services and protecting slots at key hub airports. The UK Government has no such system. The PSO is a simple mechanism for doing that; it does not necessarily imply subsidy. We ask that the Scottish Executive exert pressure, with us, on the UK Government to change that mindset.

The Convener: Thank you. As you suggested, many of those matters are reserved, but that does not bar us from making that view known to the Executive.

Bruce Crawford: Have the proposals on the slots been submitted to the review of airports that is being conducted by Lord Macdonald?

Roy Pedersen: Yes.

The Convener: Thank you for coming to the committee. Your evidence is useful. I hope that at some time we will come to see you instead of you coming to us. We look forward to that.

11:34

Meeting adjourned.

11:39

On resuming—

The Convener: As members know, next week we will take evidence from the Scottish Executive, the Minister for Transport and Planning, the Minister for Environment and Rural Development, and Highlands and Islands Airport Ltd. We will continue today's meeting in private to review the evidence that we have taken on the budget and to consider a draft report on our water inquiry.

11:39

Meeting continued in private until 12:55.

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