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Pàrlamaid na h-Alba

Official Report

MEETING OF THE PARLIAMENT

Wednesday 2 June 2010

Session 3

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CONTENTS

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[The Presiding Officer *opened the meeting at 14:30*]

Time for Reflection

The Presiding Officer (Alex Fergusson): Good afternoon. The first item this afternoon is time for reflection. Our time for reflection leader today is General Sir Richard Dannatt, who was the guest speaker at this morning's national prayer breakfast.

General Sir Richard Dannatt (Guest Speaker, National Prayer Breakfast Scotland): As we meet this afternoon, Scottish soldiers will be laying their lives on the line in Afghanistan on behalf of our nation. They deserve our admiration and thanks for being willing to do their duty on our behalf.

At this moment, it is very likely that some of them will be facing issues of life and death—making instant decisions about who lives and who dies. Soldiers know better than anyone else the close proximity of death in battle, and the yearning for life itself. When death confronts us, the bigger issues of life become very clear. None of us knows when death will confront us, and the only certainty in life is that one day it will.

I read the following account of a young soldier who had just shot his first enemy fighter in Afghanistan.

"Afterwards I sat there and I thought, 'Hang on. I just shot someone.' I had a brew and that. I didn't get to sleep that night. I just lay there all night thinking, 'I shot someone.' It's something strange. A really strange feeling. You feel like, you know, a bit happy with yourself—I've done my job, it's what I've come here for, know what I mean? He's Taliban and I've got one of them. You feel quite chuffed about it.

Then you're feeling, like, you know... Well, sad. You're thinking... well, you know... the, the geezer's another human being at the end of the day, like. Then you get the feeling, well, you know, it's either him or me. And then you're thinking... I think people get, like, you know, religious then as well. You're thinking, well, in the bigger picture, if there is like a Geezer up there and a Geezer downstairs, what does that mean for me now I've just shot someone? Is that me done for? Am I going to hell or what? And all of that went through my mind that night, for hour after hour after hour."

It is often said that there are no atheists in a foxhole, and none of us knows when we are going to meet our maker. But if there is

"a Geezer up there and a Geezer downstairs,"

I am absolutely certain that I know which of the two I want to meet: the God of love and hope, "up there".

Banking and Financial Services

The Presiding Officer (Alex Fergusson): The next item of business is a debate on motion S3M-6436, in the name of Iain Smith, on the Economy, Energy and Tourism Committee's report on banking and financial services in Scotland. We have a few minutes to spare this afternoon, but members should stick broadly to the times that they have been given.

14:33

Iain Smith (North East Fife) (LD): I am particularly pleased to open the debate on behalf of the Economy, Energy and Tourism Committee. When we speak in a debate on a committee report in the chamber, it sometimes feels as if the moment has already passed, given that we have spent a considerable number of months looking into an issue in depth, we have prepared and published our report and then—some weeks later—we come to the debate in the chamber. The committee will have moved on and will probably be focused on its next inquiry.

However, nothing could be further from the truth today. The issues that the Economy, Energy and Tourism Committee covered in its report into the banking and financial services sector are as pertinent and vital today as they were when we approved the report in March. The global financial crisis and the need for banking reform very much remain at the centre of the political agenda.

We saw that just yesterday, when the new Secretary of State for Business, Innovation and Skills, Vince Cable, visited Scotland. He made it clear that the status quo is not an option and that more needs to be done to get banks to lend to businesses again. That was one of the key themes that led the committee to launch its inquiry last autumn. There was clear evidence that banks were failing to lend to small and medium-sized enterprises in Scotland, and there was a lack of competition in banking in Scotland, not least after the shotgun marriage of HBOS and Lloyds TSB, although competition was not great before that. Of course, there are implications for the economy and the public sector in the context of spending cuts, as a result of the cost of the huge bail-out of the banks by the United Kingdom Government.

I thank members of the Economy, Energy and Tourism Committee for their constructive approach to the inquiry. All members avoided an approach that was potentially politically divisive and it is a testament to their work that the committee divided on only one recommendation in its report. I also record our thanks to the committee's specialist adviser, Philip Augar, whom some members heard speak at the Scotland's Futures Forum event today. Members might also have heard him last night on "Newsnight Scotland". Although the report and its conclusions and recommendations are entirely the responsibility of the committee and not Philip Augar, we are grateful for his input and wise counsel during the inquiry, and particularly for his work to ensure that our evidence-taking meetings were focused, pertinent and to the point.

I also thank Dr Katy Orr, the committee's senior assistant clerk at the time of our inquiry, for her role during the inquiry and in the preparation of the report. It would be remiss of me not also to thank Stephen Imrie, the committee clerk, for his support throughout the inquiry.

The inquiry's chosen focus and remit were the way forward for the Scottish banking sector and financial services industry. We received a wide range of evidence from leading commentators such as Robert Peston and Gillian Tett, from trade unions, businesses, the European Commission and from the Office of Fair Trading. We heard from leading figures in the banking and financial services sector in Scotland, including Stephen Hester from the Royal Bank of Scotland, Archie Kane from Lloyds Banking Group, David Nish from Standard Life, and we heard from people from the insurance, investment management and asset servicing sectors. We also met Mervyn King, the governor of the Bank of England, Lord Adair Turner, the chairman of the Financial Services Authority, and the House of Commons Treasury Committee, from whose chairman, John—now Lord—McFall, we took evidence. We are grateful to everyone who provided evidence.

Let us go back to the late autumn of 2007 and the peak of the financial services sector's success. At that time, banking and financial services in Scotland employed between 100,000 and 150,000 people—it is difficult to get an exact figure. Median earnings in the sector were well over 25 per cent more than median earnings in other industries. We had gross exports of financial services of about £5 billion, with some £1 billion of that overseas. Scotland was home to one of the world's largest banks—RBS—which had profits of nearly £7 billion per year and assets of more than £1.5 trillion. We were also home to other major banks and we had a burgeoning life assurance, pensions, asset management and asset servicing sector. The banking sector provided the essential lubricant—finance on reasonable terms—for the rest of Scotland's economy, which was critical.

Then came the devastating period from autumn 2007 to spring 2009. I will not waste members' time by going into all the historical detail, which is covered in great depth in our report and, in particular, in our summary report. In Scotland, we witnessed the humbling of RBS, the catastrophe that was HBOS and the demise of the Dunfermline Building Society as an independent entity.

The committee thought that it was too simplistic to blame only the senior managers in our banks, although those people deserve much criticism. There were failings in the system right across the board. As Gillian Tett, assistant editor of the *Financial Times*, put it:

"If you draw up a list of the institutions that have been shown by the crisis to have failed in some way in the past decade or so, it would definitely include auditors, regulators, politicians and rating agencies, alongside bankers."—[*Official Report, Economy, Energy and Tourism Committee*, 25 November 2009; c 2757.]

For the committee, the key issue was the failure of the banking system to heed the words of Adam Smith, who said in 1776:

"It is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country."

In short, banks are there to serve the economy; it is not for the economy to serve the banks.

We identified other failings in our report. They include the overwhelming faith that was put in the financial sector in the quest for more perfect markets, which underpinned the relentless pursuit of returns and growth and the development of ever more complex financial instruments; the acquiescence of politicians and regulators, which permitted that to happen—the "light touch" mantra; the death of previous banking models, in particular the originate-and-hold model, and a move to sell on loans to other bodies; and declining credit standards and a catastrophic miscalculation of risks.

I am not a banker and have never claimed to be one—depressingly, it is nearly 30 years since I completed study of a bit of economics while at university—but I really cannot see how so many people expected to make so much money out of one loan. First, there is the bank that originates the loan. It makes its bit of money on that and then sells the loan on to another bank for a profit so that it can lend more money to other people to send off for profit and earn more bonuses. The second bank then securitises that loan, slicing and dicing it into something like a collateralised debt instrument, which it then sells on for profit for even more bonuses. Those collateralised debt instruments are then traded for a profit and even more bonuses as if they had some intrinsic value in themselves. However, in the end, the only value that they have is the repayment of the original loan at the original rate of interest agreed by the first bank.

Where does anyone make all the money? It is a phoney market that bankers invented to create profits and bonuses. It was underpinned by a belief that property prices could only go up. So what if somebody defaulted on a 120 per cent mortgage? The bankers could just sell the house at a profit and had already pocketed the bonuses, so they felt that it would not affect them anyway. The practice fuelled the property price bubble and brought about its own downfall.

The sheer size and global reach of some of the institutions that were involved, coupled with the nature of national regulatory regimes, meant that the banking institutions could not cope with such a failure. As Merv King, the governor of the Bank of England, stated:

"The sheer scale of support to the banking sector is breathtaking. In the UK … it is not far short of a trillion ... pounds, close to two-thirds of the annual output of the entire economy. To paraphrase a great wartime leader, never in the field of financial endeavour has so much money been owed by so few to so many. And, one might add, so far with little real reform."

That said, the committee agreed that the previous UK Government was right that it was necessary to intervene. I think that we agree that it dealt with the crisis appropriately, by and large. It intervened perhaps a little later than it would have if it had heeded Vince Cable's words, but it intervened sensibly. However, I am concerned that it did not take on the reform part of the agenda.

The state should not be required to intervene ever again on such a scale in order to prevent the failure of private financial institutions. It is simply not acceptable that losses have to be met by the public sector when so much of the profit remains in private hands. For the committee, individual banks can never again be allowed to be so important that their failure can endanger the real economy of a country. The banks and the financial sector must never again be able to hold a gun to the head of the taxpayer when the consequences of their failure are too terrible to imagine.

Much of the criticism that the committee and others have made has been focused on only one part of Scotland's financial industry—namely, the banks. It is vital to emphasise that other parts of the Scottish financial sector have withstood the crisis. For example, the country still has thriving life insurance, pensions, investment management and asset servicing sectors, which still employ thousands of people. We must correct the problems in banking without causing problems in other parts of the financial services sector.

It is inevitable that the debate will focus on the banking sector, so I will talk about some of the reforms that the committee wants in it. The first area to address is regulatory failure. The committee believes that far-reaching changes to our regulatory system are needed to ensure that it has a more intrusive and systematic approach to supervision. We also want the various regulators—the Bank of England, the FSA and the Office of Fair Trading—to engage better with Scotland and its institutions.

The second issue to fix is that of our banks being too big, or too important, to fail. A key paradox of the crisis was that, although banks went out into the world to expand their operations and take advantage of the enormous wealth that was to be gained in a global market, they came home to die and it was left to national Governments to bail out the global banks.

The committee agreed that the way forward is not necessarily to break up the banks but to establish more effective resolution regimes for failed banks. Banks must be restricted from using retail deposits and reserves to fund their more risky activities. Stronger capital buffers must also be put in place to achieve those aims and to ensure that banks gamble with their own money—not the taxpayers'.

The next area to fix is the prevailing culture in our banks. We agreed that there is a need to encourage our banks to return to the fundamentally Scottish principles of financial rectitude that were at the heart of our previous banking models, and to banish the irresponsible and naked greed that fuelled inappropriate financial innovation.

We also need the corporate governance reforms that have been proposed by the Walker review. The Treasury Select Committee has described institutional shareholders as "supine and ineffective"—perhaps Prudential's shareholders are showing that such attitudes have changed, but we will wait and see—given that non-executive directors, auditors and credit rating agencies all failed to fulfil their responsibilities. They all failed both to spot what was going on and to take action to stop what should not have been happening.

In the end, the simple truth is that banks lost sight of their central purpose, which is to provide services to their customers and to support the economy: it is not the relentless pursuit of growth, market share and short-term profits. I remain concerned that, from the evidence that we took, the banks have not really changed that culture but are still just waiting for things to get back to normal. UK Financial Investments Ltd, which holds the banks' shares in our name, seems to me to be taking too much of a back seat when it should be driving forward the necessary change of culture on our behalf.

The next key area that must be addressed is the manifest lack of competition and diversity in the Scottish banking system. Opportunities to address that will arise during the process of divestment and sale of parts of RBS and Lloyds Banking Group. Our committee wants an Office of Fair Trading investigation into competition, so I hope that the minister will agree to back that important demand. We want, as a result of the divestments, a banking sector in Scotland that has more competition—not just with more competition from the same types of institutions but with different types of banking, which should be allowed to thrive. We need to consider models from the mutuals sector, credit unions, co-operatives and other types of banking that provide alternative models—as well as alternative institutions—for savers, businesses and others.

Time is limited, so I will conclude by referring briefly to the Scottish Government's response. When we discussed that briefly at our committee meeting today, some disappointment was expressed that the Government's response was perhaps not as active as we might have liked. I hope that, in the course of the debate, the minister will be able to say a bit more about what the Government's position is on the future shape of regulation and legislation, how it would like Scotland to benefit and what type of banking model it would like to see in Scotland. Does the Government share our vision of a much more diverse banking sector? Does it want to see the big banks split up and different types of banking coming into Scotland? How will that be achieved? Those are key issues on which the Scottish Government ought to have a position that would help to promote Scotland's economy. I hope that we will hear those details in the course of the debate.

The financial crisis has shown the catastrophic effect that failure in the banking sector can have on the real economy and on individuals. The institutions of Parliament and Government must act to ensure that such a crisis is not repeated. I commend our report to the Parliament.

I move,

That the Parliament notes the conclusions and recommendations contained in the Economy, Energy and Tourism Committee's 3rd Report 2010 (Session 3): *Report on the way forward for Scotland's banking, building society and financial services sector* (SP Paper 405).

14:47

The Minister for Enterprise, Energy and Tourism (Jim Mather): I congratulate Iain Smith and his fellow members of the Economy, Energy and Tourism Committee on their unstinting efforts to inquire into the way forward for Scotland's banking, building society and financial services industry. That was also recognised today at a very worthwhile Scotland's Futures Forum event. As Mr Smith suggested, the committee considered an enormous volume of written and oral evidence—more than 40 written submissions and 17 oral evidence sessions and interviews with executives and officials from UK Government and other organisations.

The Scottish Government was fully supportive of the committee's plans to undertake the inquiry and to contribute its ideas on the way forward for what is a key sector. We were pleased to co-operate fully by providing written as well as oral evidence from Scottish Government officials including the chief economic adviser, Dr Andrew Goudie, and from the Cabinet Secretary for Finance and Sustainable Growth. After giving full consideration to the committee's report, John Swinney has also provided the Scottish Government's written response. Therefore, I am delighted to be here today to contribute to this important debate on these complex but crucial matters.

As the committee reported so effectively, the global financial crisis has had, as it has elsewhere, a profound impact on the financial services industry in Scotland. Yes, banking has been in the eye of the storm, with our two largest banks, RBS and HBOS, requiring state intervention to survive and our largest building society—Dunfermline Building Society—being sold off by the Bank of England. However, the committee has rightly set the record straight. As Iain Smith said, the financial services industry in Scotland is much more than banking; our world-class insurance, life and pensions, investment management and asset servicing sectors have all fared much better, which has helped our economy and maintained our reputation. That is in line with the work of our prestigious accounting, actuarial and legal professions and their professional bodies.

However, as we all know and appreciate, the banking sector provides a fundamental service not only to our businesses but to the people of Scotland in their daily lives. We must therefore do all that we can to ensure that the basic purpose of the banking and building society sectors, which was so eloquently described in the committee's report, continues to be available to Scotland and its people. Who could not agree with the committee's view that we must learn and construct a productive legacy from the financial crisis for the benefit of our industry, our wider economy and our people?

In its report, the committee has raised a number of issues that are specific to the Scottish Government, on which I will spend the next few minutes. The first of those is access to finance, which is a prerequisite for a modern economy. One of the key features of the credit crunch has been constraints on access to finance. Through that channel, the turbulence in the financial sector has spread to the real economy. That is not unique to Scotland—it has been a feature of many economies through the downturn.

Our original Scottish Government access to finance survey of March 2009 identified constraints on lending to business as being a serious issue for SMEs in Scotland. That survey formed the basis of our dialogue with the banks and our correspondence with the United Kingdom Government on improving access to finance and reform of the banking sector. The Scottish Government recognises that there have been some improvements in the supply of finance, but the fact is that we still need to encourage lenders to support the cash, credit and capital needs of viable businesses that have good prospects.

The follow-up survey shows that although there are some positive signs—in particular, a reduction in rejection rates and a decrease in the number of suppressed borrowers— many firms continue to report that the cost of securing finance remains an issue for them. Therefore, in our on-going dialogue with the banks, we continue to press them to return to responsible lending practices, including utilisation of available resources to support lending to Scottish SMEs.

Gavin Brown (Lothians) (Con): One of the report's conclusions was that the committee felt that the Scottish Government should formally ask the OFT to investigate Scottish business banking. Now that the minister has reviewed the evidence, and in the light of what was said at this morning's meeting of the Economy, Energy and Tourism Committee, does he think that the Government ought to write to the OFT about Scottish business banking?

Jim Mather: Indeed I do. I will refer to that later in my speech.

The facts are that the level of lending and the costs still remain a concern and a challenge—businesses continue to report problems—although we note the evidence from the British Bankers Association that suggests that there is no reason to believe that access to finance will be more restricted in Scotland than in other parts of the UK. The banks themselves advise that money is available for good lending propositions, and they have undertaken initiatives such as business lending roadshows to ensure that customers are aware of that. During 2010-11, the Scottish Government will continue to follow up on the analysis and evidence that are emerging from our survey work. That work will include a further update to the survey to ensure that credit conditions are monitored for any improvements in access to finance.

Meanwhile, our efforts in engaging across all sectors will continue as we work towards achieving greater economic resilience and more supportive long-term relationships. Indeed, we are working with the Institute of Chartered Accountants in Scotland, the Scottish Family

Business Association, the Federation of Small Businesses and others to cultivate a new, more collaborative approach among businesses, business advisers, bankers and stakeholders. A session is scheduled for next week.

We now have the Scottish Investment Bank, which will support access to finance for Scottish businesses that have most to contribute to our economy, by complementing existing financial products that are offered through the public and private sectors. We are conscious of the need for growth. We are extremely keen to ensure that there is a clear understanding of the requirement to stimulate greater investment in exporting and growth companies, given existing and likely future constraints in financial markets. We need to stimulate economic recovery and build exports, and work is continuing in partnership with Scottish Development International and the Scottish Council for Development and Industry.

Our discussions with the banks and others have revealed a consensus and acceptance that lending availability may continue to be restrained, even when demand for finance recovers. That is deeply concerning when our evidence clearly shows that the current difficulties in accessing finance are constraining many growth companies and exporters that have relatively healthy balance sheets. That gap in the supply of funding has emerged partly because of a reduction in the supply of finance and not solely as a result of the degree of risk that is presented by the companies that seek finance. Our research indicates that many such companies are curtailing or postponing their growth plans because of difficulties in raising finance, so the Scottish Investment Bank is important because, by providing loan funding to such companies, we can ensure that those growth plans are fully realised, which will bring significant benefits to the economy.

It was with that in mind that, on 21 April, the First Minister announced £50 million in additional funding to enable the Scottish Investment Bank to respond effectively to the needs of Scottish businesses that can contribute the most to Scotland's economic recovery and growth.

Iain Smith: Will the minister clarify exactly when that money will be available? There was some uncertainty about whether it is available now or will not be available until the end of the year.

Jim Mather: The money will be available towards the end of the year—it is in the pipeline.

The Scottish Government has made it clear that we need a diverse and competitive banking sector. The divestment process that some of our banks are undertaking should provide an opportunity to improve the level of competition in banking in Scotland, but we need to be sure that barriers to entry are identified and removed. That is why we welcome the Office of Fair Trading's call for evidence just last week for its review of barriers to entry, expansion and exit in retail banking. Like the FSB and other business organisations, we appreciate and welcome the OFT's decision to look specifically at the sector here in Scotland. We are determined to assist that process so, to that end, the Scottish Government will continue to make data about the workings of the market in Scotland available to the OFT.

Lewis Macdonald (Aberdeen Central) (Lab): I am interested in the minister's reference to an OFT decision to make a specific inquiry into the situation in Scotland. We heard today, and in evidence from the OFT, that it would look at Scotland in the context of inquiries into access to banking, for example, across Great Britain. Does the minister recognise that the FSB and the committee have called for the OFT to conduct a formal inquiry, and does he support that call?

Jim Mather: I do, and I also know that the OFT was in the committee room today and heard the call from Wendy Alexander and from the FSB to take a particular Scottish focus. I welcome that.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Just before the minister moves on from the functions of the banks, is it the Scottish Government's view that it would be better for RBS and the Lloyds Banking Group to have separate utility bank and investment bank functions? In effect, that would mean that RBS would be split up.

Jim Mather: We have seen great clarity in the desire to repeal the repeal of the Glass-Steagall act. That view was expressed earlier today, and we are comfortable with it. We are keen for banking to adopt more of a utility function in areas such as retail, commercial and corporate advice.

The strategy for the financial services industry in Scotland goes back to 2003; members will know that from the previous Administration. The group that developed the strategy worked under Jim Wallace, the then Deputy First Minister, and it delivered a strategy that had a vision of

> "An innovative, competitive and thriving international financial services industry in Scotland underpinned by world-class infrastructure and universally recognised as a leader on the global stage."

That is a good basis from which we have moved forward to date. The strategy's three main aims are to encompass a world-class workforce, to improve the business infrastructure and to build Scotland's industry profile while ensuring that innovation in products and services is delivered. That strategy now needs to evolve in the light of the experience of the past two years.

Members will recall that the Financial Services Advisory Board was established under the previous Administration, but this Government has recognised the significant advantage that a group such as FiSAB delivers, and we have remained committed to it. Its board members represent all sectors of the financial services industry, and although they do not represent their individual companies, each member is able to provide information and advice based on their experience and expertise within the industry. Today, at the Scotland's Futures Forum event, through Mark Tennant and Ben Thomson, people could see the value of such information. Board members also sit alongside those who represent financial services employees, and who are also committed to ensuring the successful growth of the industry here in Scotland.

In the process, other members, policy makers, academics and those who deliver economic development opportunities are able to gain a rounded understanding of some of the most complex issues affecting the industry and the wider economy. As a result, ministers can ensure that we get the most informed view possible as we determine our policies and actions. That is also reflected into the work of the financial services jobs task force and other aspects, including attracting new jobs, even in difficult times. Tesco Bank has created 800 jobs in Glasgow, and Capita has created 300 in Stirling.

In the meantime, we will continue to work with the sector and Parliament to ensure that we get the best possible results for this key sector in Scotland.

15:00

Lewis Macdonald (Aberdeen Central) (Lab): The inquiry was a fascinating one. We heard a good deal of evidence on the sheer diversity of financial services companies that are thriving in Scotland today, but at the heart of our report lies a single issue: the huge power and influence of the two major Scottish banks and the risks that we all faced as they careered towards their own destruction.

The forms of self-destruction were different but the lust for growth at all costs and the failure to recognise risk were common to both banks. The Royal Bank of Scotland grew and grew until it nearly burst; Halifax Bank of Scotland lent and lent until its coffers were nearly empty. Neither was able to save itself when events elsewhere exposed them to market scrutiny.

At the time of the rescue of HBOS by UK Government intervention and the merger with Lloyds TSB, the First Minister said that this was

"a situation where a bank can be forced into a merger by basically a bunch of short-selling spivs and speculators in the financial markets".

Short-sighted and reckless behaviour certainly led both HBOS and RBS into a place from which only billions of pounds of taxpayers' money could save them, but that behaviour came first of all from within the banks themselves.

We did not find in our inquiry that there was a peculiarly Scottish financial crisis or that regulatory failures were different in kind in relation to Scotland-based rather than London-based financial institutions. What we found was that the Scottish economy was peculiarly vulnerable to a collapse in confidence in global financial markets because we happened to have a duopoly in our domestic market of two of the worst offenders in a sector in which reckless executives, unchallenged by ineffective non-executives, were the rule and not the exception.

Jim Mather: Does the member think that there are any important lessons for the FSA, the Treasury and the Bank of England to learn, or was the crisis all down to the banks?

Lewis Macdonald: First and foremost there should be clarity of understanding of the different roles. Of course, circumstances have changed since we conducted our inquiry, and we will listen with great interest to what Conservative and Liberal Democrat ministers propose for the future structure of the regulatory regime. We are concerned, for example, by their decision to drop Labour plans for a small business credit adjudicator, and we will watch to see what they suggest in its place and what the additional powers that they have given the Bank of England will mean for the regulation of the sector. Of course, although the minister is right to say that many of the regulatory functions lie elsewhere, many lie here too.

Our report concluded that the UK Government's intervention saved the Scotland-based banks, and that saving those banks in turn saved the economy from an incalculably larger economic crisis. The effect on the Scottish economy and society of the failure of either or both of the banks would have been enormous and would have resulted in, among other things, massive and widespread redundancies throughout Scotland.

A reform agenda has been taken forward in relation to what were known as the tripartite authorities, and we shall see how that develops in the hands of the new Government. However, there are also issues for the Scottish Government and the Scottish Parliament because there are still specific concerns about the economy of Scotland itself. At the centre is the duopoly that continues to dominate the Scottish banking sector. The Royal Bank of Scotland and Lloyds Banking Group, as it is now known, are in much safer hands and in much better shape than was the case two years ago, but their position in the economy remains significant.

As we heard from the convener, the committee formally divided on only one issue of substance in preparing the report: our recommendation that Scottish ministers should ask the OFT to conduct a formal investigation into competition and banking in Scotland in relation to personal current accounts, home loans and business banking. SNP members on the committee dissented from the majority view, and the Scottish Government's response, which the committee considered at its meeting this morning, failed to address the recommendation directly. In his response to interventions today, Mr Mather appeared to give an undertaking, which I hope he will spell out in his closing speech. Clearly, a formal approach from the Scottish Government would be influential with the OFT. It is clear from what OFT representatives said at the Scotland's Futures Forum meeting today that it currently has no intention of undertaking an investigation into the Scottish market as such, so a formal approach is something that we want.

This is not a minor matter. The collapse of HBOS was avoided by the British Government's decision to allow the acquisition of the company by Lloyds TSB and to set aside the usual competition requirements that guard against the consequences of monopoly in the marketplace. The merger created a concentration of ownership that would have been otherwise unacceptable, and UK ministers said at the time that the OFT should keep a watching brief on the competition issues that were created by the merger. It is still the case that 70 per cent of small business banking in Scotland is in the hands of RBS and Lloyds.

Jeremy Purvis: When the chairman of the Competition Commission spoke in Edinburgh last November, he said that Lord Mandelson had considered advice from the OFT that the merger should be referred to the Competition Commission at some stage but, instead of keeping a watching brief, Lord Mandelson rejected that advice. It is because of the decisions of Labour ministers that we are in the position that we are in.

Lewis Macdonald: I am glad that Lord Mandelson made that decision. That is why we still have a successful, functioning economy today, as well as having Lloyds Banking Group as a major player in the Scottish economy. Peter Mandelson was quite right to take that decision.

Jeremy Purvis's intervention is disappointing, given that his party now has an influence in this area. However, Scottish and UK ministers must now consider whether the concentration of ownership within the Scottish lending market, in particular, merits further investigation. I believe that it does. I know from my constituents' experiences of dealing with Scotland's major banks in the real economy that there continue to be issues. The minister has said that the flow of lending has improved, but I can assure him that those issues have not all been resolved. That is why the Federation of Small Businesses said this week that a full OFT investigation into competition in Scotland's banking sector is required if we are to address the problems that face too many business customers as a result of the duopoly.

Scottish ministers have recently inflicted serious damage on many of Scotland's businesses through measures such as their decision to have no transitional relief scheme for those facing increases in business rates. That decision alone will give companies in Aberdeen and Grampian an extra tax burden of £30 million a year. In that context, ministers should be doing everything that they can to help to secure access to finance for small businesses. I hope that Jim Mather will confirm the impression that he has given today by formally writing to the OFT to seek a formal investigation. That is an important step that Scottish ministers can take now to assist the recovery of the Scottish economy from the effects of the financial crisis.

15:07

Gavin Brown (Lothians) (Con): The issues that the committee considered are every bit as relevant today as they were at the very beginning of the inquiry. At the moment, around the world, there are a number of movements. Just last week, a small savings bank in Spain was nationalised. In the United States, the Financial Accounting Standards Board is proposing an overhaul of the way in which banks report their loans on their balance sheets. Further, there are the Basel III proposals that will be finalised by the end of the year, leading to bigger safety buffers of capital and liquid assets.

When we began the inquiry, the committee had a number of principles to which we thought we should stick. We felt that we should be forward looking, rather than becoming involved in a backward-looking approach that was concerned with who ought to be blamed. We felt also that there should be as little duplication as possible, because one or two Westminster committees had considered banking issues as well. We also felt that there ought to be a strong focus on the areas on which the Scottish Parliament and the Scottish Government could have a direct, or at least an indirect, impact. Broadly, the committee stuck to those principles pretty well.

I will focus on the issues on which the Scottish Government can have a direct or an indirect impact. When I intervened during the minister's speech, I mentioned the issue of competition and the OFT. I will outline why that issue is so important and so specific to Scotland. When the Lloyds TSB takeover was first mooted some time ago, the OFT raised three particular concerns with regard to competition. Those concerns related to personal and current accounts and mortgages UK-wide, and business lending in Scotland. In its report, the OFT singled out Scotland in relation to business lending—it felt that the consequences of the merger would have a negative impact primarily in Scotland alone. That is why we as a committee singled out business lending.

We welcome the report that we received from the OFT two months ago on personal and current accounts, and the next investigation that has been announced on the barriers to entry in banking. We have heard more about that from the minister and other members. However, we have not had an investigation on the specific issue of Scottish business banking.

The minister at the time of the merger, Peter Mandelson, said—I am speaking from memory—that the matter should be kept under review, which was stronger than saying that a watching brief should be kept. However, it was clear from the evidence to the committee that that seemed to amount to not much more than the occasional conversation and a reading of the *Financial Times*. For that reason the committee stressed that the investigation ought to take place. We pushed the Scottish Government and asked it in the strongest possible terms formally to request such an investigation.

The Scottish Government does not have direct power or control over the OFT; I think that everyone accepts that. However, it came out in the OFT's evidence that if a request was to come in from the Scottish Government, it would be treated extremely seriously. The OFT may decide not to investigate—we cannot force it to do so—but it is very important that the Scottish Government requests a formal review of Scottish business banking.

The minister has suggested that he is prepared to do that, and I hope he will confirm that in his summing up. Some members of the committee, and many experts at the committee's meeting earlier today, have requested an investigation, and the FSB called for one in the press this morning.

The second area where we can have influence is the Scottish Investment Bank. The minister said in his speech:

> "We now have the Scottish Investment Bank".

That troubled me slightly. The First Minister announced the creation of a Scottish investment bank at the Scottish Trades Union Congress conference in April 2009. The bank would have £150 million of funds, held in the Scottish co-investment fund, the Scottish seed fund and one other fund within Scottish Enterprise, and an additional £150 million that would be leveraged in from Europe.

However, it did not happen. A couple of months ago it was reannounced that the Scottish Investment Bank was about to be created, but this time the figure was £50 million instead of £150 million. The committee was told a couple of weeks ago that the money was ready and the bank was up and running. We were told that businesses could apply now to get money from the Scottish Investment Bank.

The committee received a letter this morning from the Cabinet Secretary for Finance and Sustainable Growth, which stated that that simply was not correct and that the Government hoped that the bank would be up and running by the end of 2010. We do not have a Scottish Investment Bank at the moment, and that is part of the problem.

It was identified early on—particularly from the Scottish Government's work in its extremely good paper, "Access to Bank Finance for Scottish SMEs"—that something was required for small businesses, such as renewables businesses, and that there was a gap in that area. However, 14 or 15 months on that gap has not been filled, and it looks as if that will not happen until the end of the year. The Government must explain what on earth has been going on, and why it announced the creation of the bank in April 2009 if it now hopes that the bank will be ready by the end of this year.

The committee's report is extremely positive. The inquiry put Scotland on the map—as the committee's convener said—in that organisations such as UKFI, the FSA and the OFT got to hear directly from Scottish legislators. Big commentators such as Robert Peston and Gillian Tett also got a direct view from Scotland, so it was good in that respect.

As other members have said, the report allows us to tell a more positive story about the financial services sector as a whole. We have heard about pensions, insurance fund management and asset services, but what we have not heard so far is that 50 per cent—it is a statistic worth mentioning—of the Scottish financial services sector is not banking. That is a sizeable chunk. As I said, the report allowed us to focus on areas in which the Parliament and the Government can actually make a difference.

I close by referring to the Financial Services Authority's letter of 11 May to the convener of the Economy, Energy and Tourism Committee. It states that, until now, the FSA has focused on individual financial advisers in Scotland and has not looked at banks or larger companies, but that it is extending its Edinburgh office to include

"a small team of supervisors of large retail firms headquartered in Scotland."

It states that, in due course, that team will

"expand to include support for prudential supervision."

Who knows whether that is a direct consequence of the committee's report or whether the report played just a small part in helping to encourage such movement, but if the report has done that and the things that I have already mentioned, and no more, it will have been a worthwhile contribution to the debate.

15:16

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I echo the commendation of the committee for a highly relevant and constructive report.

Within two weeks last autumn, the governor of the Bank of England and the chairman of the Competition Commission, whom I have already quoted, addressed business organisations and leaders in Edinburgh on the banking crisis and its consequences. Both chose to quote scions of the Scottish enlightenment—David Hume and Sir Walter Scott. Hume and Scott made reference to what we might now call the first great Scottish banking crisis—the one in 1772. King and Freeman were addressing a banking crisis that in many respects began in the US under a model of trading that was identical to that of RBS and HBOS.

Mervyn King began his speech in Edinburgh last October by saying:

"Two years ago, Scotland was home to two of the largest and most respected international banks. Both are now largely state-owned."

In a recent debate, I caused a touch of angst on the SNP back benches when I described the banking crisis as a US-Scottish crisis. It is not rational to take any other perspective given the type of internal banking structure that both RBS and HBOS used, the manner in which they made banking decisions, the way in which they used depositors as security for casino-style investment banking decisions, and the key role that they played in European acquisitions and transactions and US investments.

Jim Mather: Having read about six books on the subject and not seen that hypothesis being put forward by anyone, I am fascinated to know what basis the member has for coming up with that assertion.

Jeremy Purvis: The basis is obvious. The two banks that had the most considerable impact on the crisis are headquartered in Scotland and they are Scottish institutions.

Jim Mather: France? Ireland?

Jeremy Purvis: The minister mentions France and Ireland. He can add to the list Sweden, which I will mention later. We all know that banks around the world were part of the situation, but two of the biggest are within an hour of the Parliament building. We cannot simply turn our eyes away from that. We can have a revisionist view and say that the crisis is international, but if the SNP does so, it should not criticise the Treasury. We have to be honest with people and say that part of the responsibility lies within Scotland and the institutions that existed here.

Before I was elected to the Parliament, I worked for a company that had Scottish Financial Enterprise as a client and I handled its communications with the Parliament, Scottish Enterprise and the Scottish Executive. I distinctly remember the current Minister for Enterprise, Energy and Tourism arguing for a more relaxed regulatory structure with less intervention from the FSA and the Bank of England and a gradual move to a wholly European, light-touch regulatory regime for the sector in Scotland. I recall hearing SNP spokespeople saying that the regulatory framework was holding back expansion of the sector. To revise history as if to seek to wipe that from the records is naive.

Jim Mather: I ask the member to consider the proposition that we were entitled to believe that the triumvirate of the FSA, the Treasury and the Bank of England was up to the job of ensuring that risk was managed and that the integrity of the banking system was intact.

Jeremy Purvis: Having criticised those institutions at the time for being too interventionist, the minister cannot criticise them now for not being interventionist enough. We want consistency from the SNP. As the governor of the Bank of England himself said in October, those institutions did not intervene enough. What separates the crisis from other such events are the consequences and the scale of what happened.

The Scottish Parliament information centre, the Bank of England and others have indicated that RBS and the Lloyds Banking Group required £470 billion-worth of security and intervention. On the question of how an independent Scotland could have sustained our two large institutions, some have pointed to the way in which the Swedish Government sustained the institutions in its country after the banking crisis of the early 1990s.

In 1992, Sweden spent 65 billion kronor or 4 per cent of its gross domestic product—equivalent to $18 billion in today's money—supporting those banks. I point out, as a direct equivalent, that for the Scottish banks alone the capital injection and money from the special liquidity scheme amounted to £170 billion, which is not 4 per cent but 170 per cent of our GDP.

Jim Mather: What about America? The UK? All of them?

Jeremy Purvis: The minister, again from a sedentary position, mentions the US. As he will be well aware, the US did not commit 170 per cent of its GDP to supporting its institutions.

RBS and HBOS might have been too large to fail; the fact is, however, that they were nearly too large to save. That is essentially why we must consider the sector's future and why the Liberal Democrats fully endorse the committee's request for the Scottish Government to take part in the UK Government's consideration over the next year of the banking structure that we need to have. Such involvement will be important, because we need to consider not only competition issues in the Scottish economy but the sector's very structure.

As the governor of the Bank of England has said, if we were to start from where we are now most external observers would raise their eyebrows. In a speech last October, he said:

> "What does seem impractical, however, are the current arrangements. Anyone who proposed giving government guarantees to retail depositors and other creditors, and then suggested that such funding could be used to finance highly risky and speculative activities, would be thought rather unworldly. But that is where we ... are."

We have to face up to the fact that over the next year very big decisions will have to be taken that will have consequences for the Scottish economy. RBS's functions, for example, might have to be split up into those that our economy really requires—the very basic utility functions of management of savings, free access to funding to pay for goods for trade and so on—and those that have effectively been termed casino banking. That will mean wholesale and potentially radical reform in Scotland, and we want to hear the Scottish Government's views in that respect. We have not heard them so far and it is critical that we do so.

I am sure that we will all agree with the governor of the Bank of England's conclusion that we will be living with the consequences of this crisis for a generation. If we do nothing about it, if we keep the same banking structure and activities and if we allow the banks to continue unreformed, we might have to face a much bigger crisis down the line. That is the UK Government's focus, and it is right that the OFT investigation should feed into its work. Indeed, that is why, following the news of the takeover of HBOS by the Lloyds Banking Group, Tavish Scott wrote immediately to the chairman of the OFT to ask for such an investigation. We want the Scottish Government to be as active now as we were 18 months ago. After all, if we do not get this right, we will only have to face another crisis in the future.

15:24

Stuart McMillan (West of Scotland) (SNP): At the outset, I associate myself with the committee convener's comments about everyone involved in the inquiry. The clerking team and Philip Augar did a tremendous amount of work assisting the committee, and I pay tribute to all of them. I am sure that in addition to the recognition that they are receiving in the chamber this afternoon the clerks would be only too happy to receive a small percentage of the bonuses given to the top executives of the part-nationalised banks.

When the committee first discussed the idea of an inquiry, there did not appear to be a unanimous view on holding one, as regulation is still based at Westminster. However, two points were raised in that debate. I made the point that the population of Scotland would not forgive the committee and the Parliament for not investigating the impact of the crisis on them. The second point was the one that Gavin Brown mentioned, which is that, if we were to have an inquiry, it had to be forward looking. Thankfully, I would like to think, those two points helped to sway my fellow committee members, so I praise them for that and for the hard work that went into the report.

There are too many areas in the report to highlight them all in only six minutes, so I will focus my comments on a few. I am sure that, by the end of the debate, many more of the issues mentioned in the report will have been raised by members throughout the chamber.

First, I will touch on lending to small businesses. We heard a tremendous amount about the dramatic change in lending practices instigated by the banks—we have already heard comments about the issue in the debate—and by the part-nationalised banks in particular, resulting in even more hardship for the small business sector. The committee had a private session with representatives from the small business sector, which was extremely interesting and, when they spoke about some of the struggles that they have faced recently, very touching.

We have recently come out of the recession, but the credit crunch still exists and recovery is extremely fragile. The credit crunch is alive and although the banks tell us that they have money to lend, small businesses tell us that they cannot get any of it as the new charges and conditions are prohibitive. I do not think that anyone in the chamber would be foolish enough to say that lending practices should go back to where they were before the collapse, but I am sure that we all agree that the banks must turn around their models and practices to make them competitive once again. Their actions, which are stymieing growth at this vital juncture in the economic cycle, make no sense to me.

David Whitton (Strathkelvin and Bearsden) (Lab): If Mr McMillan feels that way, why did he vote against the call in the committee for an OFT inquiry into business lending practices in Scotland?

Stuart McMillan: As one of the committee members who sat through all the evidence—I do not think that Mr Whitton did—I had to go through all the information that I had heard and make a decision.

I met a small business owner a couple of weeks ago to discuss the current financial situation and the shambolic mess of the UK's public finances. He explained to me his business banking experiences and how they have changed. The saddest point is that although he has banked with a particular institution for some 20 years, had a great working relationship with it and never had to go to it for any additional services, his charges—even for the basic services that he requires—have risen out of all proportion and decision making appears to have been removed from the high street branch to some faceless superior at headquarters. The personal touch appears to have been lost, and that is impacting on the livelihoods of some of our small business owners.

The second issue that I will touch on, which follows on from the first and from the massive rise in charges, is high street competition. A person does not need to be a derivatives expert to realise the folly of past business practices. As banks bought up competitors over the years, it was only a matter of time before the shortage of high street competition would come back to bite us. We live in a market economy in which competition is vital to ensuring that the customer gets the best deal. How can the customer and Scotland get the best deal when more than 70 per cent of banking goes through two institutions: RBS and Lloyds Banking Group? For those of us in the chamber who follow football, it is the same as the old firm winning everything year in, year out, with the odd exception when someone else gets a chance, such as Dundee United winning the Scottish cup this year.

As Bill Shankly once said:

> "Some people believe football is a matter of life and death, I am very disappointed with that attitude. I can assure you it is much, much more important than that."

Banking is far more important than football. A failing banking system can mean the life or death of a business and therefore of individuals'—our constituents'—employment.

Our report highlighted the lack of competition as a major issue that will need to be addressed. However, regulatory functions for the sector lie in London, not here. I welcome the FSA's response to the report, which has been mentioned. In it, it highlights the fact that it will increase the size of its Edinburgh office to supervise the large retail firms that are headquartered in Scotland, with a view to expansion in the future.

The final point that I want to highlight centres on bonuses. Earlier, I made a rather flippant remark about banking executives' bonuses. In most walks of life, there is a culture of giving bonuses for excellent work that is over and above what is expected of people. However, I find it pretty disgusting that, when the banking crisis was in full sway, some high-ranking executives were being awarded ludicrous sums of money through bonuses, while those on the shop floor, primarily those who worked in high street banks, were wondering whether they would still have a job.

Worse still is the uncertainty over the divestment strategy, as instructed by the European Union, and how it will affect individuals including, once again, our constituents. I agree whole-heartedly that our constituents should be paid a fair salary but, for someone working in the high street or a call centre, a bonus might mean the difference between having a special treat or not. It might mean a deposit for a new car, or it might go towards assisting their offspring with a deposit to buy their first home, or even a deposit for rented accommodation if their child is moving out of the family home to study or to work. Therefore, I found the union Unite's arguments on bonuses bizarre to say the least when it campaigned to scrap them. That appeared to me to be inconsistent with its approach to the British Airways strike, which is not yet resolved.

As I said, six minutes was never going to be enough time, but I have touched on a few issues that are important for the future of banking in Scotland and which will have a knock-on effect throughout the UK. I commend the Economy, Energy and Tourism Committee's report to the Parliament.

15:31

John Park (Mid Scotland and Fife) (Lab): I, too, welcome the Economy, Energy and Tourism Committee report and congratulate the convener, Iain Smith, on his excellent opening speech. I also commend the work of the clerks. Gavin Brown said that he wanted the report to be forward looking and to have a direct input to what we can do in the Parliament and in Scotland to help the banking sector and the wider financial services sector. The report does that. It reflects some of where we have been, sets out some of the challenges that are ahead and seeks to address them.

Since the autumn of 2008, the Parliament has conducted itself excellently in dealing with challenges in the financial services sector in Scotland. We had an emergency ministerial statement about the merger of HBOS and Lloyds. Following on from that, we had a series of debates on key issues and factors that would impact on the sector, in which we tried to address some of the concerns that were out there. As an MSP who has a significant number of people working in the financial services sector in my constituency, I was on the receiving end of a lot of correspondence and calls as well as having meetings at surgeries with people who were employed in the sector and who were genuinely concerned about their employment opportunities and about the sector. Many MSPs will have been in the same situation. The figures that were bandied around at the time about possible job losses in the sector were concerning. I am pleased to say that not all those job losses materialised, although there have been some. The committee recognises in its report the value of having data on the size and scale of the financial services sector in Scotland, so that we can understand the wider contribution that it makes to our economy.

About a year ago, the Parliament united around a Liberal Democrat motion on the development of a jobs task force to consider issues in the financial services sector. It can do valuable work at a strategic level to ensure that people who work in the sector get the opportunities to redeploy within the sector or to move into other areas of the economy. The Parliament stated well the need for that at the time. The committee's report recognises the issue directly in the section that is devoted to the skills that are required in the sector.

On skills, it is interesting that the Scottish Government response to the report talks about the financial services skills gateway and the new modern apprenticeships, which I certainly support and which I know the Parliament supports. We need a far greater level of skilled people going into the sector.

From speaking to people who work in financial services, I have heard that a great number of people who did not have a background in financial services went into the sector because of the lucrative pay and career opportunities that existed. There is perhaps a back-to-basics aspect to skills development, which the report recognises should start at school age. We should ensure that people have the vocational skills for a long career in the sector. Modern apprenticeships would play a key role in that, but there should be other vocational opportunities once people get into work. Obviously, the regulatory side of things has to be taken care of, but wider issues around career development are also important. In that regard, the Scottish Government and the Scottish Parliament could have a direct input in ensuring that the sector recovers from the position that it has been in over the past 18 months.

The trade unions raised the issue of morale in the financial services sector, particularly in the context of the HBOS-Lloyds merger to form Lloyds Banking Group. Having spoken to both the unions that represent members in that company, I know that there have been concerns about the continuation of hard-selling tactics to sell customers mortgages and other financial services and the pressure that has been put on individuals to continue to work in much the same way as they did before the merger.

Although HBOS's business model was not suitable at the time, which led to the merger, some good things existed in HBOS. I am thinking in particular of its employee relations culture and its relationship with the trade unions, whereby information was shared with workforce representatives at an early stage and workforce representatives were encouraged to join a trade union and to get involved in the joint decision making that was taking place in the organisation. Quite a lot of that has been lost in the merger to form Lloyds Banking Group. The communication that I have had from individual trade union members suggests that they are much more concerned about their direct employment opportunities than about ensuring that there is a framework in place so that they can look ahead to the future with some confidence, whether within or outwith the banking sector.

There are three key areas going forward. One is the need for us to focus on skills and to create a good employee relations culture in workplaces, which I have mentioned. Another key area is regulation, action on which will be played out not just here in the Scottish Parliament but at Westminster and at an international level. The final issue is small business lending. I support calls for an Office of Fair Trading inquiry into small business lending in Scotland. We have heard from the Federation of Small Businesses in Scotland. Small business lending is the first issue that every small business in my constituency raises with me when we sit down to talk about their concerns about the economy.

15:38

Christopher Harvie (Mid Scotland and Fife) (SNP): A side effect of this remarkable report was the table talk that we encountered. Chatham house rules are the British version of the Catholic confessional and the Economy, Enterprise and Tourism Committee found itself the priest. Particularly after an excursion to London, we know the who and the where, and we can guess at the why, but we cannot tell people. We have rarely heard such frankness, which left the orthodoxy of "more perfect markets" in tiny fragments. The history leaves me sceptical of anything but the most drastic reconstruction, after what one gentleman who ought to know told us was the worst crash, not just since 1929 but ever.

RBS, notably, experimented like someone possessed with credit derivatives, but we learned that only a couple of people in the whole outfit, with a gold-star board of directors, knew—or did not know—how they worked. The bank went ahead and took over ABN AMRO, whose valuation was based on derivatives, validated by outright guesses from credit ratings agencies.

HBOS got bored with boring housing finance and wanted to punt on commercial property. The FSA thought that that was daft at the top of the market, but, under light-touch regulation, it could not intervene so it consented.

Would either of those things have been possible under today's systems of control? As taxpayers, we are paying for this most unequal system to continue towards what my friend and former school fellow, Professor John Kay, sees as a twofold disaster. We have not yet encountered the second section of that, but members who were not totally preoccupied with the election on 6 May might have seen in the *Financial Times* a day later that equities had fallen on the New York stock exchange almost as severely as they fell in autumn 2008. In other words, the British election—believe it or not—buried bad news.

What is our chance of guiding speculative investment into innovation and technical training and why should that be done? We should do that to achieve two fundamental aims: living in a smaller carbon footprint in efficient, warm and comfortable housing—the housing boom failed to produce much of that; and generating the capital that is necessary to undertake a new revolution in infrastructure and manufacture. Otherwise, climate change and peak oil will make us behave in a far different and not particularly impressive way.

In the 1990s, finance firms tried to wriggle out of providing honest, salary-related pensions and of guaranteeing house purchase. Instead, banks speculated on housing in the naive belief that housing prices would always go up and that such cash could be magically made liquid. A cult of buy to let and of doing it up and selling it on grew up and has never departed from British television, although the market has changed.

However, there was nothing new about derivatives. Since the dawn of capitalist trade, merchants have accepted as cash equivalents IOUs, which have been bundled together and sliced and diced with other forms of credit. What was new was that the trades were based on poor-quality housing stock, multiplied on a vast scale with immense velocity and were running synchronised. John Authers's articles in the *Financial Times* show how little it was possible to hedge against such speculation.

As early as 2004, reports came from America that speculative housing was in trouble and that prices were falling by up to 40 per cent. Worse, the value of such housing was being driven up artificially, partly by mortgage fraud. Organised criminals used house purchase by the likes of Homer Simpson—in a curious way, he was the colossus on which the remarkable edifice was erected—to launder their gains, particularly from drug dealing or carousel fraud.

As the US clamped down on speculation, that risky finance exited to London with the Sarbanes-Oxley refugees in 2002, who did not fancy what the Securities and Exchange Commission had in store for them. The Americans do that spectacularly, with handcuffs and everything. The financial journalist Nick Kochan and I have written a bit about that.

How do we, as owners of the banks, put the situation right? We do so first by specifying what we need banks for; secondly, by raising the quality of their assets; and thirdly, by establishing a reliable and enduring basis for value, in the evaluation of energy. Marginal utility was swamped by speculators' leverage, until that description had no validity. We must return to the labour value of Adam Smith's day but see that labour as embodied energy. North Sea renewables need that investment and can provide the benefits from it.

Against that, UKFI says simply that the status quo should be restored. Other members have referred to Edinburgh, which still leads in associated financial services—insurance, investment trusts, asset management and organisation software. Marine renewables will provide a valid basis for positive organisation. Through that, we can preserve relationship banking, as Clydesdale Bank has. However, one bank sector should remain in state hands to perform the analytical and informed role that the British National Oil Corporation once did in the oil industry.

We need a blueprint and a timetable for financing renewables and modernising housing. We need to work out the appropriate commercial and savings banking system to deliver that. That should be based in Scotland and will grant us much of the economic control that we need. Otherwise, we will have the double-dip recession that we do not want.

15:44

Ms Wendy Alexander (Paisley North) (Lab): Like other members, I thank the adviser to the Economy, Energy and Tourism Committee, Philip Augar, and the committee clerks, Stephen Imrie and Katy Orr, for their support during the inquiry.

As other members have suggested, the committee worked hard to reach shared conclusions and made a number of important cross-party recommendations, in much the same way as the Treasury Select Committee approached its task in the Westminster Parliament. Others have already dwelled on the one division that took place, on the need for an OFT inquiry into market power in small business banking in Scotland. I do not intend to dwell further on that issue, except to add one rider. Conspiring deliberately to have no formal inquiry into or evidence on where we are now, against which to measure the impact of future changes, will inevitably delay further positive change in the marketplace. The price will be paid by small businesses in Scotland, which will labour longer under the current deficient arrangements.

Jim Mather: Does the member recognise that the Government was early to work out an access to finance survey for small businesses? Given that we are trying to get global unity on the issue, where is the merit in creating disunity in the chamber?

Ms Alexander: I welcome the access to finance survey, but the evidence from it is that small businesses in Scotland are struggling to access finance. Given the new respect agenda that we genuinely have, the Scottish Government must dwell on the fact that, if it called on the OFT to carry out an inquiry in order to keep the market under review, as it was instructed to do, that might happen. I leave the matter for deliberation by the Scottish Government over the coming months.

I turn to the issues on which the committee was united. I found the Scottish Government's response to the committee somewhat strange. It is a pity that it argued that no new strategy is required for financial services in Scotland, despite the crisis, and that it has no view on whether divestments should go further than the EU proposes. It is also strange that it has no view on how the publicly held stakes in banks in which the Government currently has a controlling stake should be disposed of. There is nothing about its favoured approach to remuneration, about the number of jobs that have been saved by public intervention—we must rely on the International Monetary Fund for those figures—and about whether there should be preferential terms of lending by state-owned banks to environmental businesses that are promoting carbon reduction.

All of that silence is from a Government that seems to have a view on every reserved issue under the sun, from the fossil fuel levy to political reform, Trident and nuclear disarmament—members may take their pick. The Government should have a view on what is arguably our most important economic sector. Last night, I turned for enlightenment to the Scottish National Party manifesto. One paragraph and 101 words are devoted to the entirety of financial services and banking, at a point when the sector's fortunes have propelled the Scottish and global economy into a recession without parallel for more than 60 years. The Scottish Government has rather lost its way on financial services.

I have a couple of positive suggestions for how we should move forward. First, others have dwelled on the issue of the small business market in Scotland. Secondly, there is a case for having a new strategy for financial services in Scotland. Thirdly—this is the most important point that I will make today—we need to model how new financial arrangements for this place would support financial services in Scotland.

I will spell out the terms of the study on which the Scottish Government needs to embark. The committee's report suggests that, of the UK bail-out of £850 billion, £470 billion was to support HBOS and RBS; Jeremy Purvis has already made that point. Some of the guarantees, such as the asset protection scheme, were never called on, but the Scottish Parliament information centre estimates that, through mechanisms such as direct capital injections, the special liquidity scheme and so on, £220 billion was extended to RBS and HBOS over the past two financial years. The big question for all members is: where will that debt reside in future, and how will it be paid down?

I genuinely do not know what the Government's position is. It should publish its plans, as the total tax take in Scotland, whether under fiscal autonomy or any other mechanism—and even keeping all the oil revenue—is just over £50 billion. Over the past two years, according to the first estimate provided by SPICe, £220 billion of debt was taken on to the public books to bail out the Scottish banks. Nobody objected to that being done, but we want to know where that debt resides. Is Scotland to have its own balance sheet, with that debt of £220 billion being added overnight, while Scotland's total GDP, even with all the oil, is £140 billion, or does the debt go on the UK books?

The markets will want to know what is planned. Does one Government take out the debt while another decides whether it is paid down? By all means the Government can argue for a different financial system, but the least that taxpayers demand—and indeed the future of financial services demands it—is that the Government publishes the details of how it will work. Who takes on the debt for the bail-out: the Scottish Government or the UK Government? Who pays it off: the Scots or the UK? Deficit reduction is at the top of the agenda of every single serious politician in Britain today. How the deficit reduction is to happen, whether under the Scottish Government's plans or even under the UK coalition Government's plans, needs to be set out.

If the Economy, Energy and Tourism Committee has done anything through its report, by giving figures for how the bail-out operated in Scotland we might compel clarity—please—to serve the interests of taxpayers, financial services and good government simply through modelling how each of the new systems would deal with the actuality of Scottish finance over the past 24 months.

15:51

Linda Fabiani (Central Scotland) (SNP): We have talked much about the chaos of the recent upheaval and the fall-out that we will have to face for some time to come, so I thought that we should take a moment or two to acknowledge some of the people and organisations in Scotland's financial sector who have done well. Less than three months ago, my colleague Jamie Hepburn led a members' business debate on and praised the work of the Airdrie Savings Bank. I echoed that praise in my speech that day, and I will add to it now. Jim Lindsay, the chief executive of the Airdrie Savings Bank, has done an excellent job of keeping that bank on the straight and narrow. He and his staff have stuck to their guns over the years, and they maintain the proud traditions of Scottish banking—prudence, care and good relationships with customers.

Credit unions, too, have forged fine paths of fiscal rectitude, and their work should be encouraged, while we seek to maintain proper regulation, so that they do not head off the same cliff as the American savings and loan institutions. The success of credit unions should encourage us to examine other models of mutuality. What about the return of the Trustee Savings Bank, or truly mutual building societies? It was those proud traditions of banking that served us well in the past. Surely, as Iain Smith said, that is the purpose of banking, rather than the pursuit of profit purely for shareholder gain.

I contend that things might have been markedly different had those guiding principles been carried through in the regulation of the UK's financial services industry. Our banking system was severely damaged by the decision in 1997 to establish the reactive FSA. It was and is an organisation unsuited to the task that it was handed, lacking in-depth knowledge of the bodies that it was to regulate and lacking the respect of the client institutions.

The collapse of England's Northern Rock bank was precipitated by the first major run on a bank in the UK for more than a century. Those who were running banks such as Northern Rock—including the chief executives and non-executive board members of RBS and HBOS, global banks based in Scotland—were swimming with the tide, viewing banking as the pursuit of profit and the delivery of results for shareholders. They did it remarkably well. However, that lack of responsibility should have been countered by the regulators, so that swimming with the tide did not have to mean drowning at the end. They failed. The lack of regulatory skill did much damage to our banks.

It is noticeable, however, that the Clydesdale Bank, for example, chuntered along quite well throughout the storm—it is part of the National Australia Bank group, and Australian and Canadian banks remained fairly well regulated throughout, avoiding the worst of the damage that banks in other nations suffered. Japanese banks also did better than might have been expected, because their regulation had been tightened up in the wake of the collapse of the 1990s. We might have thought that lessons had been learned.

When the committee began its inquiry, it noted that it wanted to consider how to ensure that such a crisis could not be allowed to happen again. There will always be banking crises of one sort or another, but we should take steps to ensure that such a crisis cannot be precipitated by such irresponsibility. We must make it perfectly clear to the banks that consider themselves to be too globally interconnected and too big to be allowed to fail that their current subsidy-junkie status is a temporary one-off.

We should take some financial services under our control. Discussions are going on around the world, among nations, between continents and internally within states. It is important that we make the sector work for the greater good of society at home as well as internationally. SNP members have long favoured the introduction of a currency exchange tax and I am pleased that the move towards a Tobin tax continues. Some 350 economists, including Joseph Stiglitz and Jeffrey Sachs, recently wrote to leaders of the G20 nations to suggest that such a mechanism be given recognition.

We need a better model for Scotland's banking industry and financial sector in general. We also need to consider the worth of the banks, insurance companies and other financial services in the sector. With help from the Scottish Government, the sector has begun to grow again. There are 1,500 new jobs in Glasgow and Edinburgh with Tesco Personal Finance and the insurance company, esure. More than half of Scotland's financial services companies will recruit this year and three quarters of them are optimistic about the future.

There is a lot to change and improve in Scotland. There is a lot to put right. Of course there is; no one denies that. However, Scotland has the strength to rebuild and to become stronger. There is a lot of good stuff going on in Scotland and we should praise the people who are doing the good stuff and help them to build on that success. We should hold on to the fact that Scotland can come out of this UK mess stronger than she was when she went in.

The committee's report is valuable and worth while. It is a great resource and I commend the hard work of everyone who contributed to it.

15:58

Ross Finnie (West of Scotland) (LD): I remember sitting in my office wondering how the property boom would be funded ad infinitum. I wondered how the ingenuity of the banks in attempting to fund the boom would survive. That was in 1973, and I worked for a bank at the time. Of course, it did not take me too long to realise that it would all come to a sticky end. I am talking about the secondary banking crisis of 1973. The ingenuity of the time involved shifting things out of banks that looked quite important and developing a secondary financial sector. The crisis brought a lot of pain.

The committee has highlighted in its report almost all the areas in which we must try to learn lessons. There is no doubt that we must consider how we confront moral hazard, once and for all. There is no question but that, as the governor of the Bank of England said, we cannot keep giving incentives to people while assuring them that they will ultimately be bailed out by the state.

It is not a question of banks being too big; the big question is whether the function that they carry out is too important for the state not ultimately to have to give them some support. Of course Scotland's competitiveness, how we ensure access to more services and how we regulate the banks are all important issues, but the fundamental, critical questions are whom we want to regulate, why we want to regulate them and whether we are prepared to let them fail at the end of the day.

I welcome the elements of the report that specifically draw our attention to what the functions of banking are. I will be honest and say that I am not entirely sure why we need another year of uncertainty in the matter. We need to examine critically what banks do. We need to ask ourselves those questions. If it takes a year, so be it, but I am not sure that we can wait, because decisions will be taken. The OFT might conclude—as it has, in some cases—that there should be divestment of branches.

I am not clear that I want people to invest in building up businesses if, at the end of the day, they are doing so on a false premise. If we have decided that there are elements within the critical banking system that properly ought to be supported and, even if put under threat, need some form of Government assistance, that is fine, but we should be clear about it. The Government may not want to intervene directly, but the Bank of England, as lender of last resort, may ultimately have to come to a view on intervention.

Indeed, if the Bank of England is to remain as lender of last resort, does that not mean that it has an interest? Does it not mean that there may be a conflict of interest and that, if we try to conflate differing interests in some kind of tripartite arrangement, we are trying to smooth over conflicts of interest that ought not to be smoothed over? Does it not also mean that a proper Financial Services Authority with the proper people, with the proper authority and performing the correct function ought to be separated out from the arrangement and that we should not, simply because we were in a crisis, try to smooth over all those functions?

The issue is huge and the report makes clear just how big it is not only for Scotland, Great Britain or Europe but internationally and globally. Having faced the biggest crisis that we have ever faced, let us not try to smooth over haphazardly how we might address those huge, global issues. There are issues of principle and issues that would give rise to conflict. They need to be addressed and perhaps that is why we need to take a year to do it. However, in the interim, let us not jump at short-term solutions. Let us not grasp at divestment by banks because the European Commission or some other body has told them that there might be competition issues. Let us not jump at such approaches until we are clear about the structure that is most appropriate and will be sustainable not only through the 21st century but into the 22nd century. Let us be clear that we have got it right.

Yes, we need to have better regulation and to address competition issues but, fundamentally, we must address the question of moral hazard: are we prepared to encourage people to develop banking in a way that suggests that they might be saved if they get it wrong, or are we prepared to allow the alternative, except for that critical and crucial element that, in a fundamental rather than just developmental way, oils the wheels of industry and finance and looks after people's deposits sensibly and rationally? If that latter bit is what is to be described as core banking in which the lender of last resort may intervene, let us be clear about what that is and let us not grasp at other things in the interim. That is my plea this afternoon.

The committee's report points us in the right direction. I hope that we have the sense and courage to say no to developments until we are clear about our answer to that central question.

16:05

Marilyn Livingstone (Kirkcaldy) (Lab): I, too, thank the clerks, our adviser and all those who gave us evidence. I also thank the convener and my fellow committee members.

I am pleased to contribute to today's debate, in which I hope to outline not only what issues our local and national economy faces but what should be expected from Scotland's Government and from our banking and financial services sector. An important point is to consider what lessons can be learned from the past to instil confidence in the future of the industry.

The Economy, Energy and Tourism Committee's report results from the committee's directive that our inquiry should establish a clear picture of the effects of the financial crisis on all parts of the financial services sector with, as Wendy Alexander said, a view to providing a vision for the future of the industry. That is an important point. As the convener has outlined, the committee's inquiry sought evidence on the issues that comprised the recent difficulties in the financial sector in Scotland, including access to finance and—an important point—what the future structure of the sector should look like. Although Scotland has a distinguished history in financial services that dates back over many years, our report concentrates on the impact of the global financial crisis and on the way forward for the financial services industry in Scotland.

We heard many examples of how, as a result of the financial crisis, home owners and small and medium-sized enterprises have found that banks are increasingly risk averse. The impact on lending has meant that many first-time buyers and small businesses have struggled to obtain finance. We have seen the impact of that on Scotland's housing market. Loans from the wholesale banking arm of Lloyds Banking Group, which deals with businesses, fell by £43 billion. A recent Institute of Directors survey found that 60 per cent of firms—in industries across the economy—were turned down for a loan in 2009.

The Scottish economy is dominated by small and medium-sized enterprises, which make up 99 per cent of all businesses and employ more than 1 million people. Small and medium-sized enterprises have been struck particularly hard both by the financial crisis and by the subsequent economic recession. Like other colleagues, I have come across many examples of that in my constituency. Surveys of businesses, such as the Scottish Government's "SME Access to Finance 2009" report, point to changes in the conditions attached to finance and the higher cost of obtaining a loan. Fife Chamber of Commerce & Enterprise has made strong representations on that issue.

The Scottish Government survey that was published in March 2009 showed that, while demand for finance had risen, the supply had become constrained, in particular for microbusinesses, high-growth firms and specific sectors. As convener of the cross-party group on construction, I know that the construction industry is most definitely one of those sectors. The committee heard of many small and medium-sized firms that were refused access to finance and subsequently went into liquidation.

Although the committee recognises that some banks in Scotland needed to improve their risk assessment procedures, we consider that the problems associated with access to finance by businesses have compounded the effects of the recession. The committee believes that banks need to take a more engaging role with small and medium-sized enterprises and calls on Scottish banks to reassess their lending policies and, importantly, their relationships with their business customers. In the light of that evidence, we believe—many previous members have reiterated this point—that the Scottish Government must call on the OFT to conduct a formal investigation. It is important that we tackle access to finance for small and medium-sized enterprises to ensure that they are not excluded from contributing to Scotland's economy or penalised for the banks' previous risk strategy.

Furthermore, there must be reform of bonuses within the sector. In its submission to the committee, the Scottish Trades Union Congress expressed the view that that bonus culture encouraged excessive risk taking in an already fragile system. Her Majesty's Treasury also noted that, in some areas of banking, staff were incentivised through the possibility of very large rewards to pursue risks that, although profitable in the short term, did not take account of risks in the long term.

To help to develop a sound basis for more engagement in the financial sector, the committee calls on the Scottish Government to develop a far more detailed and publicly available vision for sustainable growth of the financial sector in Scotland. My colleague Wendy Alexander spoke eloquently about that. The Government's vision should include a blueprint for the type of banking sector that we would like to see in Scotland, and a strong emphasis should be placed on increasing competition and providing greater diversity among the players in the sector. I urge the Government to commit to exploring how mutuals, co-operatives, savings trusts and credit unions can be supported further and local initiatives developed. We have a once-in-a-generation opportunity for reform.

In particular, we ask the Government to engage in the development of regulation that would support such diversification. I draw the minister's attention to the fact that the Government's response to our report makes no mention of the role of the co-operative development agency, which is aligned to Scottish Enterprise and must surely be central to any diversification strategy. I ask the minister to clarify what role the co-operative development agency will play.

During our inquiry, many witnesses emphasised the importance of education, skills and training, and I am disappointed in the Government's response, which gives us a rundown of work that has already been undertaken and tells us how many colleges and universities we have. However, I welcome the increase in the number of modern apprenticeships and the establishment of the financial services gateway, and look forward to hearing how the gateway's programme of action will address the future skills requirement of the sector. We need a vision for the next five to 10 years, not just a regurgitation of past policies.

I make a plea to the Scottish Government to bring forward a vision that supports a banking sector that is fit to serve Scotland's economy. It must support the call for the OFT to carry out a formal inquiry into Scotland's financial sector and must quickly produce a vision that is fit for purpose and for the times that we find ourselves in. It makes no sense to move forward in the way in which the Scottish Government has suggested. I also ask the minister to tell us more about the Scottish Investment Bank, which Gavin Brown talked about. The role of the SIB is extremely important, as is that of the Scottish Futures Trust in making finance available to business.

My final point is a plea for transitional relief for the nurseries in my constituency that face increases in business rates of between 30 and 200 per cent. I ask the minister to address that issue and the others that I have mentioned so that we can support our businesses and our economy in a manner that is fit for the times that we find ourselves in.

16:13

Jamie Hepburn (Central Scotland) (SNP): As Linda Fabiani said, on the day the report was published, I led a members' business debate to mark the 200th anniversary of the Scottish savings bank movement and the 175th anniversary of the Airdrie Savings Bank. In that debate, I and other members reflected on the fact that—as Linda Fabiani spelled out—the Airdrie Savings Bank has much to teach the rest of the banking sector about community involvement and the true purposes of banking.

The committee's report dwells in some detail on the true purposes of banking and what the banks and the financial services sector should be seeking to achieve. I welcome the committee's finding that we must develop a

"sustainable financial services industry that supports the rest of the Scottish economy both as an employer and as a provider of capital and other financial services to consumers."

The committee is right to suggest that the true purposes of banking were lost in the headlong rush for quick gains and unrealistic never-ending expansion.

The focus now must be on the lessons that we can learn and the practical steps that we can take to sustain and develop our financial services sector. Those steps must meet Scotland's needs, support sustainable economic growth and militate against the turmoil that we have experienced in recent years recurring.

The report calls for reform of the regulatory framework, for a fairer approach to remuneration and bonuses, and for genuine competition in the commercial sector. All those recommendations are sensible and welcome, although, under the current devolution settlement, neither the Scottish Government nor the Parliament has the necessary control or decision-making powers to act on them directly. The committee is right to emphasise the limited nature of the powers of Scotland's Parliament and its Government over economic and monetary policy, including the currency, financial services and the financial markets. Those powers and the power to reform the regulatory framework of our banking sector remain the preserve of the UK Government.

Lewis Macdonald: Given what the member has said, he will recognise that Scotland's devolved Government has the power to develop a strategy for financial services. Does he agree with the committee's view that that should be updated?

Jamie Hepburn: The Government can develop a strategy, but we would all agree that it does not have the requisite powers to see that strategy through to its logical conclusion. Those powers remain with the UK Government. Although the report recognises that fact, I was disappointed that it makes no specific recommendation that any of those powers should be devolved, despite its very clear message that Scotland's wider economy could benefit from a regulatory system that more closely matches and can be adapted to meet our circumstances.

The signs are that the committee's recommendations will go sadly unheeded at Whitehall. Through UKFI Ltd, the UK Government—and therefore the taxpayer—owns 84 per cent of RBS and 40 per cent of Lloyds Banking Group, which now includes the Bank of Scotland. Despite those stakes, it seems as if business as usual remains the default position of the UK Government. Bailing out the banks was simply a reset switch to allow the banks to continue as normal. Indeed, an official of HM Treasury told me in a letter in January of last year that UKFI's

"overarching objectives are to protect and create value for the taxpayer as shareholder"

and that

"UKFI works to ensure management incentives for banks in which it has shareholdings are based on maximising long-term value and to restrict the potential for rewarding failure."

In other words, the UK Government is adopting a deliberately arm's-length approach to the ownership of the banks because it wants to maximise their profitability for the day when they are eventually sold back into private hands. How that is to be done with any guarantee that there is to be no recurrence of the financial crisis is unclear, especially if the UK Government is unwilling to use its position as a shareholder and the highest executive authority of the state to demand reform now.

Instead, the taxpayer has in effect been helping to provide capital for American companies such as Kraft for its purchase of Cadbury's. Through the Lloyds Banking Group, we part-own the Porterbrook Leasing Company, which rents out rail rolling stock in Scotland to rail franchise holders that are already subsidised by the taxpayer. RBS, which is funded by the taxpayer, is part of a consortium that is facilitating the privatisation of the UK's search and rescue helicopter operations. And, of course, the Scottish Government and local authorities up and down the country continue to pump billions of pounds in private finance initiative and public-private partnership repayments into the coffers of publicly owned banks. However, in the letter to which I referred earlier, the UK Government stated that it would not demand that the banks it owns improve the terms of PFI/PPP payments that they charge interest on, nor will it seek better value for the public purse in the cost of leasing rail rolling stock. Public money is invested directly in those banks, and little is asked for in return. Public funds swirl round in circles and it is the management and private shareholders that seem to emerge as winners.

That is to say nothing of the appalling investments to which the publicly owned banks commit overseas. Since 2007, RBS has financed companies that are exploiting the Alberta tar sands in Canada, to the detriment of the local environment and people. Almost $14 billion has been spent by RBS on a project that will by 2020 result in the annual emission of more than 140 million tonnes of carbon, which is almost twice the annual emissions of New Zealand. Local wildlife has been affected, and local—mostly indigenous—people claim that there has been a detrimental effect on their health. That this is perpetrated by a bank that is essentially publicly owned is nothing short of a scandal.

The previous UK Administration missed its chance to seize the opportunity presented by its investment in the banks to demand root-and-branch reform. The committee's report talks at length about the need for banks to provide more flexible and favourable support to struggling smaller businesses. I am probably not alone in being contacted by constituents who are making every effort to pay back debts to the banks that they own, and yet find themselves threatened, pressurised and subject to ever-increasing costs and charges. I hope that the report will encourage the current UK Administration to look seriously at what influence it can exert over the banks it owns or holds significant shares in, although I will not hold my breath.

The ultimate lesson from the experience of the past few years is that, if we are ever to achieve a properly regulated banking sector in Scotland, we must have the requisite powers to do that. If we are to end the greed-is-good culture that is the heart of what is now an utterly discredited Anglo-American model of capitalism, as the report rightly identifies, we must have the requisite powers to do that. If, as Linda Fabiani mentioned, we are to protect our banking sector as other small countries, such as those of Scandinavia, have sought to do with greater success, we need the requisite powers to do that. We need the powers of independence to do that.

The Deputy Presiding Officer (Trish Godman): We move to the winding-up speeches, and I call Jeremy Purvis. Mr Purvis, you have six minutes and a bit.

16:20

Jeremy Purvis: Thank you, Presiding Officer. I will try to keep to the "a bit" bit.

Much of the debate has rightly been about competition and the impact on what is often called the real economy in Scotland. Gavin Brown gave over much of his time to outlining cogently the need for a more formal investigation into the competition issues arising from business lending in the Scottish economy by the banking sector. Although the financial services sector is broad across all parts of Scotland, urban and rural, much of the focus has rightly been on the consequences of particular issues from the banking crisis.

I met a business in Galashiels in my constituency on Tuesday morning. It is a start-up business, but it is a spin-off from another successful business carried on by a businessman with 21 years of success in the same field behind him. He told me of his total frustration and inability to access finance from his bank—a Scottish bank—which is simply not interested. That is one example of the many others that I am sure other members, like me, have heard about in the past year. It is depressing that, 18 months on from the pinnacle of the crisis, the stories are still being relayed to us. That is an indication that businesses are still struggling to access the finance. On another occasion I heard concern that the business lending scheme—a good scheme that was put in place by the UK Government—is being used by banks simply to cover the risks for overdrafts rather than to provide the finance for new business opportunities.

All of those are business constraints, and as we heard from its chairman last year it is the official Competition Commission view, as a result of OFT inquiries at the time of the HBOS merger, that the structure of banking is not conducive to proper competition for the wider economy and for the banking and business sectors in Scotland.

As we debate today, we have an economy still suffering from a lack of genuine and open utility banking competitiveness, which means that the sector, overwhelmingly dominated by two institutions, is still part of the economic difficulties that we face. We have a regulatory structure so far unaltered from before the crisis. We have more funds managed in the Scottish financial services sector now than before the crisis, and we have a gentle creep back to the defensibility of bonuses in the banking sector. As I said in my opening remarks, unless there are radical changes we will be back in the situation that we found ourselves in 18 months ago. So far, any changes that have been made have been slow and not radical.

I agree with Wendy Alexander's remarks about the suggestion that other members referred to. While the Scottish Government has a view on pretty much every reserved issue going, from fossil fuels to the Olympics, curiously it does not have a view about whether RBS and Lloyds Banking Group, whose assets alone in 2008 were more than 20 times the size of the Scottish GDP, should continue without restructuring. They are by far the biggest institutions in Scotland—if we consider asset worth, they are 200 times bigger than NHS Scotland—so it is odd that the First Minister can have the view that the Scottish Government should have the power to appoint a board member of RBS and Lloyds Banking Group while he is uncharacteristically silent about whether restructuring banks would aid competition in the economy, would aid devolved economic development and would be right for the wider financial services sector in Scotland.

It is inconceivable that the Government can believe that the financial services strategy, which, by and large, was put in place by its predecessor Government and has been unaltered by the crisis in any meaningful way, can stand aloof from the review that is being undertaken by the Department for Business, Innovation and Skills and the Treasury in Westminster. Given the scale of the financial services sector in Scotland and its importance for the rest of the devolved economy, it is absurd for a devolved Administration to believe that it can somehow stand apart from those considerations.

During the debate that we had 18 months ago, immediately following the merger, I asked John Swinney what the position of the Government was with regard to the OFT. He told me that the Government was standing ready to participate fully in any investigation that was being carried out. Indeed, at that stage, John Swinney wrote to the OFT with information about the devolved Scottish economy. However, it seems odd that now, with the prospect of banking reform in the UK, the Scottish Government, in its response to the committee, should sidestep the issue almost in its entirety.

In my opening remarks, I quoted the speech that the governor of the Bank of England gave when he was in Edinburgh, and I close by quoting him again. He said:

> "If our response to the crisis focuses only on the symptoms rather than the underlying causes of the crisis, then we shall bequeath to future generations a serious risk of another crisis even worse than the one we have experienced."

There is concern that, unless there is radical reform, that may well happen. Given that that is the case, we should expect the Government to be at least as proactive on this issue—which concerns the biggest single area that affects the future of the Scottish economy—as it has been on other issues from the headlines that it has chosen to address in recent months.

16:27

Derek Brownlee (South of Scotland) (Con): We have had an interesting and thorough debate this afternoon. It is worth paying tribute again to the committee's measured report. The issue of banking has divided parties over the past few years, and it is therefore encouraging that the committee's report is, by and large, free from partisan disagreements and seeks to find areas of agreement. Further, as others have mentioned, the fact that the inquiry involved senior people in the industry, some of whom would not otherwise have come up to Edinburgh to engage with the Scottish Parliament, might, of itself, bring some fringe benefits that we should not discount.

The question is, what can the Scottish Parliament and the Scottish Government do with regard to this issue? Because of the nature of the financial services sector in Scotland, it is a good example of an issue in relation to which the powers are, largely, reserved but which, nevertheless, has a significant impact on Scotland.

As many have said, the financial services sector is much broader than merely the banks. It is also right to remember that, with the troubles in some of the banks, Scotland still has a successful financial services sector. We have to be incredibly careful not to talk the sector down. That is important not only for the sake of the Scottish economy, but because we need to ensure that people in Scotland are aware of its success and that people who are looking at the jobs market now or in the future do not think of the financial services sector as being one to avoid. That is important for the longer-term future of the sector.

We need to ensure that we do not revel in some of the difficulties that have been faced by some of the Scotland-headquartered banks. There are many ifs that we could discuss. For example, what if RBS had not been successful in its acquisition of ABN AMRO? However, we are where we are, and it is important for all of us that RBS, HBOS and the other institutions that have had difficulties are able to move to a sustainable and successful future.

One of the issues that has been commented on is the question whether the banks were too big to fail. That is a fair question. We can all understand the logic about the concern that a bank might be so large that a country might be unwilling to face the consequences of allowing the issue of moral hazard, which Ross Finnie touched on, to take its natural course and might feel a need to intervene.

However, we must be careful with the banking sector, which is by its nature increasingly global. The UK—not just Scotland—needs to think carefully about whether, if we believe that we should not have a bank that is too big to fail, there is some sort of limit on the size of a UK-headquartered bank that we could tolerate. Such a limit might have very negative consequences for the scale of ambition in the banking sector in the UK. We need to think long and hard before we go down too prescriptive a route.

Many members have mentioned that there was regulatory failure, which was undoubtedly the case, but hindsight is a wonderful thing. It is tempting to regulate the last problem that was faced. Many people have condemned the light-touch regulation, but I wonder whether the people in the banks feel that the FSA practised light-touch regulation; most of them would say that it did not. The regulatory failure was due more to the type than the amount of regulation.

There was also, as the report identifies, a corporate governance failure. The board of directors and the non-executives in the banks did not take the roles that they should have taken in challenging the executive directors. The institutional investors, too, did not undertake the challenge function to the extent that they should have done, as the report rightly noted, although that may have been understandable as they were seeing seemingly constant increases in profitability and dividends.

Margo MacDonald (Lothians) (Ind): I apologise for joining the debate so late. I wonder whether, as Derek Brownlee said, we should consider the quality of regulation. We could start by putting a prescribed number of Government representatives on the board once a bank reaches a certain size. We could do something short of cutting the bank down if that is not advisable.

Derek Brownlee: I certainly think that the issue is the quality rather than the volume of regulation, although I am sceptical about whether it would be right to have direct political input in that way.

I have agreed with most of the speeches today, but I will not mislead members by pretending that I agreed with anything that Jamie Hepburn said. He seemed to suggest that if we only had devolved control of financial regulation, all the problems would be solved. I am in favour of taking devolution further, but regulation of financial services on a UK basis gives us a competitive advantage in Scotland and allows us to play into the single market within the UK. Financial services are increasingly regulated on an international basis, and we must beware of thinking that there is a simple solution and that if only we had independence, none of these problems would have arisen.

None of us saw the problems coming, or suggested in advance that the actions of the Scotland-based banks were wrong. It is hindsight that has made people seem wise.

We need seriously to consider other issues that have not been mentioned, such as the nature of the divestments that will be ordered in relation to the state-owned banks. The Scottish interests will need to be carefully considered, because of the concentration—as has been mentioned—of those banks in Scotland. I reiterate the points that many members have made about the importance of the OFT inquiry.

We can move towards a better future for regulation and for the financial services sector, including the banking regime. I hope, as Wendy Alexander said, that the Scottish Government engages a bit more, because this is a classic example—if anybody needed one—of an area in which the Scottish Government and the UK Government can work together in the common interest. The Scottish Government's response today has been a little disappointing, as it has suggested that everything is reserved and it has no views.

16:34

David Whitton (Strathkelvin and Bearsden) (Lab): I congratulate the Economy, Energy and Tourism Committee on producing such a comprehensive report, and I thank the committee clerks for producing their written work in such a timely fashion. We should also thank the witnesses, who took the time to give their evidence and who in many cases came to Scotland to do so. It was a stellar cast, and as a result the findings and conclusions in the report have added weight. No less a person than Mervyn King, the governor of the Bank of England, has complimented the report and said that it has given him pause for thought, which must be welcomed. It is to be hoped, then, that those who are involved in financial services and especially the banking sector are paying close attention to the various recommendations in the report.

Yesterday, Scotland had its first visit from the new Secretary of State for Business, Innovation and Skills, Mr Vince Cable, who is held up by some in Liberal Democrat circles as some kind of financial guru. Certainly Mr Smith seems to think so, to judge from his opening remarks. According to Mr Cable, the idea that our banks should retain the ability to conduct both retail and investment services is dangerous—so dangerous that he has set up a commission to report on the issue. He has quickly learned the first rule of government—if in doubt, set up a commission and put off a decision to another day. However, the commission might not report for a year—something that his Liberal colleague Mr Finnie disagrees with. "Why do we need another year of uncertainty?" he asked. Quite.

The issue of competition features heavily in the report, and apparently it also featured heavily during Mr Cable's visit to Scotland yesterday and his meeting with the First Minister. We have already heard mention of this from my colleague Lewis Macdonald, but one of the key points in the report is about the failure of the Office of Fair Trading to keep a watching brief—as requested by Mr Cable's predecessor, Lord Mandelson—on the competition situation between the banks in Scotland, particularly the Royal Bank of Scotland and Lloyds TSB, in personal current accounts, home loans and business banking. This is where Mr Purvis is, uncharacteristically, getting a little confused. Tavish Scott's letter to the OFT was about the HBOS takeover, which the report says prevented an incalculably larger economic crisis. The committee's call is for a separate OFT investigation specifically about the fact that RBS and the Lloyds Banking Group are handling more than 70 per cent of business banking.

Jeremy Purvis: Does the member not recognise that that percentage is a result of the HBOS merger? It is because of the merger that the Competition Commission came to the view that it did, which we support.

David Whitton: No, I do not. As I said, that is where the member is getting confused.

As has been stated, the competition issue is the only one that divided the committee, with all the SNP members voting against asking their Government to take such action. I listened carefully to Mr McMillan, almost all of whose speech was inconsistent with that point of view, yet something must have changed, because the First Minister said to the press only yesterday:

> "A key issue is banks not lending to business, and we were examining how some of the measures the UK Government are contemplating are going to help that situation. That is an urgent requirement from the private sector in Scotland."

If it is so urgent, will the Government write to the OFT to demand an investigation into Scottish business banking? If it did so, it would find itself on the same side as small business in Scotland, representatives of which are sitting in the gallery. Let us hope that Mr Mather will try to bring some unity to the chamber on the matter. While he is doing so, perhaps he will also tell us whether the Government has taken any advice on the matter from the chairman of the Council of Economic Advisers.

The Office of Fair Trading has a representative in the chamber too, but to date, sadly, it has shown little sign of recognising that there is a problem. In its letter to the committee convener, Iain Smith, the OFT states that it will

"monitor developments in the market over the next two years."

There is no hurry there, then. The letter goes on to state that the OFT will review barriers to banking during 2010, including consideration of whether there are any obstructions to entrants' providing a competitive stimulus. Part of the review will include banking for small and medium-sized enterprises, and the OFT adds that the review will cover the UK, stating:

"to the extent that it identifies any particular problems in parts of the UK, including Scotland, I would expect it to take this into account."

That is just about as patronising as one can get.

The letter from Philip Collins, chairman of the OFT, states that he would welcome comments from the committee about the short consultation paper that the OFT is about to publish on issues to be covered by the review. I sincerely hope that the committee will take up the offer and remind Mr Collins of the instructions that he received from the previous business secretary, perhaps to shake him from his complacency.

Paragraph 44 of the committee's report clearly states:

"Individual banks can never again be allowed to be so important that their failure can endanger the real economy of a country."

Nor, I suggest, can they be allowed so to dominate a market such as business banking that they can stifle entrepreneurship and investment and prevent organic growth.

We have heard a number of interesting speeches. We heard, for instance, that Mr Mather has read six books about the banking collapse. I am surprised that he has read only six.

Gavin Brown commented on the delay in the Scottish Investment Bank getting started, which elicited the minister's response that it would be up and running by the end of this year. That is the SNP equivalent of saying, "Your cheque is in the pipeline."

Wendy Alexander highlighted the SNP's lack of response to key points in its response to the report. Perhaps Mr Mather will surprise us in his summing-up; I certainly hope so. Wendy Alexander also raised the important point of where the liability for repaying the bank bail-out will lie.

Mr Finnie, who, like Mr Cable, is one of the Liberal Democrats' elder statesmen, told us of his prescience in the housing boom back in 1973, when even I was just a boy.

I want to set aside my finance hat and put on my skills hat. I welcome the comments in the briefing paper that the Financial Services Skills Council provided in response to the report. It has completed a survey of Scottish financial services, which is due to be published this month. According to the briefing, a number of important recruitment issues still remain to be tackled by the industry. I hope that people will take account of those issues, because the other side of the matter, which cannot be emphasised enough, is that Scotland has a very successful financial services industry. It is a world player in pensions, insurance, investment, asset management and banking.

The report points the way forward, and I commend it to members.

The Deputy Presiding Officer: I call Jim Mather, who has around eight minutes.

16:41

Jim Mather: I congratulate all members on the quality of their speeches and on all the work that they put into the inquiry.

It will be difficult to map out the future in eight minutes. We are coming through a deep crisis across the world. Politicians, policy makers, regulators and private citizens are still working to learn from the devastating financial crisis. It still seems quite unbelievable that things could have happened so quickly and that problems could have spread so rapidly, but the simple dynamics have happened and they offer an explanation.

As Mr Whitton mentioned, I have read about the subject. John Kay and Philip Augar have been on the list. The voices are pretty consistent. We all know what happened: there was a toxic combination of deregulated markets awash with liquidity, low interest rates, a global real estate bubble, skyrocketing sub-prime lending, and banks engaging in multimillion dollar bets with and against one another. People were driven by self-interest and bonuses, which eclipsed the ethics, risk management and needs of the real economy that built the financial sector in the first place. Many of the roots of the problem were in America, where the focus was on maximising returns, hence there were high transaction costs and variable interest rates with payments that could suddenly spike and trigger problems, and there was no protection or management of household risks. There were also failures here in the FSA, the Bank of England and the Treasury, in what was clearly a regulatory race to the bottom.

I was taken by Ross Finnie's reasoned and rational approach of avoiding short-term solutions and looking for a sustainable structure. That is the message of Philip Augar and others, about which we have heard today. We need structural change and to move beyond the repeal of the Glass-Steagall Act, because we are dealing with a more sophisticated market. Ross Finnie suggested that we should evolve our banking system and our financial services system to manage risks, to oil the economic wheels, and to manage and maintain customers' wealth. It is a matter of getting back to fundamentals. That approach resonates with many members and many people in Scotland, who believe that we can get back to that position.

It is regrettable that, in the early part of the debate, some members almost revelled in what has happened. They talked Scotland down, and ignored the fact that other countries are in a worse position and the fact that the banks that failed in Scotland were too big to fail not just for Scotland but for the UK, the USA and Holland. They ignored the fact that we in Scotland are in a great position to learn from our colleagues in Norway, Canada and Australia, and that we can get a much better situation than we had in Scotland, where regulatory failure triggered moral hazard. We now have to get back to a situation that is realigned with the real economy.

There were failures when the different interests of the owners of banking businesses and the people running them manifested themselves. There were failures when innocent parties—working people and people in business—suffered from the external impact of the moral hazard. The securitisation that took place—admittedly primarily in the States, but it cascaded down—broke the relationship between the lender and the borrower, such that the incentives of the originators of mortgages were focused more on the quantity of mortgages than on the quality. Banks created new risk products without having a mechanism to manage the monster that they created.

Jeremy Purvis: I am not sure whether the minister is alluding to my speech. If the problem was purely regulatory, can he explain why the UK's biggest institution—HSBC—which is one of the biggest financial institutions in the world, has received no public money and has come through the situation in a strong position? How does he explain that?

Jim Mather: That is also the situation in Canada with the Canadian banks, in Norway with the Norwegian banks and in Australia. Many banks learned the lesson. Perhaps they had closer experience of the Asian crisis and learned from that. However, they did learn, and the big message that we are getting in this debate is that we must learn.

The Government has been criticised in the debate for not writing to the OFT. We will write to the OFT, but whether it takes up the advice is clearly in its gift. The Government has also been criticised for not taking further and detailed positions on the issue. We have just taken the Arbitration (Scotland) Bill through the Parliament. We met many top mediators, and they say, "Don't take positions. State your interests." We state our interests regularly through FiSAB and to the new Secretary of State for Scotland, the Prime Minister, Vince Cable—only yesterday—and others. We are determined to ensure that Scotland's opinions are reflected in the deliberations.

Iain Smith: I am slightly confused, because the minister says that he wants Scotland's opinions to be reflected in all the deliberations, but he has not expressed what Scotland's opinions are. For example, how many banks does the Government think we need in Scotland? Do we need more banks than we have now? Do we need different types of banks? Surely we ought to be putting those fundamental questions to the people who are looking into these issues.

Jim Mather: The member shows a complete inability to handle complexity. He asks us to take a position when we need to do what his colleague Ross Finnie advises, which is to take a more reasoned approach, where good sense evolves. We in Scotland have a fantastic opportunity to show immense unity, to come together round the committee's report and to reflect that back into the UK, so that the UK is in a position to reflect that across the globe.

That is the message that those of us who turned up at the Futures Forum event got today. We were told that, yes, we must ensure that our banks have better capital ratios, that they decrease their leverage, that we have a levy to ensure that there is good behaviour and that we have better risk management. We understand and accept all of that. It is comforting to know that we cannot go back to the good old days, whether it is 1973 or not, but we can perhaps learn lessons from the good old days, as was advocated at the event today when people talked about moving away from the repeal of Glass-Steagall to the reimposition of Glass-Steagall, but on a more sophisticated basis, with perhaps the casino side of banking organised in limited partnerships to create a better approach.

In Scotland, top actuaries are offering to sit down with our banking sector, essentially to help them to re-establish risk management and get back to the fundamentals. That will create real resilience in our banking system, in our economy and in our small businesses, and create a new alignment. It is interesting that the same actuaries want to talk to the energy sector thereafter. I find that fascinating, because it almost suggests that our utilities—energy, water and finance—will become the platform upon which we build our economy to create the greater stability that we all need.

The world has changed. Scotland can play a part in influencing how that change manifests. The committee's report has made a big contribution to that, as has the debate. Those of us who took notes at the Futures Forum event will know that the contributions that were made at it can help to lead us to a better future, although I will not name names, as Chatham house rules applied—or perhaps Holyroodhouse rules. I look forward to playing a part in that.

16:50

Rob Gibson (Highlands and Islands) (SNP): In summing up for the Economy, Energy and Tourism Committee, I begin by saying that it was my great pleasure to be involved in an inquiry that enhanced the Parliament's reputation and the reputation of all the parties that took part in it, including the witnesses, the clerks and our adviser Philip Augar. In a country that has more than 300 years' experience of creating some of the most sound and long-term financial organisations in the world in asset management, insurance, asset servicing and so on, the way in which we promote a future for financial services is perhaps one of the most central issues not just of this time but of all generations.

To counter that, we should probably consider Gavin Brown's stricture that we must direct our thoughts to things that we can deal with here in Scotland, directly or indirectly. However, if we narrow down the issue and consider what we can do now, we find huge constraints on us, because we do not have powers to regulate financial markets. There are issues with how we would consider that in future. The committee was bombarded with arguments about how financial institutions, particularly banks, ought to be organised. Part of the problem is that, because of the uncertainties of another year of discussing that, as Ross Finnie described, we will be left considering whether to take the Glass-Steagall route or the slightly different route that Adair Turner has suggested.

Adair Turner suggests that, unfortunately, and whether we like it or not, it is difficult to separate investment banking from retail banking. It has been argued that investment banking funnels cash into the commercial side, which then provides for economic recovery. If that is so, living wills must be considered for too-large-to-fail organisations. Institutions that go for riskier operations and deals must be required to carry a greater amount of capital.

From that point of view, the issue is complex. Breaking up the banks could do considerable damage to institutions in Scotland. When people talk down Scotland and imply that the Royal Bank of Scotland and HBOS should be smaller, they are not addressing the potential of financial services organisations that are in a global market but based here. The issue is not about the governance under which such organisations should fall; it is about the way in which they operate and the wider sense of global organisation.

Ross Finnie: I do not want to make a semantic point, but does not the member's point show why it is necessary to talk about whether a bank is too important in its function, rather than whether it is too big?

Rob Gibson: In my notes, I have a point about Ross Finnie's comment on banks that are too important to fail. We must take that to heart, but we should be able to address it fairly quickly.

There are many different views on the importance of various parts of the report. Members have spun off arguments from it to suit their political circumstances. The issues about the OFT must open up questions about the regulatory framework that was set up and built on in the past period. Various Government bodies have extended the range of institutions that look after our interests.

The FSA, in its separate role, has carried out some useful functions since the crisis. We have heard Adair Turner talk about them. The question of who should control that is another matter, which, no doubt, the royal commission will consider.

The Bank of England, in its overview of the macroeconomy, did not see the crisis coming either, and it did not tell the FSA that it should be getting on with a particular job.

We have seen in relation to simple things, such as the regulation of the wholesale milk market, that the OFT was not prepared to look at Scottish circumstances separately from other circumstances, therefore the Economy, Energy and Tourism Committee has to take the view that the jury is still out on whether the OFT is a fit body to deal with the kind of investigation for which many members throughout the chamber have called.

I turn to other aspects of the report. Marilyn Livingstone agreed with Linda Fabiani that co-operatives and non-profit-making banking organisations are good things. They are often regulated by British legislation, and I wonder whether members agree that there ought to be discussions about devolving some functions in order to encourage the creation of more co-operative banks.

Iain Smith and Jamie Hepburn talked about the true purpose of banking. The examples that Jamie Hepburn gave—which other members might have disagreed with—are the result of a globalised banking system that does not have control over many different sorts of people.

So many aspects need to be looked at that we do not have time to deal with them all in detail. This debate has shown that the committee will not just have to have a watching brief on the subject; instead, it will be a major part of our remit in every year of our existence from now on. We should be pleased that the evidence on which we have based this debate will allow us to take a very much more forensic approach.

I refer members to something that Neal Ascherson wrote in his column in *The Observer* in 1987, entitled “The no-go area of the Square Mile”:

“a good government would go into the city with drums beating and clean it out, destroying nothing that the economy really needs in the process—a good government—which we do not have.”

Unfortunately, a lot of the evidence that the committee heard showed that we did not have a good Government during the crisis. The jury is out on whether we will have a good Government that is capable of finding the ways forward to create the financial services structures that will give Scotland the sustainable future that we all seek.

Business Motions

The Presiding Officer (Alex Fergusson): The next item of business is consideration of business motion S3M-6461, in the name of Bruce Crawford, on behalf of the Parliamentary Bureau, which sets out a revision to the business programme for tomorrow, Thursday 3 June.

16:58

The Minister for Parliamentary Business (Bruce Crawford): In moving motion S3M-6461, I should inform Parliament that the reason for the change is to insert a ministerial statement on VisitScotland at 2.55 pm tomorrow.

I move,

That the Parliament agrees the following revision to the programme of business for Thursday 3 June 2010—

delete

2.55 pm	Scottish Government Debate: Student Fees

and insert

2.55 pm	Ministerial Statement: Visit Scotland
followed by	Scottish Government Debate: Student Fees

Motion agreed to.

The Presiding Officer: The next item of business is consideration of business motion S3M-6462, in the name of Bruce Crawford, on behalf of the Parliamentary Bureau, which sets out a business programme.

Motion moved,

That the Parliament agrees the following programme of business—

Wednesday 9 June 2010

2.00 pm	Time for Reflection
followed by	Parliamentary Bureau Motions
followed by	Final Stage Debate: William Simpson’s Home (Transfer of Property etc.) (Scotland) Bill
followed by	Stage 3 Proceedings: Scottish Parliamentary Commissions and Commissioners etc. Bill
followed by	Transport, Infrastructure and Climate Change Committee Debate: Report on the Inquiry into Active Travel
followed by	Business Motion
followed by	Parliamentary Bureau Motions
5.00 pm	Decision Time
followed by	Members’ Business

Thursday 10 June 2010

9.15 am	Parliamentary Bureau Motions

followed by	Stage 1 Debate: Alcohol etc. (Scotland) Bill
followed by	Financial Resolution: Alcohol etc. (Scotland) Bill
11.40 am	General Question Time
12 noon	First Minister's Question Time
2.15 pm	Themed Question Time Finance and Sustainable Growth
2.55 pm	Scottish Government Debate: Violence Against Men
followed by	Parliamentary Bureau Motions
5.00 pm	Decision Time
followed by	Members' Business
Wednesday 16 June 2010	
2.15 pm	Time for Reflection
followed by	Parliamentary Bureau Motions
followed by	SPCB Question Time
2.35 pm	Scottish Government Business
followed by	Business Motion
followed by	Parliamentary Bureau Motions
5.00 pm	Decision Time
followed by	Members' Business
Thursday 17 June 2010	
9.15 am	Parliamentary Bureau Motions
followed by	Scottish Government Business
11.40 am	General Question Time
12 noon	First Minister's Question Time
2.15 pm	Themed Question Time Europe, External Affairs and Culture; Education and Lifelong Learning
2.55 pm	Scottish Government Business
followed by	Parliamentary Bureau Motions
5.00 pm	Decision Time
followed by	Members' Business—[*Bruce Crawford.*]

Motion agreed to.

16:59

Meeting suspended.

17:00

On resuming—

Decision Time

The Presiding Officer (Alex Fergusson): There is just one question to be put as a result of today's business. The question is, that motion S3M-6436, in the name of Iain Smith, on the Economy, Energy and Tourism Committee's report on banking and financial services in Scotland, be agreed to.

Motion agreed to,

That the Parliament notes the conclusions and recommendations contained in the Economy, Energy and Tourism Committee's 3rd Report 2010 (Session 3): *Report on the way forward for Scotland's banking, building society and financial services sector* (SP Paper 405).

World Oceans Day

The Deputy Presiding Officer (Alasdair Morgan): The final item of business is a members' business debate on motion S3M-5940, in the name of Stuart McMillan, on world oceans day. The debate will be concluded without any question being put.

Motion debated,

That the Parliament recognises World Oceans Day 2010 on 8 June and congratulates the United Nations for designating a day with the aim of improving the health of the world's oceans; considers that lobbying by the Ocean Project and the World Ocean Network encouraged the UN to officially recognise 8 June as World Oceans Day; acknowledges that there will be events to mark the date across the world and hopes that communities across Scotland may take part or organise their own events; further considers that the Marine (Scotland) Act 2010, Scotland's first such Act, goes a long way in improving awareness and responsibility for the sustainability of Scotland's seas and hopes that the events on 8 June will take up this message; hopes that the theme of the day, Our Oceans, Our Responsibility, will be widely spread, and wishes World Oceans Day much success in future years.

17:01

Stuart McMillan (West of Scotland) (SNP): I thank the members who have stayed behind for the debate and the members who signed my motion.

World oceans day is on 8 June. Canada proposed the concept on 8 June 1992 at the earth summit in Rio de Janeiro and the day was celebrated unofficially every year until it was internationally recognised in 2009, when the United Nations declared officially that 8 June every year was to be recognised as world oceans day.

Oceans provide most of the oxygen that we breathe and much of the food that we eat, and help to create many of the medicines that we use to stay healthy. Oceans also provide us with incredible opportunities for recreational activities such as boating, diving and fishing. As we know, waters cover two thirds of the planet's surface.

It is unfortunate that humans sometimes take the oceans and the seas for granted. As members from one of the most progressive countries in the world, it is our responsibility to recognise the ecological impact that we have on our oceans and to realise the vital role that they play in our lives. I am encouraged by Scotland's awareness of the situation and I congratulate the Scottish Government on, and commend every member of the Parliament for, the passage of the Marine (Scotland) Act 2010. I also congratulate the members of the United Kingdom Parliament in Westminster on passing their Marine and Coastal Access Act 2009. Those acts are major steps towards helping us to protect the coastal waters of the UK and Scotland. The Marine (Scotland) Act 2010 has provided a framework to manage Scotland's seas and enforce the laws that are associated with the sustainable development of our waters.

World oceans day encourages groups throughout the world to engage in events to celebrate the world's oceans and help to increase awareness of the role that our oceans play in everyday life. This year, events that are being held in Scotland to celebrate the day and increase awareness of it include those by the Macduff Marine Aquarium and the Solway Firth Partnership. I hope that an even bigger effort will be made next year to support world oceans day all over the country.

World oceans day encourages sustainable and enjoyable practices for the environment and the oceans in particular. As the Presiding Officer might recall, I initiated in November 2008 the first members' business debate—and the first debate in the chamber—on the potential economic impact of recreational boating and marine tourism on the Scottish economy. That growing sector of our economy depends almost exclusively on the wellbeing of the world's oceans and people taking care of them, so Scotland must view world oceans day seriously. It would be prudent for Scotland to support the day zealously, as it strives to protect a vital element of the Scottish economy.

Sailing and responsible recreational boating are some of the most environmentally friendly activities that one can enjoy. A sailboat does not use much fuel and certainly provides an entertaining way to enjoy our waters.

Another wonderful activity to enjoy in our oceans is diving and snorkelling. Five years ago, on a trip to Australia, I went snorkelling off the coast near Cairns. The ocean there was stunning. Members should believe me when I say, after witnessing its beauty in person, that there is no high-definition television on the planet that can do the great barrier reef justice.

World oceans day promotes awareness of what our oceans do for us and encourages us to show them respect. We need to call into question the practices that we as a people undertake, and how we react to man-made disasters such as the Deepwater Horizon oil spill that is currently wreaking havoc in the Caribbean, releasing a reported 1,600 to 13,600 tonnes of oil per day.

It is not the first time that we have inadvertently done serious damage to our planet's oceans and ocean fauna in accidental oil incidents. In 1989, the Exxon Valdez tanker ran into a reef and spilled an estimated 35,000 tonnes of oil into the waters around Alaska. Although that spill was well down the list of the largest spills, its remote location made it extremely difficult to clean up and it adversely affected all manner of wildlife, resulting in the deaths of thousands of sea creatures in the vicinity.

In a significantly larger incident off the coast of Scotland, the MV Braer ran aground off the coast of the Shetland Islands in 1993, leaking 85,000 tonnes of oil into local waters. Quick action by volunteers in the Shetlands to walk the beaches and collect oiled animals, in combination with extremely stormy weather in the Shetlands at the time, helped to minimise the spill's impacts. The Braer was also carrying Norwegian Gullfaks crude oil, which is lighter and more biodegradable than typical North Sea oil. Those factors luckily prevented an even bigger disaster from occurring. Given the circumstances, Scotland can consider itself lucky that the ecological impacts were not worse than they were.

The Braer spill is dwarfed by the gargantuan Ixtoc 1 oil spill in 1979 and 1980, which released nearly 500,000 tonnes of oil into the Bay of Campeche in the Gulf of Mexico and took nearly a year to clean up. It is unfortunate that this year's world oceans day will be celebrated during the largest oil incident in the past 20 years, and one of the most devastating disasters for the ocean and neighbouring ecosystems in recorded history. Millions of people have had their lives affected by the spill, and billions of organisms have been either killed or chased from their native habitat due to its magnitude. As the oil seeps inland into the marshes of the southern United States, it throws off the balance of that delicate ecosystem, which may never be the same.

Such man-made disasters should highlight the importance of world oceans day. I hope that they will bring concern for the oceans to the forefront of our attention. We as a people need to be much more responsible in the way in which we interact with our surroundings. Oceans are a most precious resource, naturally beautiful and full of bounty. It is imperative that we treat them with the respect that they deserve.

17:08

Elaine Murray (Dumfries) (Lab): I congratulate Stuart McMillan on securing this debate and organising last week's Scottish boating alliance reception, which highlighted the contribution of recreational boating to the Scottish economy. I understand that the figure is comparable to that for golf, which came as a surprise to me.

Stuart McMillan's motion refers to the contribution that the Marine (Scotland) Act 2010 can make to improving the health of the seas around Scotland. As a member of the Rural Affairs and Environment Committee, which scrutinised and amended the legislation during its passage through the Parliament, I strongly agree that the 2010 act has the potential to make a significant contribution to Scottish marine health. However, as Scottish Environment LINK's briefing points out, that will depend on the act being well implemented. As it is brought into force, much will depend on the way in which the duties that are placed on the Scottish ministers and public authorities are exercised. For example, section 5 requires the Scottish ministers to set a number of objectives: economic and social, on the marine ecosystem, and on mitigation of and adaptation to climate change. As Scottish Environment LINK points out, those objectives will need to be reconciled. The various partners in the marine planning partnerships that will be tasked with drawing up regional marine plans will have a range of interests, some of which will be in competition with one another. Work will be required to negotiate a solution that is acceptable to all partners, in so far as that is possible. Passing the bill this year is just the beginning of a process that I believe will continue for many years.

During its passage there was much interest—and rightly so—in the welfare of seals, particularly as the population of the common seal has declined substantially in recent years. The part of the bill dealing with seals received the greatest number of responses from the public during the consultation period.

Sharks, whose populations have also declined significantly, do not enjoy the same level of public affection, unfortunately. They might not look cute and cuddly, but sharks are an important indicator of the health of the seas, as they are at the top of the marine food pyramid. Loss of population among sharks, as predators, can significantly affect the ecosystem.

At least 30 species of shark occur in UK waters. Some are resident off our coasts all the time; others are migratory. Half of British shark species appear on the red list of the IUCN—the International Union for Conservation of Nature and Natural Resources—which assesses species' risk of extinction. Sharks are vulnerable, because their development, both before and after birth, is slow, meaning that they mature very slowly and grow slowly. They also have few young, so they are highly susceptible to overfishing, either for their meat and fins or as bycatch.

Organisations such as the Scottish Sea Angling Conservation Network believe that more effort should be made by Government and fisheries managers to protect shark species. The network's argument for that requires to be backed up by evidence, which is why the SSACN has organised the Scottish shark tagging programme. The next event, Sharkatag 2010, takes place during the weekend of 18 June in the western Solway.

Last year's event in the Solway tagged 222 sharks, which at first seems a reasonable figure, although the majority were immature females, with a small number of larger females—and the male breeding stock that would have been expected was absent across the region. In addition, only a handful of rays were tagged. Twenty years ago, mature rays and tope were plentiful in that part of the Solway. The good news for humans in Dumfries and Galloway—in contrast to the sharks—was that, of the 175 sea anglers who registered for the event, 90 per cent came from outwith the region and over a third from outside Scotland, so the event was shown to contribute to the local economy.

I welcome the focus that world oceans day brings to our consideration of the marine environment. Like others, I believe that the Marine (Scotland) Act 2010 has the potential to improve the health of Scotland's seas significantly, but I also believe that we have a lot of work to do to achieve that improvement—not least through enhancing the protection of vulnerable marine species such as sharks and rays.

17:12

Alasdair Allan (Western Isles) (SNP): I congratulate Stuart McMillan on securing this evening's debate. Scotland has an enduring and obvious relationship with the sea. I will not rehearse all the reasons of geography and history that have made that the case, but it is worth giving one single illustration of the economic importance of the sea to Scotland: our shipbuilding industry, which could once boast that a third of the ships afloat in the world had been built on the Clyde.

I represent 13 inhabited islands and it is only too obvious to me what the sea means to Scotland. A high proportion of my constituents have either served across the globe in the merchant navy or are fishermen, or they work in fish processing, on ferries, or in the tourism industry in and around the sea. Conversely, as in many other coastal communities, people in the islands are only too aware of the terrible power of the sea. Taking one famous and terrible example, His Majesty's yacht Iolaire sank barely a couple of miles from Stornoway harbour in the early hours of new year's day, 1919. With the loss of more than 200 men, most of them soldiers returning home from the trenches of the first world war, the tragedy remained for many decades an event so painful in Lewis and Harris that it was barely discussed.

I mention that because it goes a long way towards explaining why people in places such as the Western Isles often have a realistic, rather than romantic, view of the sea. I also mention it to stress that the sea is not just an ecosystem that is vital to life on earth—I apologise for the word "just" in that sentence, now that I read it, considering the enormity of what it says. We need also to recognise the importance of the sea to human cultures all over the world. World oceans day provides an opportunity every year to do just that. It provides a chance to honour the world's oceans and to celebrate the products that the oceans provide. It also gives us time to appreciate the sea's intrinsic value and the need to protect it.

Pollution of the sea is a global problem, but one with intensely local manifestations in the form of the tonnes of plastic that wash up on Scotland's beaches every year. Indeed—this does not bear much thinking about—there is evidence that many beaches around the world contain almost as much ground-up plastic as they do sand.

World oceans day provides an opportunity to get hands-on in protecting our future with a new mindset, through personal and community action and involvement. Beach clean-ups, education programmes, art contests, film festivals, sustainable seafood events and other planned activities help to raise consciousness of how our lives depend on the oceans.

Sustaining the natural marine environment while supporting Scotland's vital oil and gas and fishing industries is a major challenge, but I am intensely optimistic, as I am sure are other members, that the sea provides the key to many of Scotland's most immediate needs. The heavy Atlantic swell and some of the world's strongest tides are to be harnessed by a breakthrough scheme to generate clean marine energy off northern Scotland. The scheme's output is predicted to rival that of a nuclear power station—that is before we consider the contribution of smaller wave-powered projects and offshore wind.

World oceans day offers a fitting moment for Scotland to look ahead and think about what we can do for our oceans and what our oceans do for us. There is wider and wider recognition that communities that have traditionally made their living from the sea and people who are concerned about the wider ecological role of the world's oceans can, and increasingly do, work together in pursuit of a shared goal. For that reason, I support world oceans day and commend the aims of the motion.

17:16

Jamie McGrigor (Highlands and Islands) (Con): I congratulate Stuart McMillan on securing the debate. I am glad that we are debating the importance of our oceans.

At the weekend I was in the famous Loch Fyne oyster bar. The Gaelic motto of Loch Fyne Oysters is “Nach urramach an cuan”, which means, “How worthy of honour is the sea”. Surely that philosophy should guide policy makers all over the world, where the oceans are concerned. The sea is indeed a wonderful resource, but it is a fragile one that we should honour and respect if we are to ensure its viability for all future generations.

I congratulate the Intergovernmental Oceanographic Commission on reaching its 50th anniversary this year and I thank everyone who has contributed to the commission’s work over the years. We can all support the IOC’s aim, which is to promote international co-operation and to co-ordinate programmes in research, services and capacity building, so that we can learn more about the nature and resources of the oceans and coastal areas and apply that knowledge for the purposes of improved management, sustainable development and protection of the marine environment.

At Scotland level, it is a positive thing that we have the Marine (Scotland) Act 2010, which has ambitious aims for the protection and—this is crucial—restoration of the marine environment. The 2010 act has broad sectoral support.

There are many worrying matters, such as the decline—almost the disappearance—of many fish species in our sea lochs on the west coast. Especially worrying is the decline in runs of migratory wild salmon and sea trout. Such declines are symptoms of something that is wrong with our marine environment or of something that has changed, so it is vital that there be research and development to ascertain the causes of decline and to identify what can be done to resurrect the missing runs of fish. I call on the Government to take action in that regard. I hope that the much-vaunted fresh start for aquaculture will come up with solutions in that respect; if it does not do so, it will be seen to have failed.

Many of my constituents who make their living from the sea think that Scotland’s vast marine space can satisfy many and varied needs, provided that the Government takes steps to bring the various parties and interests together to produce solutions that ensure that our marine environment is not a battleground but something that can be sustainably utilised by agreement. The 2010 act seeks consent and co-operation; we hope that it will be implemented in that spirit.

In that regard, the Clyde Fishermen’s Association raised a specific point with me, on which the minister might comment. The association is deeply concerned that there is a lack of clarity about the governance arrangements that take precedence in our inshore coastal waters up to 3 miles. Is the marine strategy framework directive or the European Union water framework directive in charge? Surely they cannot both be in charge of the same area. Marine Scotland has so far been unable to provide the required clarity on the question, which people who are in the know find alarming. I would be grateful if the minister could clarify the matter in the debate or give me an answer soon on what is becoming a burning issue. I foresee storms on the horizon, if the matter is not sorted out.

Whenever I debate aquaculture in the Parliament, I talk about the need for us all to seek sustainable coexistence between the wild fish and farmed fish sectors. That is vital to the health of our oceans, especially our coastal waters: it would be disastrous if the wild salmon and sea trout angling tourism for which Scotland has become famous over hundreds of years were to be plagued by sea lice or diseases. It is also vital that the shellfish farms—especially the mussel farms, which have progressed so well—have clean enough water to ensure the viability of their valuable products.

I am pleased that the United Nations has designated a day for our oceans because it raises awareness at an international governmental level. I wish it success and hope that we will hold further such debates in our Parliament. This morning, I listened on Radio 4 to a man who has swum in the sea at the north pole and in a lake on Mount Everest at more than 17,000ft. When he was asked why he did not wear a wet or dry suit, he said that using such devices would eliminate the impact of the contribution that he is making to recognition of the environment’s importance. I congratulate him on his bravery and hope that people continue to make waves.

17:21

Liam McArthur (Orkney) (LD): As a member whose constituency is sandwiched between the Atlantic Ocean and the North Sea, I—perhaps like Alasdair Allan—consider every day to be ocean day. I harbour a degree of scepticism about the ever-more-frequent practice of designating specific days for different, albeit worthy, causes, often in a fairly arbitrary fashion. I note, for example, that we failed to do justice to world information society day in the middle of last month, distracted as we no doubt were by the aftermath of the recent general election. However, I am confident that we will redeem ourselves by bringing out the bunting when it comes to international day for natural disaster reduction. I presume that because predicting when natural disasters might strike—and, therefore, predicting when we might prevent them—is tricky, the UN has simply set aside the second Wednesday in October for that one. Nevertheless, I acknowledge that when such occasions work by providing a useful trigger for collective action locally, nationally and internationally, they can be effective in highlighting important messages and delivering worthwhile action. For that reason, I was happy to sign Stuart McMillan's motion, so I congratulate him on securing the debate, which is all the more relevant in the light of the appalling disaster that is unfolding in the Gulf of Mexico. I only hope that my sons do not find out that 10 March is international day of awesomeness or that, scarier still, 21 November is world television day.

To raise public awareness of what our marine environment has to offer—the rich biodiversity that it sustains as well as the wide range of demands that we put upon it—Stuart McMillan's motion quite rightly points to the importance of the Marine (Scotland) Act 2010, which Parliament passed earlier this year. Like Elaine Murray, I feel privileged to have been part of a process that, by common consent, showed the Parliament at its best. It required collaboration between Governments north and south of the border, as Stuart McMillan indicated, as well as a consistent approach by successive Administrations of different political persuasions in Scotland. The expertise of a wide variety of stakeholders was harnessed effectively throughout the scrutiny of that bill.

However, important and encouraging though the wording of the legislation may be, deeds and actions are what matter, as the First Minister has been quick to point out in recent weeks. As Scottish Environment LINK makes clear in its briefing for this debate,

"the Marine (Scotland) Act can play a major role in improving the health of the seas around Scotland if the Act is well implemented".

Now that the dust has settled on adoption of the act, it would helpful to get the minister's view on the general duty on the Scottish ministers and public authorities to enhance, where appropriate, the health of the seas around Scotland.

Of course, the central tension that ran through the development and consideration of the act was between the need to protect and, where appropriate, to improve the health of our seas while at the same time acknowledging the interests and rights of the many users of that environment. Those objectives will not necessarily always be in conflict, but we—particularly those in the Government and in Marine Scotland who are responsible for implementing and enforcing the legislation—need to remain alive to that tension. However, I am hopeful that, through regional marine partnerships, any competing interests that exist now and will inevitably arise in the future will be able to be managed sensitively and in a way that those who are affected consider to be credible and legitimate.

It is not difficult to see how those pressures will develop in Orkney, for example. We are immensely proud of the role that our islands are playing at the forefront of efforts that will, we hope, result in Scotland's spearheading a global renewables revolution, which Alasdair Allan touched on. However, that must not be done by sacrificing the interests of all other users of the seas around our shores, whether they be in fishing, diving, sailing, tourism or even the demands of our lifeline ferry services. It is critical that we find a way to plan effectively so that best and widest possible use is made of our exceptional marine resources.

I am grateful to Stuart McMillan for securing today's debate. I will raise a glass to the world's oceans on 8 June and continue to recognise the importance of our seas 365 days of the year, but—perhaps unlike Jamie McGrigor—I may enter my apologies now for the debate on international mountain day in December.

17:25

Robin Harper (Lothians) (Green): I congratulate Stuart McMillan on securing this evening's debate. As he knows, I could probably talk for two hours on the subject without having to draw breath, but I now have less than four minutes. Therefore, I will reflect on just one or two things.

First, in the recent British Petroleum accident, one of the problems was that BP was not prepared for a blow-out preventer not working. As there was no history of that happening, no one had thought about what should be done if a BOP failed. In dealing with our coasts, our attitude should be not, "Oh, that has never happened before," but, "What would happen in the event of such a threat happening in our seas?" That was the attitude that I took to ship-to-ship oil transfers in the Forth, for instance, on which we were very lucky that Governments both here and in Westminster took a sensible view. They concluded that the Forth was not a good place to carry out such transfers, not so much because there was a huge danger of something going wrong but because any accident that might have occurred would have been a total disaster for natural life in the Forth.

Such a precautionary approach needs to be taken not just to our shores but to a part of the ocean that is rarely mentioned—unlike fish and aquaculture, which we often talk about and which, if I have time, I will also talk about—namely, the sea bed. As well as supporting our lobsters and shellfish, the sea bed is the nursery ground for most of the fish that we harvest, so it is particularly important that we ensure its protection. The biggest threat to the sea bed is dredging, but I am not satisfied that we are as able to control dredging as closely as we should be. For example, the day after the Community of Arran Sea Bed Trust secured protected area status for the tiny little patch of the sea bed off Arran for which it had campaigned so long, two dredgers just sailed straight through with their numbers blacked out. Nothing could be done about that because of the way in which the current legislation works. That needs to be addressed.

Other things over which we have no control include the fact that plankton is moving north. We might need to consider harvesting different fish in the North Sea and in the Atlantic because the warmer-water fish are following the warmer water. At the moment, the plankton is moving faster than the fish.

Looking forward to next year—when I hope to be sitting up in the public gallery smiling to myself as whoever is in government mentions all these things—I will use my remaining one minute to mention a few of the things that I hope will have been achieved by world oceans day 2011. First, I hope that further progress will have been made on controlling dredgers. Secondly, progress should have been made on introducing closed containment to fish farms. That would address many of Jamie McGrigor's concerns about problems with seals, sea lice and shellfish pollution. Closed containment systems for salmon farms, as for all other types of fish farm, would be seal proof. Furthermore, experience from Norway suggests that it takes only about an hour to treat a few thousand salmon for sea lice before farming can be resumed.

Finally, I would like to hear that we have not unleashed the full power of our fleet on our cod stocks. The lesson to take from the recovery in our cod stocks is that the precautionary measures have worked. The stock had been so severely threatened that many scientists thought that, in the next few years, we might experience a Newfoundland incident, with cod stocks completely disappearing. However, that has not happened and cod stocks are recovering. Now is not the time to allow those stocks to be once again predated on. If any increase in effort is to be allowed, it should be minimal to allow the stock to continue to grow.

I see that I am well over my time. Presiding Officer, it is very kind of you not to have brought me to order—

The Deputy Presiding Officer: Do not tempt me.

Robin Harper: —but I shall behave myself and resume my seat.

17:30

The Minister for Environment (Roseanna Cunningham): I welcome this debate to mark world oceans day. I note Liam McArthur's caveat about the designation of particular days for particular causes, but perhaps world oceans day will have more resonance in Scotland, and I for one am looking forward to world mountain day in December.

I congratulate Stuart McMillan on securing a pioneering debate, the holding of which is timely, given what is happening in the Gulf of Mexico. I suspect that tonight's debate might be the first of a series of annual debates as the event comes round each year.

Scotland's seas are home to some 6,500 species of marine plants and animals, including whales, dolphins, seals and spectacular cold-water corals. If we include all the microscopic plants in our seas, that number increases hugely to around 40,000. We face huge biodiversity issues, and Robin Harper and Elaine Murray were quite right to raise some of them, even if my Australian upbringing means that I hear the theme tune to "Jaws" whenever the word "shark" is mentioned—Elaine Murray will forgive me for that.

Scotland's seas also contribute to sustainable economic growth by supporting 50,000 jobs and overall economic activity that is worth about £2.2 billion, excluding oil and gas revenues. Alasdair Allan's point in that regard was well made. We have some of the best wave conditions in the world, and tremendous opportunities exist to harness that energy. To put matters into perspective, Scotland's seas cover an area that is six times larger than its land area. That is no small area to manage.

We take the world oceans day theme of "Our oceans, our responsibility" extremely seriously, as we do the emerging United Nations theme of "Our oceans: opportunities and challenges". Stuart McMillan and a number of other members mentioned the Marine (Scotland) Act 2010, which, among other things, gave us new powers to establish a network of marine protected areas to protect some of our most precious marine species and habitats. It also delivered an improvement in the balance between seal conservation and sustainable fisheries and fish farms, as well as a streamlined licensing system.

In addition, we are working with other UK Administrations, where necessary. Although marine activities such as defence, shipping and oil and gas have a direct impact on our seas, responsibility for them is currently reserved to Westminster. The issue of oil spills has been raised, which is unsurprising, given what is happening off the coast of America. I can advise the Parliament that there is a comprehensive national contingency plan to cover oil spills in all UK waters. Regular exercises are undertaken to ensure that the bodies that will respond to any spill—which include Marine Scotland, the Scottish Environment Protection Agency, Scottish Natural Heritage and local authorities—know their roles. Furthermore, we aim to agree a joint UK marine policy statement, which will set out a consistent approach to underpin integrated management of reserved and devolved issues in the marine environment.

The European marine strategy framework directive requires us to ensure that Scotland's seas have good environmental status by 2020. Given the dynamic nature of the marine environment, we cannot do that alone. We will need to work within the UK and with other countries to determine the action that is needed and to implement it. One of the issues to consider in the context of the directive is the global marine litter problem, which I am surprised that no one has mentioned. We have affirmed our intention to tackle that problem by supporting several initiatives, such as KIMO's fishing for litter initiative. In case anyone is wondering, KIMO is short for the Finnish name of a European Union organisation that deals with environmental protection and marine environment issues. In addition, we are developing a marine litter strategy in partnership with stakeholders. European co-operation will be critical.

As Jamie McGrigor indicated, we need the best science to inform our marine decision making. To ensure that we have the best science, Marine Scotland is preparing a Scottish marine science strategy that will set out priorities for the Scottish public sector. In November, Mr Lochhead launched the marine alliance for science and technology for Scotland, otherwise known as MASTS, which is a new higher education pooling initiative—I am sorry about using two puns in the same sentence. Both of those will add a Scottish dimension to complement the UK marine science strategy that was prepared by the Marine Science Co-ordination Committee and launched earlier this year. With regard to Jamie McGrigor's highly specific point, the answer, as he might imagine, is not simple and I undertake to write to him on it.

Our seas are also a tremendous source of food and energy. It has been recognised that a new regime is needed to replace the common fisheries policy. Scotland is actively involved in seeking the delegation of decision making to member states so that tailored fisheries measures can be introduced to improve sustainability and reduce discards.

Scotland is the largest producer of farmed salmon in the European Union, and the second largest in the world. We are therefore determined to build on our existing management and ensure that that growing aquaculture industry acts as a good neighbour to those who share the aquatic environment.

Of course, Scotland also has an abundance of marine renewable energy resources—approximately 25 per cent of Europe's offshore wind and tidal potential and 10 per cent of Europe's wave potential. By any measure, those are significant resources. They could establish Scotland as a powerhouse for renewable energy in Europe, and they are central to our focus on increasing sustainable economic growth and to our response to climate change. Stuart McMillan also rightly reminds us that huge economic benefits derive from the recreational use of our seas.

Reference was made to climate change, and our climate change adaptation framework has established a marine and fisheries work stream—another pun, sorry—which will develop an action plan to build resilience in relation to the changing climate. We continue to assess impacts and make scientific information easily accessible for policy makers through the marine climate change partnership, whose latest annual report card is due to be launched next month.

I reiterate that Scotland's seas are extremely important to us and to the world. I note that some related events are being held this month. Elaine Murray might be pleased to know that three of the four that I have been informed about are in Dumfries and Galloway.

As world oceans day takes hold of the public imagination, the number of events will grow year on year. We are carrying on Scotland's marine pioneering tradition with key marine legislation and our innovative approaches to developing marine renewables. We look forward to working with others as we take forward all those initiatives and work to develop Scotland's first national marine plan.

Our seas are our responsibility and we must rise to the challenges and great opportunities that they provide.

Meeting closed at 17:37.

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