



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 2 March 2011

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**CONTENTS**

	<b>Col.</b>
<b>INTERNATIONAL TRADE (SCOTTISH DEVELOPMENT INTERNATIONAL) .....</b>	<b>4827</b>
<b>ANNUAL REPORT .....</b>	<b>4848</b>
<b>LEGACY PAPER .....</b>	<b>4849</b>
<b>SUBORDINATE LEGISLATION.....</b>	<b>4857</b>
Electricity Act 1989 (Requirement of Consent for Hydro-electric Generating Stations) (Scotland)	
Revocation Order 2011 (SSI 2011/115) .....	4857
Environmental Liability (Scotland) Amendment Regulations 2011 (SSI2011/116) .....	4857
Storage of Carbon Dioxide (Licensing etc) (Scotland) Regulations 2011 (SSI 2011/24).....	4857
Energy Act 2008 (Storage of Carbon Dioxide) (Scotland) Regulations 2011 (Draft) .....	4858
Renewables Obligation (Scotland) Amendment Order 2011 (Draft) .....	4863

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**ECONOMY, ENERGY AND TOURISM COMMITTEE**

**7<sup>th</sup> Meeting 2011, Session 3**

**CONVENER**

\*Iain Smith (North East Fife) (LD)

**DEPUTY CONVENER**

Rob Gibson (Highlands and Islands) (SNP)

**COMMITTEE MEMBERS**

Ms Wendy Alexander (Paisley North) (Lab)

\*Gavin Brown (Lothians) (Con)

\*Christopher Harvie (Mid Scotland and Fife) (SNP)

\*Marilyn Livingstone (Kirkcaldy) (Lab)

\*Lewis Macdonald (Aberdeen Central) (Lab)

Stuart McMillan (West of Scotland) (SNP)

**COMMITTEE SUBSTITUTES**

\*Nigel Don (North East Scotland) (SNP)

Alex Johnstone (North East Scotland) (Con)

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

\*David Whitton (Strathkelvin and Bearsden) (Lab)

\*attended

**THE FOLLOWING GAVE EVIDENCE:**

Dr Ross Loveridge (Scottish Government Directorate for Energy and Climate Change)

Anne MacColl (Scottish Development International)

Jim Mather (Minister for Enterprise, Energy and Tourism)

Neal Rafferty (Scottish Government Directorate for Energy and Climate Change)

**CLERK TO THE COMMITTEE**

Joanna Hardy

Stephen Imrie

**LOCATION**

Committee Room 5



## Scottish Parliament

### Economy, Energy and Tourism Committee

*Wednesday 2 March 2011*

*[The Convener opened the meeting at 10:03]*

### International Trade (Scottish Development International)

**The Convener (Iain Smith):** I apologise for the slightly late start. We have apologies from Stuart McMillan; from Rob Gibson, who has another commitment; and from Wendy Alexander, who is tied up with Scotland Bill Committee business, as is our clerk, Stephen Imrie. I think that he was up all night preparing that committee's report, so he cannot be with us today. Nigel Don, our regular substitute, is here. I am pleased to see him back. David Whitton might turn up as a substitute, too.

I welcome members to the Economy, Energy and Tourism Committee's seventh meeting in 2011, which we hope will be our final meeting in this parliamentary session. We have several agenda items. Item 1 is evidence on progress on the recommendations in the report on international trade that we published last year. I am pleased to welcome Anne MacColl, who is Scottish Development International's chief executive. I ask her to introduce herself and her team and to make opening remarks, after which we will open up the meeting to questions.

**Anne MacColl (Scottish Development International):** Thank you for inviting me to attend the meeting. I am here with Ed Payne, who is one of our senior managers in Scottish Development International.

I was appointed as SDI's permanent chief executive in January. In the four months before that, I worked as the interim chief executive. Just before that, I was the operations director in SDI with responsibility for the Europe, middle east and Africa region.

It has been a great privilege to represent Scotland abroad and I am very fortunate that Scotland has such a good story to tell, both in the excellent products and services that are produced in Scotland, which are world class and will continue to help to grow our reputation and export markets, and in Scotland's reputation as a business location to invest in, with a skilled workforce, academic strengths and a renowned reputation for innovation, warm people and a can-do attitude.

As members can imagine, I take a keen interest in the committee's work. I very much welcomed the report and its recommendations. The report helped to raise the profile of the importance of international trade and investment for Scotland and ensured that we had an evidence-based discussion of how we could all improve delivery to support that. At the business in the Parliament event in November last year, I ran a workshop with the convener that allowed us to build on the committee's work and to learn further from Scottish businesses how we could support greater trade from Scotland.

I will touch on two aspects in my introduction: my three key priorities as SDI's new chief executive and how we have responded to the committee's recommendations.

The first of my priorities is that customers—existing and potential customers, Scottish businesses and inward investors—come first. They are the key stakeholders whom we will continue to emphasise the most and to drop everything else for.

My second priority is that we should play to win in the competitive business environment of international promotion agencies. We need to put Scotland on the map internationally and—just as important—put international ambition on the map in Scotland.

My third priority is for us to provide active leadership to support greater international trade and investment. SDI has a good reputation among peers and colleagues and I want us to build on that by delivering high performance, being a key team Scotland player and helping to align the efforts of public and private sector partners for the benefit of greater international trade and investment for the Scottish economy.

The development of actions arising from the committee's recommendations was summarised in the written response, but I will reiterate a few points. Increasing the number of active exporters from Scotland is critical. We need all businesses to consider whether they have the potential to export and how they can convert that into international sales. Our support is open to all Scottish businesses, whatever their size or sector. We have a key role in raising awareness and ambition, and we will focus more attention on that.

When working abroad, as I have done in the past 10 years—five of which have been with SDI—I have spent 60 to 70 per cent of my time on travelling to meet customers in locations that suited them. One of my first actions as chief executive was to review our approach to overseas coverage. We need to work smartly and to use all the overseas assets that are available to us to deliver against our customers' demands. That

includes deploying our staff flexibly as well as the significant resources of UK Trade & Investment and our global Scots.

Presently, customer feedback is not suggesting that we are underdelivering on our overseas presence or that there is any unmet need. The bigger challenge is still stimulating demand from Scottish businesses to go international.

Education is an area in which Scotland excels. We have a dedicated team working with Scotland's 10 universities and 43 colleges to support them to develop and exploit the commercial opportunities that exist overseas.

We have recently reorganised to strengthen our approach to the attraction of inward investment, in particular by focusing on strategic investments that strengthen the competitiveness of our key sectors and embed such investors in the Scottish economy in a sustainable way. In the next few years, a key priority for us will be a focus on attracting investment to support the growth of Scotland's renewables sector. The attraction, in December last year, of Mitsubishi Power Systems Europe to establish a presence in Scotland through the creation of a centre for advanced technology shows that Scotland can compete, and my staff are out there globally, on a daily basis, selling the strengths of the Scottish proposition.

That concludes my opening remarks, which I hope have given you some useful context. I look forward to our discussions.

**The Convener:** Thank you very much for those opening remarks.

You indicated that you recognised the issue that the committee highlighted—the need for a step change in the number of companies in Scotland that are involved in exporting. What steps do we need to take to make that step change? How are you realigning the services that SDI provides to achieve that?

**Anne MacColl:** We work very much on the approach of raising Scottish companies' ambition and their awareness of the benefits of internationalising. We look at companies' capability and capacity, we help them to prepare an international business strategy and then we look at how they can best exploit the opportunities and expand their reach internationally. That is the approach: awareness and ambition; capability; expansion and exploitation.

Some of the key steps that we have taken most recently revolve around a programme that is called smart exporter, which is a new and innovative programme that is designed to broaden the reach of SDI in helping Scottish businesses to internationalise. We run the programme in partnership with Scottish Chambers International,

and it is also supported by the European social fund. We launched it on 6 September last year, and we are just about to launch it across the Highlands and Islands. Highlands and Islands Enterprise is a very important part of what we do. Many companies in that part of the world are looking to see what growth opportunities there are internationally. Following the launch of smart exporter in the HIE area, that programme will develop on a pan-Scotland basis to allow a high level of access and interaction between ourselves and companies.

An area in which we look to provide help is around preparing companies prior to looking at markets overseas. We have a programme called international business manager for hire that helps them to look at skills in that area, we provide them with research on markets that they are interested in, and we have a significant series of trade missions and exhibitions to which we bring Scottish companies in a number of different markets, again with a view to helping them to look at international opportunities.

**The Convener:** You mentioned that the first of the three steps is raising awareness and ambition. How do you get that message through to the whole of the enterprise network, right down to the business gateway, so that all businesses are encouraged to look at their ambition and to realise that the barriers to international trade are not as great as they are perceived to be?

**Anne MacColl:** We have been working hard to look at how we make that message much more widely known. We are also working hard to ensure that accessibility to the services that we provide is as far-reaching as possible. It is about broadening the scope of the services that we provide to Scottish companies that are looking to internationalise. Raising companies' awareness and ambition is about helping them to think about developing their international mindset.

There is also quite a significant play on leadership within Scottish companies, by looking at how we develop those leadership skills to raise their ambition for what they could be doing. I am convinced that we have world-class services and products in Scotland that stack up against a number of international benchmarks. It is not that there is a lack of products and services that we can export. It is much more about companies developing an international mindset and ensuring that that message is communicated across the business community, regardless of company size or sector, and across the agencies that companies work with.

10:15

**The Convener:** Could you explain a bit more about what services the smart exporter scheme provides? It was being introduced as we were concluding our inquiry, so we were not able to consider it. How will the success of that scheme be measured?

**Anne MacColl:** The smart exporter scheme was launched in September last year. It is a partnership that we are operating with Scottish Chambers International and it is open to all Scottish companies. We have, for example, put in place a series of 39 seminars, which will run right across Scotland this year. They are intended to bring together Scottish companies that are interested in internationalising, to put them in front of some of our experts who know and understand exporting, and to give them the opportunity to ask questions and think about the areas of exporting that they could get involved in. The scheme is also going to be launched in the HIE area next week, which will open up the market even more.

Some of the services that we offer revolve around international preparedness, or how a company thinks about its international strategy; what budget it has prior to taking the step to go international; what capacity and capability it has to grow its business internationally; and where it is currently operating and how that can be replicated on an international basis. A lot of our products and services look at preparing organisations prior to them taking the step into the international market.

The other part of the scheme is about how we support those businesses once they are in the market. That involves, for example, our trade and exhibition missions programme. In the past six months, we have delivered 33 exhibitions and missions to all parts of the world. The missions focus on particular sectors of industry in which Scotland has strengths. For example, there was Bio Korea in Seoul in September last year, and a number of Scottish food and drink companies recently went to Gulfood in Dubai to look at the opportunities in that part of the world. If you would like it, convener, I am happy to provide you with a list of those exhibitions to give the committee a flavour of what they look like and the breadth and scope of our exhibition programme.

**The Convener:** I am sure that members would welcome that.

**Lewis Macdonald (Aberdeen Central) (Lab):** During our inquiry, we discovered that, although some sectors are strongly engaged with export opportunities and are active overseas, other sectors appear not to have thought about or actively considered export opportunities. The percentage of Scottish companies that are engaged in exporting is something like 5 per cent

of the total number of United Kingdom companies, but we have 8 per cent of the UK companies that pay VAT. That is probably quite a good indicator of the deficiency in export orientation in Scotland compared with other parts of Britain. Do you have a view on the roots of that disengagement? Why is it that many smaller companies simply see exporting as something that someone else does and not something that they should be part of?

**Anne MacColl:** I have just taken part in two recent events. At the Scottish construction forum I spoke about internationalisation as a route to economic recovery in the construction sector. The other event was the Publishing Scotland conference, which took place last week. I focus on those two sectors as examples of areas in which we think that there is much greater scope for developing exporting.

Some of the companies that we are talking about are small companies, but some are larger, and often a lack of confidence, ambition, and awareness of what the opportunity looks like overseas means that those companies do not think about exporting. From evidence that we have gathered, we know that many small companies underestimate the benefits of exporting and overestimate the risks. For example, they might think that it is much riskier to work in overseas markets because of language and culture barriers or currency differentiation. The message that we try to get across to them is that it can be much riskier to try to grow their business in the domestic market. Growth in the domestic market, across the United Kingdom, is currently about 1.4 per cent, whereas in high-growth emerging economies, such as those in China, Brazil, Russia and India, growth is 7, 8 or 9 per cent and beyond. China is now the second-largest economy in the world, and there are massive opportunities for exporting there.

We try to debunk some of the myths around what exporting means and the risks that are involved in it. That is an important message for companies in Scotland.

**Lewis Macdonald:** That confidence issue can in part be addressed by businesses that have already successfully made that move. Do the presentations and engagements that you have described involve exporting companies alongside SDI in conversations with potential exporters?

**Anne MacColl:** We put companies in touch with as many organisations as possible that have already taken that step. An example is a recent event on doing business in Asia that took place in Murrayfield in Edinburgh in February, which we ran in partnership with UK Trade & Investment and at which I spoke. We had more than 70 companies at the event. One of the key speakers was one of our global Scots—a chap who now lives and

works in Scotland, but who has done a significant amount of business in Singapore and throughout Asia. He is a good role model, as he has been there, done that and seen it. Putting him in front of that audience and providing access to such individuals is important to break down barriers to exporting, which are often more perceived than real.

**Lewis Macdonald:** I mentioned one measure of the level of export activity in the economy. Do you use that measure, or others, to track improvement or otherwise in the level of exporting?

**Anne MacColl:** That is a useful measure of where we are now and where we want to go. Scottish Development International is working on its strategic plan for the next five years, from 2011 to 2015, and considering the key areas of business that we want to grow and develop in Scotland. That measure is one of the tracking measures that we are considering using as a measure of performance. Another measure is to look at the number of companies that we assist to upskill in the international arena. That involves the number of companies that we work with on the international preparedness programme; the number of companies and individuals who access the manager for hire programme; and the number of companies that attend exhibitions and missions. Importantly, we consider the impact of all those activities and how they translate into sales, increased growth and profit for those organisations. We track all those measures carefully with our companies.

**Lewis Macdonald:** That is helpful. The question of how you work with business in overseas markets and with UKTI, which has a broader network in some parts of the world than SDI does, came up firmly during the inquiry. Do you foresee changes in that? In particular, are there ways in which SDI can make more use of Scottish companies that already operate in emerging markets, alongside UKTI, as potential centres or focal points for your activity and the activity of new exporters that go into those markets?

**Anne MacColl:** We are actively considering how we make the most of our overseas presence. At present, SDI has 22 offices overseas, with just over 80 staff. We are actively considering how to develop the reach of our network, particularly through the UKTI network. There are 150 UKTI offices overseas, covering 96 countries that account for 98 per cent of gross domestic product. If you imagine using that level of leverage to help Scottish businesses consider how they can develop further contacts and work more closely in market, you will appreciate that that is a very important part of what we are doing.

A second important area for us is utilising the skills and experience of our globalscot network

overseas. We have more than 600 global Scots across the world—experienced individuals with a high level of understanding of working and doing business in international markets. It is extremely important to ensure that Scottish companies that trade overseas and that go over for the first, second or third time have access to UKTI networks, to global Scots and to our key people on the ground across our 22 offices.

**Lewis Macdonald:** A number of people have told us that there are global Scots and established exporters who would be quite happy to provide a work base for people arriving in the country for the first time. Are you engaged in facilitating or encouraging that?

**Anne MacColl:** Absolutely. We are considering how we can use some office spaces as touchdown points. We have incubator offices over in the States: in Boston, Houston and in San José, on the west coast. Those incubator offices can serve as touchdown facilities for companies that are looking to get into the market and understand it better, or companies can take on a semi-permanent lease in those offices. More than 100 businesses have gone through our incubator spaces over in the States, with more than a 30 per cent success rate among the businesses as they go on to trade in the markets there.

Nowadays, people tend to do business using a mobile communication model. Some companies still want a space, a desk and an office, but many more are much more keen on understanding and overcoming the language and culture barriers in a market, and on understanding the knowledge and experience of global Scots, rather than just getting a desk and a phone. People do business in a much more mobile way than they did previously. It is not just about the office space; it is more about the knowledge and experience that we can bring to help accelerate people's entry into the market.

**Gavin Brown (Lothians) (Con):** In your opening remarks, you rightly suggested that we need to increase the number of active exporters in Scotland. How many active exporters do we have today in Scotland?

**Anne MacColl:** We estimate that about 5,500 businesses are currently exporting overseas, which represents 5 per cent of the total number in the UK—a figure that tells us that we are punching below our weight when it comes to the number of Scottish businesses that are exporting. Under our strategy plan and our business plan for this year, and on a strategic, medium to long-term basis over the next five years, we will consider, through the measures that we will be tracking, how we increase that scope and develop from 5 per cent up to 6, 7 or 8 per cent. That will be important. There is a recognition that the number is below the level that we think it should be at, and there is a lot



more scope and capacity in the market to develop that work further.

**Gavin Brown:** I am not sure that there is an easy answer to this question, but let us take 8 per cent as the desired figure—the committee was reluctant to specify a fixed target, although we coalesced around the idea that we should be punching at our weight, which is 8 per cent. You have been producing plans. Do you have a rough feel for how long it might take us to get to 8 per cent, or is that a question that we simply cannot answer right now? I will not hold you to a year, but you might have a rough feel for how long it might take.

**Anne MacColl:** Sure. I will give you the example of one of the key measures around the smart exporter initiative. It was launched in September, and the measures will take place over the next three years, when we want 8,000 more organisations to be exporting and developing markets overseas. That is an example of a figure that we are currently looking at.

10:30

**Gavin Brown:** We talked about having a step change in the number of companies that export—it would be fair to describe increasing the figure from 5 to 8 per cent as a step change. We have the smart exporter initiative, and you have touched on one or two other areas. Is the totality of what you have described to us today enough to create that step change, or will other ideas have to come forward?

**Anne MacColl:** My first response is that a medium to long-term strategy is required. Such a step change cannot be delivered overnight. Although the number of companies that are taking an interest in internationalisation is really starting to ramp up, that will not happen in the space of a year. It is realistic to look at three to five years and beyond.

**Gavin Brown:** Smart exporter has been going only since September, so we have had only five months or so of it. I accept entirely that this is a medium-term problem, but have there been any early quick wins from companies that have been involved with smart exporter and have suddenly taken the plunge, or is it too early to say that?

**Anne MacColl:** Many companies have come through that are now equipped with the skills to develop international markets. It is too early to be able to demonstrate quick wins, but a number of companies that three or four months ago had no international strategy, no idea of the markets in which they were looking to trade and no idea of the budget or capacity that they needed now have a much more focused approach to their strategy, the key markets that they want to target first and

the budget and capacity that they need to deliver that. The first results that are coming through relate to upskilling what companies do.

**Gavin Brown:** Last week, there was an announcement about the export support initiative. Can you give us more details on that?

**Anne MacColl:** The export support initiative is a new project. It is a one-year intensive programme for small and medium-sized businesses that are new to exporting, so it is a new, innovative way of focusing on the issue. The idea is to work with around 100 companies. We will develop a comprehensive programme with those companies to help them to develop the capacity and skills to exploit international opportunities. The programme will include measures such as one-to-one support from specialist advisers; delivery of tailored services, depending on what companies are looking for; training; research, on which we work in partnership with UKTI; and market entry strategies and plans.

It is also about generating awareness of the new programme among potential businesses more widely than among the 100 companies on which we would like to focus. This is a fantastic opportunity to communicate more widely across Scotland about what can be achieved. There is a wider strategic play to the programme that goes beyond the one-year intensive support that we plan to give to companies.

**Gavin Brown:** The details were announced only last week, but when do you hope that the 100 companies will be on board and the programme will be operational?

**Anne MacColl:** We hope to ramp it up quickly, so we are working hard to put in place our plans to launch the programme and to open the door for applications from companies that want to come on board. We realise that the programme is intensive and that we have a small window of opportunity in which to make it happen. We are working hard to ensure that it does.

**Marilyn Livingstone (Kirkcaldy) (Lab):** I have a question about operating budgets. The committee understands that the Government has cut next year's grant-in-aid budget by 7 per cent for SE, by 18 per cent for HIE and by 12 per cent for VisitScotland. It is hard for us to ascertain what SDI's budget is, because it is incorporated. What is your operating budget for 2010-11 and how is that changing for 2011-12?

**Anne MacColl:** You are right that SDI's budget is integrated into the Scottish Enterprise budget, so staffing costs, salaries and so on in some budget lines are integrated. Our budget for next year is £25,933,000. That represents a modest reduction from last year's budget, so we are not immune to the budget cuts that everyone across

the public sector has experienced. However, the importance of the internationalisation agenda for Scottish Enterprise—it is one of Scottish Enterprise's cornerstones for growth and development along with innovation, for example—has meant that the cuts that have come our way are smaller than in some of the other areas. That is because of the scope and opportunity that we believe exist for internationalisation and inward investment to be a route to economic recovery for Scotland.

**Marilyn Livingstone:** As the convener outlined, partnership working obviously goes on outside your organisation throughout the whole enterprise network. It has to be a team event. I presume that the budget cuts will hurt. Even though your organisation may have fared better, the cuts have implications. In particular, the 18 per cent cut to HIE and the 7 per cent cut to SE must have an impact. What representations have you made to the SE board or ministers about that? Have you been in any discussions about the need to sustain budgets if you are to achieve the ambitious targets that Gavin Brown explored with you?

**Anne MacColl:** The SE board clearly recognises the importance of internationalisation for the whole of Scotland. Scottish Development International is the international arm of Scottish Enterprise, the Scottish Government and Highlands and Islands Enterprise, so it is a pan-Scotland organisation that responds as a specialist service on internationalisation to all companies throughout Scotland.

We recognise clearly that we must ensure that we do more with less overall and in partnership with our other agencies because the cuts have been difficult for some other agencies. It is all about taking a collaborative approach and ensuring that what we have is available and accessible to all so that we can grow overall the economic recovery for Scotland.

**Marilyn Livingstone:** Have you had to make any reductions to staff or cut back any projects because of budget reductions?

**Anne MacColl:** There have not really been specifics around staff reductions. We recognise that the overseas office network of 22 offices and just below 80 staff is critical to retaining and developing further internationalisation for Scotland. I have been careful about ensuring that the people, knowledge and experience that we have within SDI are fully retained.

If we could and should consider reductions in any area, it might be in facilities rather than people. We could consider more efficiencies by co-locating some of our offices, which we already do with UK Trade & Investment. For example, we have a new regional manager who has just gone

out to Toronto. He will be co-located in UK Trade & Investment offices out there, together with a colleague from VisitScotland and one from the Scottish Government. That gives us a level of collaboration and a way of driving efficiencies without risking losing the knowledge and experience that we have in our overseas staff.

**Christopher Harvie (Mid Scotland and Fife) (SNP):** I will ask about four areas. The first may have been asked about earlier. How much are you affected by fluctuations in currency levels when it comes to planning an export strategy? It has been extremely difficult to call the shots over the past three years.

**Anne MacColl:** We recognise that currency exchange rates can go up as well as down. We are sensitive to that and ensure that all the companies with which we work also understand what that looks like.

That said, because of the current level of the pound against currencies such as the yen, the dollar and the euro, we believe that there is a window of opportunity for Scottish exporters to get a foothold in some of those markets. We are encouraging them to use that window of opportunity and to start to sell their products and services. We acknowledge that that is not the only strategy on which to build an export strategy and we are careful to ensure that the companies also know that, but that is an element of confidence that we can provide right now that will help companies to move into those markets.

**Christopher Harvie:** I could have done with a bit of narrative about specific company experiences in your report. There are a lot of generalised statistics in it, but not information about how particular companies fared in particular markets.

I turn to an area that must be important, because it includes a few major enterprise initiatives. It concerns the physical region of Scandinavia and the exporting and, to an extent, the importing of renewables. The representation of that area in Scandinavia is comparatively light, but we are dependent so much on inward investment from Scandinavia with companies such as Vattenfall and Statoil. What are your plans in that region?

**Anne MacColl:** That is a good question. We looked carefully at the Scandinavian region over the past 18 months. We felt that we wanted to increase the level of resource in that region and that resulted in the appointment in August last year of a new senior executive. She is based in Denmark in Copenhagen, but she works flexibly across the Nordic region. We put that individual in place at no cost, which is an example of driving efficiencies around facilities. She is home based,

but she taps into all the UKTI offices across that region and works closely with them to help drive inward investment in areas such as life sciences and energy, which are the two key areas in that region that are important to the Scottish economy on the inward investment side of things.

More broadly, SDI is sensitive to demands and the ways in which inward investment opportunities and internationalisation can change quickly. We must be opportunity driven and retain a flexible model for where to put our people and why.

**Christopher Harvie:** We had interesting interviews with people from small businesses who said that exporting was not the problem. Some of them preferred to export because it meant that they were not being held to ransom by supermarkets. Those who said that were Lossie Seafoods Ltd, Mackay's Ltd, which makes jams, and the irrepressible Boyd Tunnock. This ought to be a major area for intervention pressure because we are so dependent in Scotland on a few major retailers that small and medium-sized enterprises require a counter-strategy to cope with the inevitable attempt to drive down prices. Can you do anything about that?

**Anne MacColl:** That is a valid point. You mentioned Mackay's of Arbroath, which is now a globally competitive, family-run business that has been making marmalade and jams for 70 years. They have grown over the past 10 years and employ about 90 people. They have won a significant share of the international retail market by changing their strategy and looking boldly at where the opportunity is for growth overseas. Mackay's is a fantastic example and we continue to communicate with them and with a number of other companies. The salmon industry is another excellent area of growth and export that has developed well, particularly over the past year.

Mackay's has a strategy across Russia, the middle east and the USA, and 35 per cent of its products are now exported. We would like lots more companies to follow that model. I spoke to a company a couple of weeks ago and was told, "Times are hard—I'm now having to export 50 per cent of my stuff outside the UK." We have to change the mindset among Scottish companies from negative to positive, so that people say, "Times are hard—but guess what? We now export 50 per cent of our products outside the UK."

10:45

**Christopher Harvie:** I have one further point and it, too, relates to mindset. I am a former university person, and I have had lots of university people on to me in the past couple of weeks about the behaviour of one particular university in Scotland about its modern language programmes.

We are succeeding rather well in exporting Scottish university education, but it looks as if we are stripping out, at a very important level, Polish, Russian and other languages that could be very important for exporters in Scotland.

In Tübingen, I was joint head of the international economics course, which was half languages and half economics. It was reckoned by the Baden-Württemberg government to be extremely important in developing the general economy, which it has done with enormous success. Manufacturing has risen from 30 per cent to 35 per cent over the past decade; and people are thinking of 50 per cent for Scotland.

A view that we have heard expressed in other meetings is, "They all speak English anyway." That just does not work at the manufacturing level. Voith is the biggest manufacturer of turbines in the world. I spent a day there and asked people about the shop talk and about the language that the technical board talked. They said that 95 per cent of it was in German. If we are to make renewables work, we have to get abreast of them on that. SDI will have to take a view on the way in which we treat modern languages in this country.

**Anne MacColl:** Language skills can be an important element of the mix that companies can use to help them to develop their international strategy, to get under the skin of distributors and buyers, and to understand their culture and work with it. It can depend on the market, and SDI can help. For example, in our overseas offices we have a mix of ex-pat Scots—like me, when I was out there—and people hired locally. In Asia, we have a number of locally hired people right across Japan, China, Taiwan and so on. They really understand the culture and obviously have the language skills as well. It is exactly the same in Germany and France. SDI offers language skills as a support element to companies.

We acknowledge that languages are important, but companies also have to develop many other things if they want to export internationally. Having a strategic and international mindset is a big part of that, of which modern languages are a piece.

**Christopher Harvie:** I still see some of my students when I go back and do compacts in Tübingen. One or two of them have said to me, "We like coming to your lectures because they are the only ones where someone talks to us about real situations and real economists like Adam Smith or Keynes," because what they will have been taught in the economics faculty is the higher algebra directed at algorithms and all the marvellous trades that have totally wrecked the Scottish financial sector in the past two years. I was quite proud of my notion of an integrated international economics course that stressed

society, economic history and the study of industry.

Certain leaders of universities in Scotland require a seminar on those things. Could SDI not emphasise that our economics and enterprise teaching at universities should be practical and concentrated on the sort of fields that you are rightly anxious to build up? That would require internships and working abroad. We have hardly any British students in Tübingen. We have lots of Spanish, French and Greeks, but no one from Britain. That is the sort of thing that we would like to see change.

**Anne MacColl:** It is a core objective of SDI to look at how we leverage the Scottish education sector to develop further internationally. We recognise the contribution that Scottish universities and colleges make to the international dimension of Scotland. High-quality learning and teaching, research, knowledge transfer—all those areas are key.

We have a dedicated education sector team within SDI who work closely with the 10 universities and the 43 colleges to develop areas around continuing professional development and consultancy, which then have an application internationally. For example, the University of Strathclyde business school opened its new campus in India in October to very great effect, working in collaboration with SKIL Infrastructure Ltd, which is a company out there. We are seeing Scottish universities and colleges reaching out internationally a lot more because of that.

Your main point was about developing the skills of undergraduates. The Saltire Foundation has been supported and funded by Scottish Enterprise over the past four years. It supports undergraduates and entrepreneurship. Internship applications for this year have just opened and 41 internships with 20 organisations across seven different countries have already been secured. We have internships in America, Poland, Australia, Germany, Hong Kong, China and Italy. That is a great example of how the Scottish education sector is developing that international feel.

**Christopher Harvie:** I have met some of the interns—they are very good.

**Anne MacColl:** That is good to hear. Thank you.

**Nigel Don (North East Scotland) (SNP):** Good morning. I endorse Christopher Harvie's comments about the teaching of economics. I have a degree in engineering and my mathematical skills were good enough to get me through that; however, I had to abandon an attempt to get a diploma in economics because it demanded statistical skills that seemed completely

irrelevant to me and wanted me to analyse data that surely did not exist.

I represent the north-east and the two finest counties in Scotland—Angus and Aberdeenshire.

**David Whitton (Strathkelvin and Bearsden) (Lab):** That is a matter of opinion.

**Nigel Don:** That raises a few hackles—sorry. I just wanted to wake everybody else up.

The tourism opportunities there are plain, and I am conscious that you have identified tourism as one of the key sectors. Of course, tourism is a very different kind of business. You are trying to get a very large set of the world to come, through the funnel of an airport perhaps, to a very small section of the world, which is Scotland. You do not have the focus of a business or even a business sector. I wonder how that fits into your strategy and how you make that work in the context of the rather more obvious challenges of how to export a jar of marmalade or a box of shortbread.

**Anne MacColl:** As you rightly say, tourism is a key sector for Scotland's economy. We have a dedicated tourism team within SDI whose focus is on attracting inward investment that will help to develop the tourism infrastructure in Scotland.

We recognise that the business tourism sector is very fast-growing at present—Edinburgh and Glasgow were ranked among the top 30 cities in the world based on the number of conferences that they hosted—so we are focusing on that area.

More than 200,000 people are employed in the tourism industry in Scotland, and it generates more than £4 billion annually for the Scottish economy. We focus on the high-value end of tourism to try to bring in some of the developers who will consider building five-star hotels in Scotland, for example, and develop that part of the sector. Golf tourism is also extremely important for Scotland: there is a growing market in China with an interest in that.

We always try to work collaboratively with our colleagues in VisitScotland to help grow the tourism industry in Scotland. The Ryder cup, which is taking place at Gleneagles in two or three years' time, will be an opportunity for us to examine how we can develop golf tourism and bring potential inward investors to Scotland to consider it as a place to live, learn, work and invest. We are positioning tourism as a key part of the overall economic strategy in the international framework.

I will give you an example of how we work collaboratively with VisitScotland. Our new regional manager, who is based in Toronto in Canada, will be working and co-locating with VisitScotland and with someone from the Scottish Government. That means that there will be three

key people from three organisations working together in Canada to look at how we grow and develop tourism in some of the other sectors from that region into Scotland.

**Nigel Don:** I am trying to get a handle on how we improve what I will describe, for want of a better phrase, as general tourism. I see your point about getting in someone who wants to develop a golf course. Much of that has happened: people build a hotel but, sadly, they then build some high-value houses that they may or may not be able to sell in order to make the whole thing add up—but that is another problem.

I am trying to find out to what extent you contribute to tourism in terms of tourists visiting Scotland as an ancestral place from which a large number of people overseas originally came. You may see that as being something that just VisitScotland does, which might be a fair answer, but I am trying to see how all these things relate.

**Anne MacColl:** In Scottish Development International our focus is twofold. It is about economic development and attracting inward investment to Scotland from the key sectors of industry in which we have strengths—one of those sectors is tourism. It is also about helping Scottish companies to internationalise.

The focus on attracting additional visitors to Scotland is very much in the realm of what VisitScotland does. There is crossover with SDI in areas such as business tourism, which I mentioned, where part of our remit is about working to attract further business conferences to Scotland. If we can attract business tourists to Scotland, there is a greater opportunity to attract inward investment on the back of that.

We need to ensure that we make the links between the two, but that we leave the specialists in VisitScotland to do their job, because that is what they do best.

**Nigel Don:** I want to go back to where we started, which in a sense is nothing to do with visitors. You mentioned earlier many things about working with Scottish companies to try to get them to export, but I do not recall your saying how you tried to identify or make contact with those companies in the first place.

A couple of weeks ago I visited an engineering business in Forfar, which—amazingly—sells metalwork to China. One would not have expected that it would be able to do that, but it does. How would you identify that business, if it was not exporting to China, as a business that perhaps should be?

**Anne MacColl:** We work in tandem with the whole Scottish Enterprise network, including the business gateway, and with Scottish Chambers

International, as those organisations are in touch with companies on a daily basis. We try to ensure that any opportunities that they spot in relation to companies that are either currently exporting or that have an opportunity to export are channelled into SDI so that we can provide those companies with extra support and assistance. Therefore, there is an overall network effort to ensure that that happens. We cannot possibly work in isolation around such an important area, and we do not have the reach to do that. We recognise that the other agencies on the ground have a big and important role to play in ensuring that they identify opportunities, and we work with them to ensure that we are not missing any of those opportunities.

11:00

**The Convener:** I will touch on a couple of areas that we have not covered yet. We have talked a lot about exports, which the committee has stressed are key, but we have not talked much about inward investment. The committee has received evidence that, over the past decade, Scotland's performance relative to other regions and nations in the United Kingdom has not been as good as it once was. Have you had an opportunity since you took over as chief executive to review SDI's inward investment strategy? Will you propose any significant changes to it?

**Anne MacColl:** I have had an opportunity to review it. We have carefully considered the evidence on how Scotland fares with inward investment. It has maintained its position as second in the UK for attracting it—it has been beaten only by the south-east, which includes London. Scotland also has a very good track record in attracting a higher proportion of research and development projects in comparison with the rest of the UK. In 2009, Scotland attracted 21 per cent of the UK figure for research and development projects. Those are the latest data that we have.

We believe that we have a strong proposition for inward investment. We are looking at attracting high-value jobs to Scotland—that is, jobs that pay 20 per cent above the Scottish average salary—and research and development jobs. We very much focus on high-value and sustainable inward investment.

**The Convener:** At the top of that list is obviously the renewable energy sector, which is crucial. Can you give us a little bit more information about the work that Scottish Development International is doing in the energy sector, particularly to attract inward investment in renewables and in the supply chain for renewables? How is SDI trying to ensure that we have a long supply chain for the renewables sector and that things are not simply bolted

together in Scotland before they are floated out to sea?

**Anne MacColl:** Renewable energy is obviously a key issue for Scotland and we are working carefully with a number of partners to ensure that Scotland grows the size and scale of the opportunity that exists as well as it possibly can. We have identified some high priorities, such as offshore wind and marine energy, which includes wave and tidal energy. There is a lot of competition for attracting new projects, but we think that Scotland has a strong proposition.

We know that a number of factors determine inward investment in those areas, such as the size of the site for putting turbine structures in place, access to port facilities, which is important for inward investors, and the availability of and access to research and development. As I mentioned earlier, we are strong on bringing research and development projects into Scotland. Scotland competes very well in all three of those key areas and we are working with industry and public and private sector partners to fully exploit that competitive advantage. That is where we are with renewable energy.

**The Convener:** One issue that we identified in our enterprise network review was disjointedness in the skills sector. When you are considering inward investment opportunities, do you take an active role in trying to ensure that the education side is in place? For example, a major issue in the past year has been Siemens and wind turbine modern apprenticeships. If Siemens had gone to SDI and said what it was trying to do, would you have been able to assist at all, even by just banging heads together?

**Anne MacColl:** We would work with Skills Development Scotland on such issues to ensure that there was a join up between the demand for skills and what inward investors were looking for.

SDI has a focus on education and we have an education team that works with the universities. That means that we can make that join between industry and universities and the skills that they are developing to ensure that there is the best possible match with the skills that are being supplied into industry.

Supply chain development is critical to the renewable energy sector. It is about ensuring that the heavy engineering muscle that large organisations such as Mitsubishi bring into Scotland, coupled with the high-tech of Artemis Intelligent Power, which Mitsubishi has acquired, make a strong play for developing Scotland's supply chain into that industry. We should be looking not just at supplying into that industry in Scotland, but at how the supply chain develops its own play internationally. There is a clear link

between inward investment and exporting and internationalisation.

**The Convener:** I have a question about finance. One of the barriers facing companies that might be looking to export is the initial finance that they need to set up and there have clearly been some problems with export guarantee schemes and so on during the past few years. Does SDI have any thoughts about how Scotland can help companies to get over the initial costs of getting into exporting?

**Anne MacColl:** Part of any company's business plan must be to consider the budget that will allow it to access new international markets. One part of the smart exporter programme that will help considerably is the international manager for hire programme. Small companies often say that the barrier for them is that they do not have an in-house, dedicated resource to help them to look at how they get into market X, Y or Z. They cannot afford to pay for someone new to come in to do that and the international manager for hire programme provides such companies with that resource. That clearly means that there is a financial implication for the company.

That is how we are looking at the issue. We cannot provide companies with a grant to help them to break into the international market, but we can look at the overall play, at what the barriers are and help to bring those barriers down. That is one example of what we do.

**The Convener:** One of the issues is that it is harder to get finance from the banks for such schemes than it might have been three or four years ago. Could the Scottish Investment Bank play a role in helping companies to develop internationally?

**Anne MacColl:** Indeed. The Scottish Investment Bank has provided £55 million of cornerstone funding to the Scottish loan fund, which is partly funded by the European regional development fund. We are looking at how that can be an instrument that will help Scottish companies to grow.

There are some rules about what companies qualify for Scottish loan fund loans. They need to have an established operational trading base in Scotland and an annual turnover of more than £1 million. However, that SME base of companies can benefit considerably from the Scottish loan fund.

**The Convener:** I will conclude by welcoming your report to the committee on increasing our overseas footprint. That report is clearly a direct result of the committee's inquiry. How will it change the way in which we operate on the ground?

**Anne MacColl:** That piece of work was spurred on by your committee's findings. It is an evidence-based way of helping us to understand what Scotland's overseas footprint looks like and what areas or opportunities there are to grow it.

The evidence demonstrated that the 22 SDI offices are based in the areas of highest export and inward investment opportunity for Scotland. We think that there is a good fit between where our offices are and where the opportunity for Scotland lies. That said, we are prepared to be flexible. The example that I gave earlier of putting an additional resource in to the Nordics and taking part of that resource from elsewhere is an example of that flex.

The second piece of evidence that we looked at was about the reach of UK Trade & Investment and the importance of SDI working in partnership with UKTI. With 150 offices in 96 countries, UKTI clearly has a significant play for Scotland. The third element of our overseas footprint is the globalscot network. We have 600 global Scots across the world and how we can access and use their skills and experience to help to accelerate companies' growth is also important. The fourth element that we looked at is how we work with the private sector to fill any gaps or address any areas that we cannot service ourselves.

Our report was very much evidence based. It looked at setting out or mapping what we currently do and what we should do more of. That was the purpose of our report.

**The Convener:** That concludes our questions. I thank Ed Payne and Anne MacColl for coming along this morning. I am sure that our successor committee, whatever it might be, will keep a watching brief on the issue. As part of our legacy paper, we will recommend that it does so.

11:10

*Meeting suspended.*

11:15

*On resuming—*

## Annual Report

**The Convener:** Item 2 is our draft annual report, which members have before them. It follows the required format. I believe that there is a limit to the size that it can be, so—a bit like the budget—if you want to put anything into it, you have to take something out as well.

We shall go through it page by page. Are there any comments on page 1? Page 2?

**Lewis Macdonald:** Paragraph 7 refers to the committee's view on the Protection of Workers (Scotland) Bill and paragraph 8 refers to the Energy Bill. There is a subheading for the Protection of Workers (Scotland) Bill but not one for the Energy Bill. Further, paragraph 8 notes that the committee reached a decision on the Energy Bill following a division, but paragraph 7 does not note that that was also the case for the Protection of Workers (Scotland) Bill, and it probably should.

**The Convener:** I think that we can get those changes in and stay within the word limit.

Are there any comments on page 3?

**Lewis Macdonald:** Paragraph 14 talks about the committee's two external meetings, in Aberdeen and Skye. The date is given for only one of them, but we should probably include it for both.

**The Convener:** That will be added. As there are no further comments, do we agree to approve the draft report, subject to those changes?

**Members** *indicated agreement.*

## Legacy Paper

11:17

**The Convener:** Item 3 is our legacy paper. The clerks have produced an outline paper that covers the key issues that we feel should be covered, along with extensive annexes that include the latest updates from the Government on our various reports during the past session. I propose that we agree that the final version of the report be agreed through correspondence rather than through a full committee meeting. At the moment, however, we can go through the outline to see whether there are any areas that members would like to be covered but which are not covered at present—or, I suppose, are covered at present but which they do not want to be.

Again, we will go through the document page by page. Page 1?

**Christopher Harvie:** I wonder whether, given what happened in the past four years—that is, the economy falling over a cliff, particularly the Scottish economy—it might be worth mentioning that at the beginning. In 2007, we set out believing that there would be a calm sea and a prosperous voyage but, in 2008, we reached the edge of the world—certainly as far as the Scottish financial services sector was concerned. The notion of, as we would say in Germany, “weiter so”—just saying, “Aye, aye, sir,” and carrying on—does not quite apply to the events of the past four years.

**The Convener:** Lewis Macdonald looks delighted at the opportunity of making the point in the paper that the Scottish economy has fallen over a cliff in the past four years.

**Lewis Macdonald:** Absolutely, and there are other telling phrases that we could add in relation to the areas that we have had responsibility for monitoring over the past four years. However, I suspect that, if we did so, it might prove less straightforward to come to an agreement on the paper rapidly by correspondence. Perhaps the safe option—despite the temptation to enter into such a debate—would be to focus on what the committee is responsible for, rather than on the wider world.

**Christopher Harvie:** In other words, “The operation was successful,” rather than, “The patient died.”

**Lewis Macdonald:** If we were to give the committee’s view of the success or otherwise of the surgeon, we might find that there were differing views on how effective some of the Scottish Government’s responses to those challenges have been. Again, I suspect that

discussing that could take rather more time than we want to use.

**The Convener:** We are trying to be helpful, Chris.

**Nigel Don:** You were asking about page 1, but my point relates to the second line of page 2. If you were to make the point that the banking inquiry was held in the context of a crisis, that might be a fairer way of putting it. You might argue that, given that the legacy paper will be picked up in the next six months, it hardly matters. However, the inquiry was not just about what the banks were doing generally; it was about the banks for a very good reason at that point.

**Lewis Macdonald:** But the moment you go there, you have to say that we looked at the enterprise networks in the context of four years of reductions in resource funding. We could end up debating endlessly what the subheadings might be.

**The Convener:** There is some shorthand in the draft paper. I do not think that we put the full title of the inquiries in. The banking inquiry was not just about banking; it had a full title, which we can put in the paper, which explains a bit more what it was about.

**Lewis Macdonald:** The legislation and the inquiries are almost, but not quite, in alphabetical order. It struck me that chronological order was the most logical order.

**The Convener:** Yes. I think that we will go with chronological order. It might be worth putting in the dates on which they were considered, just for completeness.

We turn to page 2. I do not think that there are any comments on “Lessons learned” or “Looking forward”. Do members want to cover any other issues?

**Nigel Don:** I want to pick up the issue of “Legislative workload”—and perhaps the implication that it was overload. I am not quite sure what you mean by “Legislative workload”. Forgive me, because I am only an occasional member of the committee, but the Justice Committee, where I come from, has suffered enormous legislative overload. We would love to have had the breadth of time that you have had to do some inquiries. I merely wanted to give the context in which some other committees are operating.

**The Convener:** That is a fair point. I do not think that this committee has suffered from legislative overload, although it has suffered from getting legislation that is not relevant to our committee’s remit. That is another issue that we might want to talk about under the “Breadth of remit of the committee” heading. There needs to be some clarity on committees’ remits, so that that



sort of thing does not happen in future sessions of Parliament.

**Nigel Don:** You might help the whole process if you were to mention the Arbitration (Scotland) Bill, which I am sure you would argue should have come to the Justice Committee. However, in the context of having only one Justice Committee—I think that members are clear that they do not want two again—you might have to recognise that, unless the world changes significantly, other committees are going to get such bills. There does seem to be more justice legislation than one committee can cope with.

**The Convener:** That is a decision for the Parliament in the next session. We just need to highlight the matters that were referred to this committee. The census, which we do not mention specifically in the report, is probably better placed with something like the Equal Opportunities Committee than with our committee, because it is not strictly speaking an economy issue. It just happened to be led by the minister who reports to us.

**Lewis Macdonald:** There is a difference. It was appropriate for the census to come here, not because it dealt with the economy but because our sweep-up definition is that we consider anything else that comes under the remit of the relevant minister. It was fair for us to consider the census.

I thought that it was stretching the point far more to have us consider the Arbitration (Scotland) Bill because, although poor Mr Mather had to come here and describe it, it was clearly not an area for which he had any active ministerial responsibility.

**The Convener:** I understand the point that you are making. My point is that if we have such large ministerial remits, things will fall to the committees that consider anything under those remits. There has to be some reference to the subject matter of the committee, not just the minister's remit. We might highlight the point that committees' remits need to be defined more clearly to avoid bills going to the wrong committees.

Is there anything that the committee wants to say about working practices in the legacy paper? Are we happy with the way in which we operate?

**Lewis Macdonald:** It might be worth recording that it certainly seemed to be effective in the sense that the fact-finding visits that we did all appeared to generate some benefit for the inquiries that we were carrying out. If anything, the visits that we undertook in Scotland demonstrated the appetite that exists throughout the country for having access to committees of the Scottish Parliament and being able to engage with them. It might be worth recording the obvious point that that was a positive experience.

**Christopher Harvie:** I still recollect the polite chit-chat with the British ambassador in Iceland, in which the prospective progress of the Icelandic economy figured not one bit.

**The Convener:** It is probably important to stress that we have found the fact-finding visits to be of extreme value to the committee's work, because there might be a slight risk in the current economic climate that a hair-shirt approach will be taken, which would reduce the effectiveness of the Parliament and its committees.

Does anyone have any comments on the effectiveness of budget scrutiny?

**Gavin Brown:** We have made the point about level 4 data every year and every year we have been told, "Yeah, we'll make sure you get it." This year, we had three sessions on the budget and, if my memory serves me correctly, for the first two of them we had not seen the level 4 data. That is absurd if we are to do our job effectively, and that must be a priority of whoever runs the show next time.

**Christopher Harvie:** That is particularly necessary given the consequences of the Scotland Bill. The mix that goes into the budget will be much more complex from a taxation point of view.

**The Convener:** That may not be something that we will have to worry about in the next session, but it is certainly an issue for the one after.

**Marilyn Livingstone:** For me, that is key. I agree with Gavin Brown that it was ludicrous that we were trying to scrutinise the budget when we did not have the information. Sorting that out has got to be key.

**The Convener:** On the merits of post-inquiry review, I think that we should highlight in our legacy paper how valuable it is to make regular requests to the Government to update the responses that it has given to our committee reports. That practice has proved extremely valuable and has ensured that the Government does not just stick our reports on a shelf.

**Lewis Macdonald:** It is probably worth recording that when we used expert advice and external research, we found them helpful.

**The Convener:** Okay. Does anyone have any comments on the issues in the "Looking forward" section, which spans two pages? I suggest that we do not recommend that our successor committee carry out post-legislative scrutiny of the Arbitration (Scotland) Act 2010. I was not around for the committee's consideration of the Bankruptcy and Diligence etc (Scotland) Bill, so I am not sure about post-legislative scrutiny of that one. Do members have any other thoughts on issues that

they think that our successor committee should highlight and address?

**Gavin Brown:** At yesterday's conference on tourism, the convener, Stuart McMillan, Lewis Macdonald and I heard that the tourism leadership group, as I think it is called, is to produce its refreshed strategy in May, post-election. To some extent, that will supersede the tourism framework for change, so whichever committee deals with tourism should be aware of that from the outset. It might be something that it would want to look at.

**The Convener:** Yes, that is probably worth putting in.

**Lewis Macdonald:** That is right. The paper refers to the "50% tourism revenue target", which may or may not survive the updating of the strategy.

**The Convener:** Another issue that has come up on a number of occasions is superfast broadband. We might want to highlight to our successor committee that it should look at how Scotland is preparing for superfast broadband—or not, as the case may be.

**Christopher Harvie:** And whether the superfast broadband that is offered turns out to be what it was advertised as.

**The Convener:** That is another issue.

11:30

**Christopher Harvie:** Fraud, I think, is the point.

The implication of much of our banking inquiry was about the future for mutualisation. The distrust of the existing banking arrangements that was expressed was certainly not assuaged by our dialogues with the two state banks, as they in effect are. Particularly at the SME and academic level, there are many potentially clever entrepreneurs who are being hit over the head by the practices of orthodox banking. Ten years ago, we would have been talking about big mutual associations such as Standard Life.

I speak with feeling, because I am doing work at the moment on the Rev Henry Duncan, who created the trustee savings bank in Dumfriesshire at the beginning of the 19<sup>th</sup> century and revolutionised co-operative banking. The next committee could take an initiative on that issue.

**Lewis Macdonald:** That is a good idea. The issue of mutuals and co-operative development has been highlighted in relation to financial services, but I suspect that it will be important more widely in the economic recovery.

**Marilyn Livingstone:** I have certainly questioned how effective Co-operative Development Scotland has been. Because that

agency is combined with Scottish Enterprise, it is sometimes hard to find out what impact it is having on the sector that Christopher Harvie mentions. I totally support that suggestion, although we could go a little wider and include Co-operative Development Scotland, which is supposed to promote the sector. There could also be consideration of the support that it gets from the enterprise networks.

**The Convener:** Slightly wider still would be the issue of social enterprises and how they are supported and developed.

**Nigel Don:** Energy might be an issue on which the committee could make the error—it would be an error in the end—of focusing on the easy bits. It is easy to concentrate on electricity generation and not so easy to look at heating technologies, although I recognise that the committee has done so. Transport is a significant energy user, as is home and building heating. I am telling you things that you know. Those are the areas where the issues get a little more technical and maybe a little more intractable. However, assuming that the next committee retains the current remit, I think that it should be careful not to lose sight of those issues.

**The Convener:** I agree. I was going to suggest that we add renewable heat, combined heat and power and energy efficiency as things that the committee needs to keep an eye on. We have pressed the Government to act on those three issues, but we have not been satisfied by the Government's speed of action. That is not necessarily to do with ministers—generally, the system seems to be interminably slow.

Unfortunately, transport is not within our remit at present and there is no indication of whether the energy, climate change and transport remits should be together rather than in separate committees. That is perhaps another matter for the next Government and Parliament to consider.

**Nigel Don:** Indeed, but one issue that could well drop between the cracks—it has already—is the difficulty with buildings. That is the most difficult area in which to make changes. Most of our houses are old and most of them will continue to be old. They are difficult to heat in the first place and to insulate. Probably the biggest gain to be had in improving thermal efficiency is to crack that but, if we are not careful, that will drop between the cracks.

**Christopher Harvie:** Another odd area that falls into a fissure between transport and industry is communications. It has already been mentioned that we are badly off on ScotRail for wi-fi. On certain services on the continent, wi-fi is almost universal. A huge Scottish population commutes by car—the basic form of commuting in Scotland—and therefore lose anything up to two

hours' work, when they could be working on a train or bus.

**The Convener:** That is another point. With regard to broadband, the whole issue of 3G—or even 4G—connectivity needs to be part of the overall review. Indeed, yesterday, people in the tourism businesses stressed to me the difficulties that are faced by travellers using iPhones, iPads and equivalents—there are, of course, other systems available—to book in advance, as they will not necessarily have the 3G connectivity to do that while they are travelling up the A9.

**Lewis Macdonald:** There is no question but that this issue will be important over the next four years, but is there any uncertainty over whether it is covered under the infrastructure element of the Transport, Infrastructure and Climate Change Committee's remit or under our own remit?

**The Convener:** That would have to be clarified. Given, though, that the issue has important implications for the economy in general and tourism in particular, it is legitimate for this committee to examine it. I accept that certain infrastructure issues might fall within the remit of other committees but I point out that, even though the issue of skills, for example, does not fall within our remit, we have still touched on it.

**Lewis Macdonald:** More than once.

**The Convener:** Indeed.

**Marilyn Livingstone:** I was thinking about skills—or the lack of them—which have been one of the major issues in every inquiry that we have undertaken. We have heard, for example, how cluttered the landscape is and, given how big an issue they are for the economy, I would like skills to be included in the paper. Any future Government—as you say, it will be for a future Government—and, indeed, Parliament will need to look at how they link skills with the economy and I think it has been a nonsense that, for the past four years, we have not had the input into skills that we have deserved. After all, every single person we have spoken to has told us how crucial skills are to the economy. The fact that skills have not formed part of the remit of either the minister or the committee has been detrimental to the ability to drive forward our economy. I certainly think that we should mention what has, in my view, been a major error.

**Lewis Macdonald:** That is a fair point. With regard to the breadth of the committee's remit, we should say that, although other committees might have the lead on skills and infrastructure, the economy committee must also be allowed to have an active interest in them.

**The Convener:** If there are no other comments, I ask the committee to agree that the final version

of the legacy paper be circulated by correspondence for final agreement and that I have the ultimate responsibility of signing it off with the clerks.

**Members indicated agreement.**

**The Convener:** Given that this is, I hope, our last meeting, I want to take this opportunity to say a few brief words of thanks. I have thoroughly enjoyed my nearly three years as convener of what is a very hard-working committee. I appreciate the co-operation that I have received from all members of all parties in making this a constructive committee that has, I think, produced some tremendously good work over the past four years, even before I became convener. I suppose that at this point I should also thank my predecessor Tavish Scott, otherwise I might not get a job in the next session. The committee has been very helpful and I really am very grateful to my deputy convener Rob Gibson and all committee members for their support over the past four years.

I also give a great deal of thanks to the clerking team, who I think are one of the best in the business. I am sorry that Stephen Imrie has not been able to attend many meetings recently because of his other duties on the Scotland Bill but, over the past three years, I have enjoyed working with him and his team of clerks, who have done an excellent job in supporting the committee and have produced some very carefully worded reports for us. Our team from the Scottish Parliament information centre have also provided a great deal of back-up support and of course I must mention the official reporters, without whom anything we said would not be taken in evidence. Thank you very much.

I know for certain that one or two members will not be with us after the next election and I wish Christopher Harvie a welcome return to his previous life, which I am sure he will enjoy.

**Christopher Harvie:** I will be releasing the next edition of "No Gods and Precious Few Heroes", which I am working on just now.

**The Convener:** Thank you for your interesting contributions to the committee's work over the past four years. I also thank Wendy Alexander, who is also stepping down. She has certainly had a major impact on the work of the committee.

Whether the rest of us will be here is in the hands of other people—in my case, about 60,000 of them. I hope to see you back after the elections, but we will just have to wait and see.

Finally, this will also be the last meeting for Janet Anderson, who is retiring at the end of the month. I am sure that we all wish her a long and happy retirement.

## Subordinate Legislation

### Electricity Act 1989 (Requirement of Consent for Hydro-electric Generating Stations) (Scotland) Revocation Order 2011 (SSI 2011/115)

11:40

**The Convener:** Item 4 is consideration of a number of negative Scottish statutory instruments. We have a cover note from the clerks on this revocation order, which the Subordinate Legislation Committee discussed yesterday. Did that committee have any issues that it wished to raise with us?

**Joanna Hardy (Clerk):** No.

**The Convener:** Do members have any comments?

**Lewis Macdonald:** Clearly, we will not have an opportunity to question the minister on the order, but I am interested to find out more about the consultation that was carried out within the industry through the relevant group of the forum for renewable energy development in Scotland and about the consultation that was carried out afterwards. However, that might come up in passing in our discussion with the Minister for Enterprise, Energy and Tourism on the affirmative instruments that will be considered later in the agenda. Perhaps one of my colleagues will raise the issue on my behalf.

**The Convener:** Point noted. Do members agree that the committee has no comments to make on the order?

**Members indicated agreement.**

**The Convener:** As it is a negative SSI, we do not have to produce a report on it. It will simply be covered in the minutes.

### Environmental Liability (Scotland) Amendment Regulations 2011 (SSI2011/116)

**The Convener:** Again, we have a note from the clerks on these regulations. The Subordinate Legislation Committee considered them yesterday and had nothing to report. If members have no comments, do we agree that the committee has no recommendation to make on the regulations?

**Members indicated agreement.**

### Storage of Carbon Dioxide (Licensing etc) (Scotland) Regulations 2011 (SSI 2011/24)

**The Convener:** We have a cover note from the clerks on these regulations, on which the

Subordinate Legislation Committee has raised no points. If members have no comments, I propose that we make no recommendations. Are we agreed?

**Members indicated agreement.**

**The Convener:** I suspend the meeting until 12 o'clock, when we will have a discussion with the minister on a number of affirmative instruments.

11:43

*Meeting suspended.*

12:00

*On resuming—*

### Energy Act 2008 (Storage of Carbon Dioxide) (Scotland) Regulations 2011 (Draft)

**The Convener:** The final items relate to two affirmative instruments. I will get my notes in the right order. First, we will take oral evidence from the Minister for Enterprise, Energy and Tourism on the draft Energy Act 2008 (Storage of Carbon Dioxide) (Scotland) Regulations. I ask him to introduce his team and make an opening statement, after which we will ask questions. At this stage, the minister's officials can contribute. When we consider the motion, only the minister will be able to speak.

**The Minister for Enterprise, Energy and Tourism (Jim Mather):** I am joined by Olive Hogg, Ross Loveridge and Lorna Orr. I thank the convener for the opportunity to make a statement—I will be as brief as possible.

Members are all well aware that Scotland's energy opportunities are vast. However, a balanced energy future for Scotland depends on more than just renewable power—there must be cleaner thermal generation alongside that, because it is clear that hydrocarbons will remain a central element of the energy mix in Scotland and worldwide.

We recognise that we have a duty to minimise carbon emissions and ensure sustainable economic growth. The facts are that coal is the most abundant and least expensive but most polluting fossil fuel, and that carbon capture and storage is the only technology that is capable of cutting fossil fuel emissions by up to 90 per cent.

One of our energy pledges was to

"support development and implementation of"

carbon capture and storage

"technologies in Scotland, through collaboration with academia, industry and other interested parties."

The economic opportunities for developing a CCS-based industry are considerable. The potential exists for a whole new industry to emerge in Scotland, which could support up to an estimated 10,000 new jobs in the next 15 to 20 years. The skills and engineering experience that we have gained from the oil and gas industry and the power industry are readily transferable to the new sector.

Further motivation for CCS is provided by the significant export potential for Scotland and the significant scope for international collaboration. Those propositions are supported by a significant quotation from Lord Oxburgh, a former chairman of Shell, who said:

"CCS will be an industry as big as the oil industry".

All those factors combine to support our ambition for the North Sea to become the European Union's principal CO<sub>2</sub> storage hub.

Of course, we all recognise the huge opportunity that we have at Longannet to test the technology, to see emissions fall and to accelerate development at the same time. I am pleased that Charles Hendry is in Scotland today and that he has confirmed that he expects a final announcement on funding Longannet this summer.

In addition, we are required to implement the EU directive on the geological storage of carbon dioxide. The Scottish Parliament has made great progress on that by agreeing to the legislative consent motion on what became the Energy Act 2008 and by considering the draft regulations that are before us. Scotland's regulatory framework is seen as world leading by the Global CCS Institute and our approach has been endorsed by the European Commission.

In its current state, the 2008 act prohibits exploration or storage in relation to carbon dioxide without a licence. That prohibition applies only to the offshore area, where the Scottish ministers are the licensing authority for the Scottish 12-mile territorial seas.

The draft regulations extend the territorial scope of the 2008 act to onshore Scotland and its internal waters. That is dictated by article 2 of the EU directive, which provides that the directive must be implemented across a member state's whole territory, which is why we must extend the 2008 act to cover the onshore area.

However, article 4 of the directive confirms that member states retain the right to determine the areas from which storage sites may be selected. That includes a member state's right not to allow any storage in parts or in the whole of its territory. That is why I have decided that the regulations will result in no exploration or CCS activity being allowed in Scottish territory without a licence. That

is an important safeguard, and I intend to use it by confirming that the Scottish Government will not permit the geological storage of CO<sub>2</sub> onshore in Scotland.

We will permit offshore storage only, which is consistent with the position that the rest of the United Kingdom has taken. I am glad that there is political consensus on CCS between the major parties in Scotland and, indeed, across the UK. The 2008 act was supported by the Scottish Government and endorsed by the Scottish Parliament, so that we would have consistent regulations for CCS on a UK-wide basis. I am pleased that the new UK coalition Government has retained the commitment that Labour made to consistent regulation and that the amendment to the 2008 act that we propose in the order is also being made for England and Wales by the UK Government.

Meanwhile, as I have explained, the opportunities that are associated with CCS for coal and gas are vast. We must ensure that we deliver on that potential. I am happy to answer members' questions.

**The Convener:** Thank you for your opening remarks. I will begin with an obvious question. Why do you require a licensing regime for an activity that you say that you will not permit to happen?

**Jim Mather:** There are two stages to the regulations. We have the licensing regime, which will bring us into line with what is happening throughout the UK and Europe, and the permitting mechanism. That will ensure that what we have in Scotland is exactly what we want. We do not want onshore storage. The focus should be offshore, where we have saline aquifers and the potential in the North Sea to sequester CO<sub>2</sub> and to use it in long-term enhanced oil recovery. I have with me talented people who may be able to amend that answer.

**Dr Ross Loveridge (Scottish Government Directorate for Energy and Climate Change):** I am happy to add to the minister's comments. In large part, this is a procedural requirement, as the directive must be applied across the territory of the member state. When we were working with the UK Government on the Energy Bill back in 2007 and 2008, the bill was being prepared in parallel with the directive. At that time, the UK assumed that it would be able to apply the directive offshore only.

Since the directive has come into force, there has been a requirement for it to apply across the whole territory of the member state. However, there is scope in article 4 for the member state to determine those areas within its territory where storage may take place, so we will retain the position that the UK Government put forward and

which the Scottish Parliament agreed in the LCM—that storage will take place only in the offshore area. We are merely confirming, for purely procedural reasons, the fact that the directive extends the 2008 act. The policy intention, to which the Scottish Parliament signed up, is as it was in 2008—to retain storage offshore.

**The Convener:** So in your view, there is no risk that someone may apply for a licence to store onshore and be able to appeal a refusal successfully on the ground that the licence application was predetermined.

**Jim Mather:** We do not believe so, because we believe that we retain control.

**David Whitton:** My question is not specifically about this issue. I am curious about your earlier comment that Charles Hendry will make an announcement in the summer. Can you share with us some more information about that?

**Jim Mather:** We are told that a decision will be made in the summer—fingers crossed, given that Longannet is the last man standing in the UK demonstrator competition.

**David Whitton:** Is Charles Hendry visiting Longannet today?

**Jim Mather:** No, he is visiting the Parliament today and will take part in a session on electricity market reform that will take place tonight in the Macdonald Holyrood hotel. We have debated the issue in Parliament, but it is significant that Charles Hendry and a roomful of other people—apparently, there is not a seat left for the event—will take part in an open debate on it and seek to identify everyone's aspirations for electricity market reform, to tease out possible unintended consequences and try to work together to address those.

**Christopher Harvie:** While we have you here, can you provide us with an estimate of the capacity for carbon capture and storage that exists in the northern North Sea? I have seen it put at a maximum of about 1.5 billion tonnes equivalent.

Given that Europe's production of CO<sub>2</sub> from, say, the power stations along the northern coast from Belgium and Holland to Germany is in excess of 100 million tonnes a year, we are really talking about only 15 years' capacity.

**Jim Mather:** We have been told that it is anything from 100 to 200 years' capacity. We will take your numbers and find out. What is your source for those data?

**Christopher Harvie:** They came from an inquiry by the German carbon trust into the output from German power stations. Research to update the figures in my own work up to the mid-1990s into

the extraction of oil provided the figure of 1.5 billion tonnes. I would be thrilled to think that there would be the capacity that you mentioned.

**Jim Mather:** I will bring Ross Loveridge in, as he is more heavily steeped in it.

**The Convener:** I am not sure that anyone would want to be steeped in CO<sub>2</sub>.

**Dr Loveridge:** The minister is absolutely correct. I thank Mr Harvie for raising that point. I do not have the figures from the Scottish study to hand but, when the First Minister launched it in 2009, the estimate was that Scotland can comfortably store its own CO<sub>2</sub> emissions for more than 200 years and that we could potentially store in the northern part of the North Sea—taking into account not only the Scottish potential, but the Norwegian potential—between 100 and 200 years' worth of north-west Europe's emissions. Those figures are based on the estimates in the study.

We are not quite there yet but, in a few weeks' time, we will make an announcement about the latest analysis following on from the Scottish study. We have to make a more detailed assessment of specific storage sites and the results will be published in a few weeks' time. I hope that that will reassure Mr Harvie by confirming the storage capacity.

**Nigel Don:** My question leads on from that. I am sure that you will have given some thought to the fact that a site is not just the place where a hole is drilled into which stuff is pushed down, but a geological structure. I wonder about the implications of a hole being drilled 10 miles offshore if the structure runs under the land. You will have addressed such obvious thoughts. What protocols will be in place for that?

**Jim Mather:** The key thing is that the Scottish centre for carbon storage is headed up by Professor Stuart Haszeldine, who is one of the leading geologists in the sphere. We have taken him to various settings to be involved in debate with others, and he has confirmed to us that he believes that the saline aquifers and the North Sea reservoirs offer us both the sequestration capacity and the integrity to hold the CO<sub>2</sub>.

**Dr Loveridge:** We have the expertise in Scotland—a world asset. It has been supported and endorsed by no less than the European Commission, which employed the University of Edinburgh to undertake its own assessments of the future storage potential across the whole EU.

Regarding the potential migration of CO<sub>2</sub> from specific sites to other areas, the legislation and the directive make it very clear that any person who prospects for CO<sub>2</sub> storage must undertake a very detailed site characterisation assessment as part of the exploration and that the permit must be

awarded on the basis of a clear guarantee that the CO<sub>2</sub> will be safely contained within the structure as outlined by the applicant to the permitting authority—which, in this case, would be the Scottish Government. That is designed to give safeguards and reassurances to the public about the behaviour of the CO<sub>2</sub> and about the minister's ability to make a clear and effective decision on the basis of that knowledge.

12:15

**Jim Mather:** We have carried out a world-leading exercise with Russel Griggs, who heads up the regulatory review group. It was essentially a two-day scenario planning exercise, getting all the players in the room. It was not just the geologists, people with oil interests and the generators—it was also the regulators and the local authorities. It involved producing a handbook for how we can make progress on CCS matters. We will give Charles Hendry a copy of it tonight. We have already taken it to the Global CCS Institute, which views it as a useful mechanism for developing the technology. The handbook has also been instrumental in our persuading representatives of the Inter-American Development Bank to come across and see what Scotland is doing on CCS.

Last week, in our conversations with the Canadian high commissioner, a great deal of interest was sparked about potential collaboration, as that country is spending about 3 billion Canadian dollars on CCS over the next five years. The international collaboration issue is important, and Scotland earns its place at the table because of the geology, the academic research, the technology and the momentum that we have been able to generate here.

**The Convener:** There being no further questions, we move on to the next item, which is formal consideration of motion S3M-7800, in the minister's name.

*Motion moved,*

That the Economy, Energy and Tourism Committee recommends that the Energy Act 2008 (Storage of Carbon Dioxide) (Scotland) Regulations 2011 be approved.—[*Jim Mather.*]

*Motion agreed to.*

**The Convener:** The clerks and I will prepare a short factual report to submit to the Parliament, indicating our approval of the motion.

### **Renewables Obligation (Scotland) Amendment Order 2011 (Draft)**

**The Convener:** Item 7 is another affirmative order. I invite the minister to introduce his new team and to make opening remarks.

**Jim Mather:** I am joined by Nicola Shiels, Neal Rafferty and Sue Kearns. Thank you for this chance to make some opening comments. I am well aware that the committee is familiar with the renewables obligation, as I have sat before the committee and discussed the matter every year since 2007. In doing so for the last time, I thank the committee for its courtesy and for the quality of its engagement on these occasions.

Members will know that the obligation is a fundamental driver behind each decision to invest in renewable electricity-generating capacity. It was introduced back in 2002. In the seven years up to 2009, renewable electricity generation across Scotland has more than doubled. Indeed, the figures for 2009 demonstrate that renewable generation in Scotland from wind and thermal sources such as biomass and renewable waste outstripped generation from natural-flow hydroelectric stations for the first time ever.

That trend will continue over the next 10 years. We expect more and more generation to come from offshore wind, from wave power and from tidal stream. This energy comes from sources where Scotland has a huge competitive advantage, and it can create world-leading industries. It is therefore vital that we maintain the legislation as fit for purpose and the ability to continue to attract investment in new technologies and developments across Scotland in a way that is cost effective and sustainable.

The amendments that are contained in the order are designed to do just that. In proposing that offshore wind generators that accredit after 31 March 2011 should be able to register their turbines in phases, we are acknowledging the lengthy period over which such very large developments will often be constructed, and ensuring that support for those projects is accessible and is delivered in a way that is consistent with that reality.

Offshore wind generators will be able to register five phases of turbines over a maximum period of five years. The first phase should include a minimum number of turbines equivalent to 20 per cent of the proposed total installed capacity of the development. Over time, we believe that that flexibility will have a positive effect on the development of further offshore wind capacity in Scottish waters.

Our consultation also found a great deal of support for extending the principle in the future, particularly as wave and tidal projects begin to come forward at scale. We have also agreed, in light of the outcome to our consultation, to extend the principle of grandfathering to stations using biomass and waste. As members will know, grandfathering is the principle that protects the level of renewables obligation certificates banding

at the point at which a specific investment is made. Grandfathering means that stations that are financed and commissioned on the basis of a certain number of ROCs per megawatt hour will not have that support reduced as a result of a future review. That mirrors the position across the rest of the UK and takes into account the evidence from stakeholders that grandfathering will protect investment, particularly in small-scale projects.

More widely, we have also announced an intention to conduct in the coming year a broad review of biomass support through the obligation. Our starting point for that is a desire to make the support consistent with the Government's policy aim to see biomass generating plant designed at a scale that is consistent with the most efficient use of what is a limited resource. We want an approach that will make a vital contribution to meeting our ambitious renewable heat targets.

The order also introduces new sustainability criteria for biomass and biogas generation. Mandatory reporting against those criteria will take effect from April this year and will be linked to support from April 2013. The new criteria impose a carbon dioxide emissions ceiling for biomass generators and direct land use criteria that are consistent with the relevant European Commission renewable energy directive. The criteria and their continued development will be informed by the work of the UK biomass and biogas sustainability implementation group, which involves direct input from Scotland and Scottish stakeholders.

The order also complies with the renewable energy directive through its introduction of mandatory sustainability criteria for bioliquids. In order to qualify for ROCs, generators using bioliquids will need to comply with those criteria from 1 April this year. The order now extends, again in compliance with the directive, to biodiesel that is partially derived from fossil fuel, although ROCs will only be eligible against the biomass proportion of the fuel's energy content.

The changes mentioned thus far are being implemented in a uniform manner across all the UK obligations, but we have one more that is unique to Scotland: an amendment to our enhanced wave and tidal definitions that is designed to enable projects to receive capital grant support as well as our higher ROC band when appropriate. The change has been agreed by the European Commission and warmly welcomed by the vast majority of our stakeholders.

The changes will improve the efficiency and sustainability of the obligation. They are designed to maintain confidence in the system—confidence that is more important than ever before. Before I formally move the motion on the order, I am happy to respond to any questions that the committee may have.

**The Convener:** Thank you for your opening remarks. The committee has received a written response from Scottish Renewables on the order. It generally welcomes the order, but it raises concerns, stating that

"the Scottish Government has not acted upon our suggestion to increase tidal stream support to same level as wave support ... stating that they are not in a position to change the tidal band in April 2011 as part of the current legislative amendment".

Can you explain the Government's reasoning for that and how you propose to address the issues that Scottish Renewables has raised?

**Jim Mather:** Many respondents to our consultation pressed the Government to reconsider its current level of support on tidal power. Specifically, they pressed the Government to raise it from three to five ROCs, which is the same level for wave power. We are not making that change as part of the current amendments, but we made it clear in our response that we remain entirely open to the case for such a change and are ready to take forward a fresh review should the evidence support such a move.

There will be further evidence of that approach in our liaison with the UK Government when we discuss energy market reform with it this evening. I hope that that will open another level of debate beyond what is happening between officials in the Scottish Government and officials in the Department of Energy and Climate Change. I hope that the debate on the renewables obligation will continue to be characterised, as it has been all the way through, by openness and engagement with all the stakeholders.

**The Convener:** There seems to be a difference between the evidence base suggested by Renewables UK and that suggested in the Ernst & Young report. What assessment has the Government made of those two evidence bases to determine whether either or both are right—or wrong?

**Jim Mather:** One lesson that I have learned in politics, particularly in my role as minister, is that the more that we lend ourselves to consultation, the more likely it is that when the consultation is completed, no matter how elegantly we carve our way through it, we may well offend the vast majority of people with our final decision. Our inclination is therefore to get people together to have a debate, such the one that we will have tonight on electricity market reform.

Going forward, we will look to ensure that those conflicting opinions are represented in the room, because when you ask people why they hold conflicting views, invariably it does not take long before they converge on a common goal and we have the chance to mediate and resolve the



conflict. The fact that we are aware of the conflict is a plus, and the fact that we have a mechanism to handle it is an even bigger plus.

**Gavin Brown:** I will follow up on the convener's question. Scottish Renewables has said that ROCs should be the same for tidal stream and wave. What is the Government's argument for not making them the same?

**Jim Mather:** That is a function of timing. We are not approaching the issue from a doctrinaire position; we are showing a willingness to engage and a keen desire to do that in conjunction with colleagues in Westminster.

**Neal Rafferty (Scottish Government Directorate for Energy and Climate Change):** When we introduced the higher bands in Scotland to begin with, we did so on the basis of a piece of work that suggested that tidal stream costs were lower than those for wave, which is why we have the differential now. The Ernst & Young study, which was published in March last year, was quickly followed up by a piece of work by Renewables UK, which is vocal about the need to introduce the same support levels for both sets of technology. It is quite a compelling piece of work. We are currently considering the matter with our UK Government colleagues in the context of a wider banding review.

Renewables UK makes a strong case, and we know that the industry speaks with one very strong voice in general, and is saying that there should be a single band of five ROCs for wave and for tidal stream. We are considering that suggestion in the context of the UK banding review and we shall see where that moves over the next few weeks and months. The case is fairly strong and it is being put fairly unanimously by the industry, so there is a good chance that there will be movement on those bands in the next few months.

**Gavin Brown:** That is helpful. Thank you.

**David Whitton:** What would the impact be if we did not do anything?

**Jim Mather:** It would be negative. We have been flexing with the reality of the sector and the technologies, which are evolving. That has won us a lot of friends and has also meant that many people have read the signals and made the investment—hence we have been able to meet the 31 per cent target and to uplift the 2020 target from 50 to 80 per cent. That approach is allowing the Parliament—let alone the Government—to be seen as an honest, flexible, listening broker.

**David Whitton:** I am sure that there will be an interesting debate tonight on whether the targets are achievable. Where did the pressure come from to allow phased development? Did it come only from the industry or was it recognised within

Government that an all-or-nothing approach was a hindrance to development?

**Jim Mather:** It certainly came from the industry, but you will remember that we held a low-carbon finance conference last year, on 28 and 29 September. Another conference has been announced today, so there is a process.

By bringing people together in that format, we identified greater clarity on the risks and rewards that are involved in the sector and developed a greater understanding of the challenges that companies face in making the financial case to get the necessary financial backing. In essence, we are trying to get all the players joined up in common cause and to show the flexibility that puts in place the confidence that enables investment and follow-on investment to happen.

12:30

**David Whitton:** Did any local authorities express any reservations about whether their planning departments would be able to cope?

**Jim Mather:** In terms of offshore wind?

**David Whitton:** Yes.

**Jim Mather:** That will be more an issue for Marine Scotland than for local authorities per se.

**Neal Rafferty:** We did not receive any representations from local authorities through the consultation process.

**Christopher Harvie:** Anything that involves a large amount of civil engineering reminds me instantly of the Office of Fair Trading inquiry at, I think, the end of 2006 into the granting of civil engineering contracts. The OFT found that there was massive capitalisation in that area but then decided to fine the companies concerned a slap on the wrist of a couple of hundred million pounds, which was peanuts in comparison with the \$8 billion that the industry was worth then.

Is your system robust enough to combat Adam Smith's old equation that we can be certain that, when two or three people in the same business get together, be it for purposes of play or merriment, within two hours they will have created a conspiracy to raise prices? You have to be robust about that.

**Jim Mather:** The robustness and scrutiny exist. The scrutiny is not only national but global. We have some interesting parties—such as Ronnie Bowie from the Institute and Faculty of Actuaries, which has repositioned itself as the faculty of enterprise risk managers—looking over our shoulder and the shoulder of the industry to ensure that the industry grows in a way that is conducive to maximising our economy and its competitiveness.

Given the massive scale of the civil engineering, we are beginning to see real collaborations, and there is interest from companies from outwith Scotland in being involved and participating here.

After the financial crisis that we have all been through and having seen the moral hazards and the disaster that they can cause in the financial sector, I like to think that we are about to enter a new era of a higher level of ethics. There is a requirement for that.

**The Convener:** I am not sure whether the Adam Smith quotation was a condemnation of businessmen or a condemnation of the game of golf.

**Jim Mather:** Perhaps it was a condemnation of some of the things that we taught in our business schools in the past, but they are being remedied here in Scotland as I speak.

**The Convener:** We move on to consideration of motion S3M-7872, on the Renewables Obligation (Scotland) Amendment Order 2011.

*Motion moved,*

That the Economy, Energy and Tourism Committee recommends that the Renewables Obligation (Scotland) Amendment Order 2011 be approved.—[*Jim Mather.*]

*Motion agreed to.*

**The Convener:** This was the minister's last appearance before this committee—and, possibly, any committee of the Parliament—before his retiral. I wish him the best of health and a long and happy retirement.

**Jim Mather:** Thank you very much indeed. That is much appreciated.

**The Convener:** That concludes the final meeting of the Economy, Energy and Tourism Committee 2007 to 2011.

**Marilyn Livingstone:** Will members join me in giving the convener a vote of thanks on behalf of the committee? [*Applause.*]

*Meeting closed at 12:34.*

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