



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Tuesday 4 October 2011



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**EUROPEAN AND EXTERNAL RELATIONS COMMITTEE**  
**4<sup>th</sup> Meeting 2011, Session 4**

**CONVENER**

\*Christina McKelvie (Hamilton, Larkhall and Stonehouse) (SNP)

**DEPUTY CONVENER**

\*Hanzala Malik (Glasgow) (Lab)

**COMMITTEE MEMBERS**

\*Helen Eadie (Cowdenbeath) (Lab)

\*Annabelle Ewing (Mid Scotland and Fife) (SNP)

\*Bill Kidd (Glasgow Anniesland) (SNP)

\*Jamie McGrigor (Highlands and Islands) (Con)

\*Aileen McLeod (South Scotland) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)

**CLERK TO THE COMMITTEE**

Ian Duncan

**LOCATION**

Committee Room 5



## Scottish Parliament

### European and External Relations Committee

*Tuesday 4 October 2011*

[The Convener opened the meeting at 14:01]

### Decision on Taking Business in Private

**The Convener (Christina McKelvie):** Good afternoon, everyone. I welcome you all to today's meeting of the European and External Relations Committee—the fourth meeting in 2011 in this session. I ask all members and those who are in the gallery to ensure that their mobile phones are switched off. If they are on, they interfere with the recording equipment.

Agenda item 1 is a decision on whether to take in private items 5, 6 and 7. Item 5 is on the remit for the committee's inquiry on engagement with the European Union dimension of the Scotland Bill, item 6 is on a proposal for the committee to visit Brussels, and item 7 is to allow for some discussion following today's evidence from the Cabinet Secretary for Finance, Employment and Sustainable Growth. It is normal practice to take such items in private to allow us to have a full and frank discussion. The decisions will be published as normal. Is the committee content to take in private items 5 to 7?

**Members** indicated agreement.

## European Union Economic Issues

14:02

**The Convener:** Item 2 is evidence on EU economic issues with the Cabinet Secretary for Finance, Employment and Sustainable Growth. I welcome the cabinet secretary on his first visit to the committee in this session. He is accompanied by Government officials. They are Shane Rankin, who is the deputy director of European structural funds and defence review response, and Elspeth MacDonald, who is the head of the constitution and parliamentary secretariat.

Cabinet secretary, do you have an opening statement?

**The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney):** Yes. If you will forgive me, I have quite a text to get through, but it might help the committee if I set out where the Government has reached.

I welcome the opportunity to update the committee on the Scottish Government's engagement on the EU multi-annual financial framework. The EU budget has significant economic importance for Scotland; annual receipts from the EU are worth in the region of £800 million, which is about 2.8 per cent of our annual budget.

The Commission published on 29 June its proposals for the 2014-20 multi-annual financial framework. The proposed budget has been designed to underpin and deliver the Europe 2020 strategy, which aims to promote smart, sustainable and inclusive growth—goals that are closely aligned with the Government's economic strategy. Smart growth aligns with Scotland's aim to position ourselves as a leader in research and creativity, and sustainable growth offers potentially huge opportunities for Scotland in terms of climate and energy. In inclusive growth, the Commission's proposals to streamline and converge existing programmes and funds may provide opportunities for Scotland to improve performance and demonstrate leadership.

As well as an overall emphasis on achieving added value within the European dimension, other themes that the Government has noted include a greater focus on results, increased conditionality in programmes, simplification of funding rules and merging of some budget headings, and an attempt to lever in from the private sector greater investment in EU financial instruments.

The Commission has proposed significant changes to the way in which the EU budget is

financed, changes to the system of corrections and rebates, and two new EU taxes: a financial transactions tax and an additional VAT levy. Last month, the Cabinet discussed the opportunities that are presented by the new multi-annual financial framework. We considered the potential impact of proposals on individual portfolios and the scope for the Scottish Government to influence outcomes. I will highlight a few of the opportunities to benefit from the improvements and streamlining of existing funds.

A single plan that covers all sources of EU funding should allow better targeting of funds, streamlined mechanisms and savings on administration across the funds. There might be, through the €40 billion connecting Europe facility, scope to access new funds to support energy, transport, and information and communication technology infrastructure. The common strategic framework for research and innovation—horizon 2020—will have an €80 billion budget allocation, which is a 50 per cent increase on the existing three separate funding streams.

The fact that the North Sea is a designated priority corridor in the EU energy infrastructure represents a key opportunity for Scotland to grow our renewables generation market. Although the proposed common agricultural policy budget will be lower in real terms than it is currently, a redistribution of pillar 1 and pillar 2 funding could, depending on how it is calculated, result in a fairer and better deal for the agriculture industry in Scotland. The European marine and fisheries fund, which will replace the current financial instruments, will increase the funds by more than 50 per cent and could provide the opportunity to restructure the fishing fleet, to support further development of the aquaculture sector and to provide crucial support for the wider rural communities that are dependent on fisheries.

At a time of severe pressure on public finances, we must ensure that the outcomes from the negotiations provide a budget that offers added value and is focused on the areas that provide sustained economic growth in Scotland and across the European Union. When I appeared before the European and External Relations Committee in the previous session to discuss the multi-annual financial framework, I stated that the Government's overall objectives were to retain Scotland's participation in structural funds post-2013, to obtain a better deal on the size and allocation of the CAP budget and to ensure that outcomes are clearly linked to the Europe 2020 objectives on energy and research. Those remain the Government's objectives today.

To help to meet those objectives, we are focusing our engagement and resources on the following priorities: ensuring that EU expenditure is

in areas that are important to Scotland, such as encouraging the development of marine technologies; influencing the individual policy reviews and expenditure budget headings that are of greatest importance to Scotland, especially the cohesion and CAP budgets; and prioritising the Scottish Government's EU action plan areas of activity and key areas in which Scotland has a strong record of engagement and delivery—in particular research, marine energy, low-carbon and climate-change issues, justice, the CAP and cohesion.

The Government is utilising all available opportunities to maximise its influence on the formulation of the European budget, through dialogue with the United Kingdom Government and direct dialogue with the European Commission. The Scottish Parliament is an important partner in achieving Scottish objectives in Europe. It will continue to be crucial that we work closely together in determining favourable outcomes for Scotland in the multi-annual financial framework negotiations. We know that common positions carry added weight in the European Union. I look forward to working with the committee and with Parliament to secure common ground on many issues.

I share the concerns of many people in Scotland about the proposed real-terms cuts to, and changes in, the CAP and cohesion budgets. Whatever the size of the budgets, we must ensure that the allocation between member states and the sub-allocation within member states avoids a disproportionate impact, notably on rural areas of Scotland. It is essential that thorough and meaningful discussions take place between the UK Government and the devolved Administrations before the UK position is finalised in the coming months. Scotland has a great deal to offer that will help to strengthen the UK position and positively influence outcomes in Brussels, for example those in the low-carbon sector or those that support digital infrastructure or connectivity.

That positive contribution and the value that we can add will be the key message that the Scottish ministers will bring to the table in discussions with our UK counterparts in the months ahead. We must be an active partner in order to secure outcomes that match Scottish as well as UK priorities. Although the expected date for agreeing the next multi-annual financial framework is not until the end of 2012, and it could even be later, engagement in the next six months will be particularly important as the legislative proposals emerge.

I am happy to work closely with the committee and to encourage my Cabinet colleagues to do likewise with the subject committees so that we can continue to provide information on Scottish

engagement and activity around the multi-annual financial framework. I will be delighted to answer the committee's questions today.

**The Convener:** Thank you, cabinet secretary. We are dealing with a complicated area. We welcome the Scottish Government's positive approach in working alongside the UK Government to try to get the best deal for Scotland, which is what the committee and the Parliament want.

We will move straight to questions from committee members, who are interested in different areas. The first question is from Annabelle Ewing and is on the multi-annual framework.

**Annabelle Ewing (Mid Scotland and Fife) (SNP):** Good afternoon, cabinet secretary. I have a few questions on specifics. The first concerns the Scottish Government's position on an issue that has arisen in the multi-annual financial framework discussions, which is the possibility of the introduction of—as the Commission wishes—a financial transaction tax. What is the Scottish Government's position on that? What would be the likely impact of that tax on the Scottish financial services sector?

The cabinet secretary mentioned the CAP reforms. What is the Scottish Government's current thinking on pillar 1 funding? Does the Government wish for it to continue, or for it to be significantly reduced, which is the UK Government's position?

**John Swinney:** A financial transaction tax would have significant implications for institutions that operate out of Scotland. Much attention has focused on the impact of the tax on the City of London; it would have a similar effect on the operations of the financial institutions in Scotland. The Government would be very concerned about a financial transaction tax, because it would run the risk of undermining the sector's competitiveness.

We must ensure that there is, around financial institutions, an appropriate and, more importantly, an effective financial regulatory environment—a financial transaction tax would run a risk of undermining that—which would not have a damaging effect on the Scottish economy and the financial services sector. The intensity of the current discussions on the Basel III process indicates that there is no lack of willingness to pursue such a regulatory environment.

Despite all the pressure, the understandable concern about banks' performance and the need to address and to remedy that concern, we should not lose sight of the fact that many financial institutions that are active in the market in Scotland have been entirely unaffected by the

financial crisis; they have continued to deliver excellent stewardship of resources and have not been part of the climate that has led to the difficulties in the banking sector. A financial transaction tax would bring the risk of affecting many of those organisations.

On Annabelle Ewing's second point, the Government believes that pillar 1 CAP funding should continue, because it is an essential part of supporting the effective maintenance of agricultural activity in rural Scotland. It is no secret that our view in that regard differs from the UK Government's position. Our position is similar to that of the other devolved Administrations in the United Kingdom. We will therefore continue to argue that case because we believe that pillar 1 funding is an important part of the architecture for supporting agriculture in Scotland.

14:15

**Annabelle Ewing:** On the latter issue, in the light of the divergence between the approaches of the Scottish Government and the UK Government, and of the fact that the UK Government takes the lead in the Brussels negotiations, how does the cabinet secretary see the CAP reform discussions progressing?

**John Swinney:** CAP reform is an issue that highlights the benefits of being able to communicate directly with the European Union as a member state. The United Kingdom Government's position—as I understand it—being enacted would have a seriously dramatic impact on agriculture in Scotland, which illustrates the Scottish Government's point about the importance of direct representation in the EU as a member state.

We will continue to argue with the United Kingdom Government, and will be assisted in our arguments by the common position that we occupy with the Welsh Assembly Government and the Northern Ireland Executive, in the hope that we can change the UK Government position. We will also pursue direct dialogue with the European Commission on this and all other questions and points that I have raised today.

The European Commission is more than happy and more than interested in having direct dialogue with the Scottish Government on many questions. Pretty much all members of the Cabinet have been involved at some stage in direct discussions with the Commission on different questions. I have had discussions on climate change, Mr Neil was over there recently talking about regeneration and digital activity, and Mr Russell has had discussions around the skills and employability agenda. There is willingness to engage in direct

dialogue and we will pursue that to ensure that our interests are satisfied.

**Jamie McGrigor (Highlands and Islands) (Con):** On CAP funding, you said that Scotland has a lot to offer. I agree. The question of peat being used for trading certificates for low-carbon emissions was raised recently. I understand that Scotland has a very high percentage of Europe's peatlands. Is that being taken into consideration and followed up in terms of the value of Scottish land in attracting subsidy as a carbon sink?

**John Swinney:** I am very familiar with the arguments around peat's contribution to the low-carbon economy. It was certainly an integral part of the discussion that Parliament had when it passed the Climate Change (Scotland) Act 2009. I cannot today give Mr McGrigor a definitive answer about the position of peat in the carbon trading environment. However, if it would be helpful, convener, I will ensure that the relevant ministers consider the point that has been raised and that we give an appropriate response.

**Helen Eadie (Cowdenbeath) (Lab):** Good afternoon, cabinet secretary. I spoke at a conference two weeks ago for the Industrial Communities Alliance, which was formerly the Coalfield Communities Campaign and which now embraces the former steel industry communities as well. The conference heard a presentation from a Brussels directorate-general on the process and the approvals that must be gone through before the framework is finally signed off. One of the concerns that was raised there—I am sure that it would be a serious concern for you, cabinet secretary, and for everyone in the Parliament—was the suggestion that money will go from the poorer areas to the richer areas under the framework. Can you expand on how that could be and what your position is on it? I am fairly confident that you support the position that I support, which is that we do not want such a move. Scotland has been a huge beneficiary of objective 1 funding and I believe that the Highlands and Islands still enjoy it. Will you comment on that, please?

**John Swinney:** To address the issue in principle, as I said in my earlier comments, the Government believes implicitly that there is still a substantial role for European funding in relation to many of the policy issues that the Government addresses. In some respects, the debate is about an element of what Mrs Eadie mentioned, but it is also about ensuring that Scotland is in as strong a position as possible in relation to the new and emerging funds. All things being equal on the latter point, I believe that Scotland is well positioned, because of the direction of the Scottish Government's economic strategy, which although it might not be signed off to every extent by all

parties, broadly commands confidence in the Parliament. That strategy is very much reflected in the EU's agenda on investment in innovation, research and new low-carbon energy developments. We are well positioned to make the most of the opportunities that are arising in European funding.

Some of the other points that Mrs Eadie raises are about the more traditional forms of funding that we have received. In recent years we have had less access to some of those funds because of the emergence of the new member states. As I said to Annabelle Ewing, the Government will ensure that we work to try to protect existing interests in European funding. Where we face challenges to the resources that are available to us from the European Union, we will do everything that we can to marshal an argument that will protect our interests.

There will be some areas of change. For example, there will be funding for the new transition category of regions, and as a consequence there will be lower levels of funding available for what are called competitiveness regions, which in Scotland are areas outwith the Highlands and Islands. There are clearly some challenges, but the Government will do all that it can to try to maintain the degree of support that we have experienced in the past.

**Helen Eadie:** Transport forms part of the new connecting Europe facility. I was concerned to read in the committee papers that, although the UK Government recognises the important role that transport plays in delivering the economy and in helping to address climate change, it believes that the EU budget should not increase by more than inflation. I do not believe that we can square that circle. If we have aspirations to make significant improvements in transport infrastructure across Europe, how can the UK Government possibly say that the budget must not increase by more than inflation? We need much more than that. Will you go back to the UK Government and make that concern known?

We have already lost our passenger connection from Rosyth to Zeebrugge and we now hear reports that we might lose the freight transport connection. We are just tinkering or playing with the issue of supporting transport connections across Europe. We all know that shipping by sea is one of the most efficient ways of reducing the carbon impact. There are many issues that need to be addressed. As someone who regularly drives across Europe, I believe that much higher spending is required on transport infrastructure, and certainly more than the UK Government proposes.

**John Swinney:** There has to be a strategic debate about the balance between the financial



programmes that are available. Mrs Eadie's question is on transport funds, which come under the umbrella of smarter, inclusive growth and represent about 48 per cent of the proposed EU budget. Within that category, there is a €40 billion budget over six years for the connecting Europe facility.

Within that, commitments are being made to substantial resources of about half the budget for growth. If that were to be enhanced, the whole budget might have to be expanded. Given the commentary on the debate in the current context, such expansion would be a challenging objective to achieve at strategic level.

The question then is whether all the priorities are given the right emphasis. Mrs Eadie is absolutely correct to say not only that enhanced transport connections can contribute substantially to economic growth but that moving to more sustainable transport can make a significant impact on the carbon-reduction targets to which all European countries have signed up. It is one of the classic debates: within a substantial sum of public money, and in a climate in which expenditure is under real pressure, is sufficient priority being given to transport issues? Obviously, there is a trade-off with other questions about whether adequate resources are being deployed.

**Helen Eadie:** I would ask you to take that issue on board as a serious concern. I do not know the extent to which it is resolvable, but there are real concerns about it and I hope that you will consider what can be done.

**John Swinney:** Forgive me—I should have said that I will be happy to reflect to the United Kingdom Government concerns that the committee raises with me today. We are about to make representations to the UK Government on the multi-annual financial framework. We will be able to provide that input—which we are finalising—at a forthcoming meeting of the joint ministerial committee on Europe, which will bring together the relevant ministers from throughout the UK and the devolved Administrations. My discussions with the committee today are rather timely because I will be able to convey to the Economic Secretary to the Treasury the points that we have discussed.

**Aileen McLeod (South Scotland) (SNP):** EU structural funding remains an integral concern of the committee, but the future EU policy agenda is really now about research, innovation and education—the so-called knowledge triangle. We have already seen its importance in the EU budget, with €80 billion proposed by the European Commission.

With Scotland's universities' research institutes leading the world in research areas such as

renewable energy, marine science, biotech and nanotechnology, Scotland is well placed to take advantage of EU initiatives in that area and we can help the EU to deliver a European research area by 2014. In that regard, do you think that the collective effort of the Scottish Government and Scotland as a country should be focused on the EU's new growth and innovation agenda, as captured in the forthcoming horizon 2020 framework programme 8 proposals? Should Scotland be looking to that end of the funding stream? How are we preparing for our engagement in that?

14:30

**John Swinney:** My first point—I suppose that it goes back to what I said to Helen Eadie—is that there will always be an element of wanting to hold on to what we have got and ensure that we are well positioned for future opportunities. Dr McLeod is absolutely correct with regard to the forthcoming opportunities, which are significant in relation to the emphasis on research and development. The horizon 2020 programme is a particularly exciting prospect.

There are two crucial points or requirements. One is the extent to which the Scottish Government's policy agenda and interventions are aligned with the aspirations of the European Union, and the horizon 2020 programme in particular. I believe that, in that respect and with regard to the policy agenda, we are perfectly positioned, given the strategic leadership that the Government has given over the past four years to the renewable and low-carbon economy sector. Whatever people think about that, they cannot say that the Government has been equivocal in its approach. We have been unequivocal in our approach to the development of those sectors and, as I said, in that policy agenda, Scotland is perfectly positioned.

The second key requirement concerns how we align ourselves and prepare ourselves as a country. I will certainly not sit in front of the committee and say that everything is perfect and that there is nothing that could be done better. We are striving to ensure that Scotland is as well connected and focused as it can be and that there is the greatest possible collaboration between various organisations in order to bring that about. In the various messages that came out of the spending review, I was trying to convey the fact that the Government is making a significant effort to ensure that that type of alignment is realised, whether it involves the alignment of the Government's national policy agenda with the focus of Scottish Enterprise and Highlands and Islands Enterprise on the renewables theme, or the connection through the Scottish Further and

Higher Education Funding Council to our universities. Along with other players, our universities are doing fabulous research on the technological opportunities that exist and are linking that with some of the specialist research companies in the private sector that are making progress in this area. That represents a pretty cohesive approach, which will position Scotland to make the most of the opportunities.

I give the committee an assurance that the Government will continue to enforce vigorously that process of alignment. One of the strongest features that has emerged from the way in which we have managed a number of challenges in the past few years is that cohesion and alignment across public bodies have been vital to success. There are huge opportunities within the horizon 2020 programme, which is worth €80 billion over a six-year period—a 50 per cent increase on the comparable programmes in the current period. In the field of renewables and low-carbon activity, we could not be better positioned.

**Hanzala Malik (Glasgow) (Lab):** Are there any possibilities of engaging with the new research that has been talked about? How does Scotland benefit from that? Our fishing industry has been devastated in the past decade or so as a result of European Union legislation. We have lost valuable and skilled people in that industry. Is there scope to have an apprenticeship scheme that ensures that our historical fishing industry survives and is able to draw on fine and trained people and, more important, that it is part and parcel of the new research that will be pursued? Can Scotland benefit from that research, as other countries have done, and ensure that the EU and the UK Government allow us to champion that cause, as we are, historically, much better than other countries in that regard?

**John Swinney:** A theme that is running through my responses to members of the committee is how the Government is trying to place Scotland in the best possible position in relation to the European agenda.

A major element of the European maritime and fisheries fund, which will be part of the multi-annual financial framework and for which the available resources will be increased to €6.7 billion, will support the transition to a sustainable fishery.

The fishing industry in Scotland has an admirable and commendable record of adapting to the requirement to support a sustainable fishery. A frustration in the industry in Scotland is that over many years it has reconfigured its activities, taken difficult decisions and changed its approach, all to support the conservation of fish stocks, only to be on the receiving end of some pretty absurd decisions about quotas from the EU. I can well

understand that the fishing industry feels pretty frustrated by that experience.

Our challenge must be to try to secure for the Scottish industry access to the sustainable fishery investment to which it is entitled, because it has dealt so effectively with some of the challenges in that regard. Of course, the issue is always how we communicate and articulate that message to the EU.

The platform is there. I cannot give you a guarantee today that it can be utilised, because that is subject to a range of decisions that will be taken in the EU—as we have found from some of our experiences in the past, there is not always the best decision making. Greater cohesion in the funding streams that are available—instead of having a multiplicity of funding streams—should help us to make progress in aligning Scottish interests with the focus of the funds, to the advantage of the industry in Scotland.

**Hanzala Malik:** Thank you for your response. I am encouraged by it, because I feel that the Government is on board in its wish to secure the industry, which is important. The point that I want to make is that somehow we want to get the message across that we in this part of the world want to be the lead in the industry. We have paid a heavy price, historically, in allowing legislation to kick in and reduce our fishing industry to its current size, and perhaps as a reward for doing that we should be given the opportunity to take forward the new industry, with the new thinking that is around. We need support to do that.

**John Swinney:** I entirely agree with you. The industry has faced pretty absurd decisions, which have caused great hardship to it. There has been a great deal of rationalisation. The industry has not only worked its way through those challenges but has innovated; as a consequence, it has ensured that our fish stocks were able to recover and has put us in a better position regarding a sustainable fishery. That is the success of innovation in the fishing industry in Scotland. It would be unfair if, after doing all that, the industry did not get access to opportunities to continue to innovate.

Mr Malik makes a fair point about leadership. The fishing industry in Scotland has exercised very clear leadership in this regard. As a consequence, it should be well positioned to make the most of the opportunities.

**The Convener:** Thank you very much. A number of members want to ask questions, but I am conscious that the cabinet secretary needs to be out of here just before 3 o'clock. On that note, I remind colleagues that we are on the clock now. I will allow Bill Kidd in first, then it will be Jamie McGrigor; they will be followed by Annabelle

Ewing, who will pick up the issue of cohesion funding.

**Bill Kidd (Glasgow Anniesland) (SNP):** Thanks very much. The cabinet secretary will have been pleased to hear the convener's announcement that we are going to say things quickly just before I was due to speak. There you go—it is just one of those things.

An issue that has been brought to the committee's attention in the past fortnight is the publication of the "Roadmap to a Resource Efficient Europe", which speaks of a full range of resources, such as water, air, land, ecosystems, marine, waste and so on. Is Scotland geared up to contribute on that basis? If we are, are we contributing as part of the UK or do we have a unique role?

**John Swinney:** It is important to consider the question of resource utilisation in the context of the wider agenda that the Government and, increasingly, EU countries must follow in work on carbon emissions reductions and how to utilise resources as part of that effort. The Government's domestic programmes—for example, in relation to water use or consumption, or the shift in energy generation towards more renewable and sustainable sources of production—are all designed to support a direction of travel that is likely to assist us to participate in the resource-efficient agenda.

The general question is at what pace and in what fashion we must move to ensure that Scotland can contribute effectively to a European agenda in that regard and that we can demonstrate to the European Union that we have particular elements of leadership that will assist us in taking forward that agenda.

As I said a moment ago, there is a strong alignment between the Government's agenda and the European agenda; I hope that that should position us strongly to be able to benefit from a number of the opportunities that exist for the application of different programmes. However, detailed engagement with the European Union is required to ensure that that can be brought about.

**Bill Kidd:** The Scottish Government has been at the forefront in announcing plans for the expansion of green renewables industries. Are we receiving support from the EU to help develop such plans?

**John Swinney:** The short answer is yes. I am increasingly confident that, because of the leadership that we have deployed—I made this point in response to Dr McLeod—and because the Government was consistently clear during the four years of our first Administration and will be crystal clear for the five years of this Administration that we will be a significant player in the low-carbon

agenda, we are sending a signal to a variety of players that Scotland is a place in which to do effective work in the renewables sector. It may be a signal to the private investment community that we need to invest in renewables to make it successful, or a signal to the European Union to encourage investment in strategic research projects—the target audience is immaterial, as long as our message communicates a clear proposition to all the different parties that will attract investment. I am fairly confident that that message will be a strong asset for Scotland in the period going forward.

**Bill Kidd:** Thank you very much.

**John Swinney:** Just to add to that, there must be commitment from the Scottish Government in that respect. My commitment in the spending review two weeks ago to more than £200 million of expenditure in renewables—which is much increased, despite the financial pressures that our Administration faces—is designed to say to the private sector, the EU and to research institutes that the Scottish Government has put its money where its mouth is.

14:45

**Bill Kidd:** That is good to know.

**The Convener:** I think that we all welcome that.

**Jamie McGrigor:** My question relates to Helen Eadie's point about structural funding. She said that we still had objective 1 status. I thought—you can correct me if I am wrong—that if we had not lost objective 1 status, we had at least had it reduced. Its value was in the building of structural causeways to islands such as Berneray and Eriskay, and the Scalpay bridge, which rejuvenated a great many outlying parts of Scotland. Since then, it has been very difficult to get money for such projects. Is there any chance of getting money for such projects again in the near future?

**John Swinney:** That is covered by the convergence programme, which is the successor to the objective 1 programmes—I could wander off for half an hour on that question. It is still accessible in the Highlands and Islands area, so the answer to Mr McGrigor's question is yes: there is still access to something akin to objective 1 in parts of Scotland.

I am familiar with many of the developments to which Mr McGrigor refers. I have driven across most of them—the causeways to Vatersay and Berneray, and the Scalpay bridge—on my sojourns, and he is right to say that they have had a huge transformational effect on connectivity in the Highlands and Islands.

The key point on the issue that Mrs Eadie raised, which I suspect underpins Mr McGrigor's question, is that we must try to maintain those resources as effectively as we can while the dynamics of economic decision making in Europe are changing with regard to where relative need exists. As we have seen over the years, the assessment of relative need in the EU changes, sometimes in our favour and sometimes against us.

**Jamie McGrigor:** Have we got to get poor in order to get rich again?

**John Swinney:** There is a wee bit of truth in that in relation to some EU programmes. However, I am trying to stress today that the European funding programmes that will be available in the next six years will overall be of a different character to the type of programmes that are available in the current six-year period. For example, the opportunities that exist for Scotland in the horizon 2020 programmes are enormous, if we play our cards right. We will gain access to different types of opportunities than those that were available under the objective 1 programme. We might not be building causeways, but we could build research and development programmes for renewable energy. A causeway project and a renewable energy programme would both have a good economic effect on the Western Isles—they are just different in character.

**Annabelle Ewing:** To be fair, the cabinet secretary has answered our questions about structural funds and where we are going with those.

I want to pick up on the exciting prospect of a North Sea energy corridor, which the cabinet secretary mentioned in his opening remarks. That ambitious proposal feeds into much of our discussion today on Scotland's renewable energy potential; perhaps the cabinet secretary can provide us with some information on where it currently stands.

**John Swinney:** When the Government started talking about a North Sea electricity connection, there was a good amount of scepticism kicking around as to whether it would ever happen or how tangible the proposition was. We have continued to make progress on a number of elements, particularly with the support that we have had from the EU for the Irish-Scottish links on energy study—ISLES—project. That is a joint venture with the Irish Government, but much of the thinking that goes into it will be of use in the North Sea grid connection project.

The opportunity to take the work forward essentially arises from two things. The first is what happens with the connecting Europe funds. At present we have a headline but not an awful lot of

detail beneath it. We will try to influence the detail, and we believe the North Sea grid project is a strong candidate for the funding. The second element is that the dynamics of the debate have been fundamentally changed by the German Government's decision to withdraw from the nuclear industry. I do not think that the debate has caught up with the opportunity for renewables that that decision brings. There is a huge opportunity for Scotland to use a North Sea grid to deploy power into northern continental Europe. It is early days for the project, but I regard it as a significant part of what the Scottish Government argues should emerge from the connecting Europe funding stream.

**The Convener:** That is an exciting prospect for Scotland. We had a similar discussion a few weeks ago when we had a visit from the Polish ambassador. Poland has issues with energy security and sustainability in that the gas tap sometimes gets switched off, so it is keen to consider whether it could look to Scotland to meet some of its energy needs.

The final area that the committee wants to discuss is Europe 2020. The Scottish Government has a lot of input to that. Will you give us a quick analysis of your input to the UK reform programme and tell us how you propose to capitalise on the funding opportunities that come with Europe 2020?

**John Swinney:** I am happy to do that, convener. The first point to make is that the Government's economic strategy and the heart of the Europe 2020 programme are closely aligned. That is a powerful advantage for us. In 2007, the Administration made a virtue of setting out a clear line of approach on the economy. In the debate that we had in Parliament about three weeks ago on the revised version of the strategy, I made it plain that the Government believes that it is important to build on the strategy—not to design a new one just for the sake of there having been an election, but to make a virtue of the fact that we are continuing the policy framework that we started in 2007. One consequence is that we are closely aligned with the substance of the Europe 2020 programme.

The European Commission responded to the UK national reform programme in June and the emphasis was on research, innovation and infrastructure investment. Going back to the spending review announcement the week before last, I remind the committee that one of my objectives in the spending review was to ensure that the Government's economic strategy and, by extension, themes such as research, innovation and infrastructure investment would be reinforced by the Government's decisions on its spending priorities. There is a strong alignment.

There is continuing dialogue between the European Commission and the UK Government on the contents of the national reform programme, and we are close to that. We certainly believe that a great deal of the clearly articulated direction that we are taking in the development of the Scottish Government's economic strategy is compatible with the contents of Europe 2020.

**The Convener:** That brings us to the end of our questions, right on time. We look forward to seeing you again, cabinet secretary, and thank you for your comprehensive input.

## "Brussels Bulletin"

14:55

**The Convener:** Agenda item 3 is the "Brussels Bulletin", which I know members will have sat up late last night reading from to cover to cover. Do members have any comments on it?

**Helen Eadie:** Many of the issues were covered in the committee papers on financial issues. There is an element of duplication, but it continues the high profile of the financial aspects. It was helpful to be updated on the energy issues that are being considered in Brussels. The bulletin is helpful, because it gives a snapshot of what is happening, and if we want to dig a little deeper, we can do that.

**Bill Kidd:** I would like a wee bit of an update from behind the scenes, rather than from the television, about what is happening with the euro zone. Has the situation moved on since the bulletin was written?

**Ian Duncan (Clerk):** Yes, it has moved on a little. As you know, the big issue is Greece and the next payment from the fund to Greece. That should have been decided at the next meeting of finance ministers, on 13 October, but that meeting has been cancelled. Greece had stated that it needed its next tranche of money in mid to early October, although it now says that it does not need the money at that point and that it can survive into November, which is when the discussion will now take place.

Two other issues are emerging in Brussels. The first is that there is a recognition that member states and the Commission cannot move fast enough as they are just not quick at taking decisions. Because of the ratification process for decisions, even when a decision is taken, it does not happen straight away. The assumption in the media is that a decision has been taken and will be implemented, but it must be ratified and then implemented. In that grey period, much uncertainty is created. At that point, the markets have a significant ability to influence things.

The second and perhaps more interesting issue is that, as members might have seen today, one of the big banks in Europe has had significant troubles. The bank Dexia, in which Belgium and France are the major shareholders, has experienced severe difficulties. One reason why that is significant is that it is not that long since the EU bank stability test was applied to that bank, and it passed with flying colours. The concern is that, if a bank can pass the stability test with flying colours, how can it be in such a crisis six weeks later? The situation is causing an erosion of confidence among the markets in the EU's

assessment procedures and processes. There might be a suggestion that there has been some sleight of hand in the processes through which banks have been securing passage—they apparently look fine, but they are not.

Those two aspects are bubbling away in Brussels. The more they bubble, the more unstable the situation becomes. That is where things stand.

**Bill Kidd:** Belgium is not just where Brussels is; it is a member state that has no Government and that has a stake in the bank. That puts things on a bit of a shoogly peg, does it not?

15:00

**Ian Duncan:** Yes—you are absolutely right. Belgium is expected to form a Government shortly, although that has been expected for some time. You are absolutely right that the issue that affects the bank to which I referred is that a caretaker Government, which is more or less what Belgium has, cannot take the necessary decisions that an elected Government can take. The caretaker Government is bound by strict limits, so if the bank were to have serious trouble, the Government's ability to move swiftly might well be curtailed by dint of the fact that it is a caretaker Government rather than an elected Government.

Allied to that is the point that other banks in Belgium that have passed the stability test and have appeared to be fine are now being queried. That issue might yet prove difficult for Belgium. It has been declared that there is no risk to depositors—I am always fearful when people say that there are no risks, because that is usually the sign that there are risks—and that everything should be fine. The French and Belgian Governments have said that they will back up everything in every possible way, yet uncertainty remains.

**Bill Kidd:** Thank you—that is interesting.

**Annabelle Ewing:** I—and others, including Ian Duncan—have worked in Brussels. Many Belgians—at least some to whom I have spoken—might prefer to have no Government. The concept is interesting. Under the mechanisms that are in place, Belgium might be able to move more quickly than we think that it can, should any difficulty arise. In part, the market is seeing who it can try to pick on and expose next. The question then is the extent to which the deep pockets of other member states will come to the fore. A cyclical movement is involved and we do not know where it will end up.

The article on the common agricultural policy in the “Brussels Bulletin” comments on the joint position of the UK and Polish Governments. A

relevant question for the future is whether, when the UK's position and the Scottish Government's position diverge on a fairly major issue for Scotland, that divergence could be reflected. If someone who read the article was not really acquainted with the issue and with the Scottish farming sector's interests, they would think that what was described represented what we want, but it is not what farmers in Scotland want or what the Scottish Government's position is. Is there a way to refer to that in your reports about vital national interests?

**Ian Duncan:** You are absolutely right—probably for the first time, a stark contrast exists between the declared UK position and the positions of the other constituent members of the United Kingdom. Those positions diverge. That can be reflected in the document and perhaps you are right that it should be.

More broadly, the difficulty for Scotland is that the UK Government's view is being articulated and heard inside the institutions in Brussels. The test will be for the responsible cabinet secretary to ensure that, when such comments are made at this early stage, it is recognised that they reflect a UK position that has not yet reconciled itself with the position held by the other constituent members of the United Kingdom. That is a difficult test.

As for your first point about banks, one interesting aspect of the Belgian situation is that Belgium has had bank troubles before. One of its banks was bailed out not by the federal Government but by the regional Government of Flanders, which was an unusual step. That is an interesting contrast with the situation in Scotland, for example.

**Aileen McLeod:** I draw the committee's attention to the fact that the cohesion policy proposals will be published tomorrow, as the “Brussels Bulletin” says. It would help the committee to have a briefing that sets out the implications of those proposals for Scotland, what the key areas are likely to be and what the Scottish Government's position is. Perhaps a Scottish cover note might help us.

**Ian Duncan:** That is absolutely right. I am looking at Iain McIver, who I suspect will be one of the chief drafters of such a note. We can bring that to our first meeting after the recess, which will be on 25 October.

**Jamie McGrigor:** I do not know whether you can answer this but with regard to the CAP legislative proposals the “Brussels Bulletin” refers to

“a voluntary additional payment (up to 5% of the national ceiling) for farmers in disadvantaged areas”.

Does that mean that the 80 per cent of Scotland that is officially classed as disadvantaged will get an additional 5 per cent payment?

**Ian Duncan:** I stress that the bulletin refers to a leaked draft but I thought that it would be useful for members to see it instead of waiting for the actual proposals to be published. Were those features to be reflected in the published document, the answer would be yes—the areas of Scotland deemed to be disadvantaged would qualify for the additional payment.

**Hanzala Malik:** Scotland's position is slightly different from that of the rest of its UK partners. For example, compared with others, we tend to lead in the banking industry and must ensure that we are well protected in that respect. I am interested to see how developments in Europe will affect us. Given that the industry is crucial to employment in Scotland and that any knock-on effects will be damaging to us, we will need to keep a very close eye on the matter. After all, we will need to know sooner rather than later about anything that might endanger our position to ensure that we can take appropriate steps to prevent our falling victim to problems in other areas.

**Ian Duncan:** You are spot on about the need to flag up such issues. Indeed, the cabinet secretary mentioned the transaction tax, which is a major topic just now. London is often seen as the centre of finance but, of course, as you rightly point out, Edinburgh and other parts of Scotland are also dependent on the industry.

I should also point out that the transaction tax, which is important to Scotland, will be heavily debated over the next few months and I recommend that this committee and some of the subject committees keep an eye on developments. It is not going to go away. Indeed, if it were to be adopted even in amended form that would have huge implications for Edinburgh, in particular, and other parts of Scotland.

**The Convener:** As members have no more questions, I thank Ian Duncan for putting together his very helpful "Brussels Bulletin". Do members agree to pass it on to other committees for their consideration?

**Members indicated agreement.**

## Committee of the Regions

15:07

**The Convener:** Item 4 is consideration of the Scottish Parliament's membership of the Committee of the Regions. As members will recall, we recently received a letter from the Presiding Officer, seeking our views both on current arrangements and on an alternative proposition for membership before a final decision is taken on the matter. We previously agreed to respond to the Presiding Officer in a bit more detail and to seek views from current and previous members of the Committee of the Regions. Members' papers contain all the feedback that we received from everyone whom we contacted.

I seek the committee's thoughts and feelings to allow the clerks to compile for the Presiding Officer a comprehensive and detailed response on our position.

**Helen Eadie:** I am keen to maintain the status quo, with Scotland having four full and four alternate members, and for us to retain the previous arrangements under which Irene Oldfather and Stuart McMillan were the Parliament's appointed representatives.

Wales, Northern Ireland and Scotland share Committee of the Regions membership between their Parliaments and local authorities; in England, membership is allocated wholly to councillors, which I do not think is the right approach. Belgium and a number of other European partners—including, I believe, Italy, Spain and Germany—share the work between local authority and parliamentary representatives.

The work of the Committee of the Regions fits in with what the Scottish Parliament has been advocating, which is that we should get early intelligence about legislation coming over the horizon from Brussels. That can be done in a number of ways. It can be done formally, at committees, but it can also be done through networking. If that happens correctly, we have a better chance of stalling something that might have an adverse impact on our people than we would if it were nurtured and the gestation period were longer. The opportunity to be involved at that level is important. Although no votes are taken in the Parliament in relation to those matters—our involvement does not include decision-making powers—it is possible that we underestimate our influence. Thanks to each and every one of us in this Parliament, no matter which party we represent, Scotland has influence. We help to make a difference by being individual ambassadors in our own ways when we are out

and about in society and we are very good at promoting our Parliament and the Scottish people.

The most important aspect is to ensure that good legislation comes from Europe. Much of the European legislation has been good. Europe is the origin of all the environmental legislation that Scotland enjoys and which has benefited us. Similarly, mobile phone charges have been regulated by Europe—that regulation needs to continue to be improved.

England might do things one way, but Scotland has earned the right to do things differently, and we should continue to send people to the Committee of the Regions. Whenever the Scottish National Party Government does something right, I will always give it credit. It is absolutely right for the minister to fight to get a greater ministerial voice at the European level. However, parliamentary back benchers need to have a strong voice in Europe as well, and we can do that quite powerfully by networking.

I hope that colleagues agree that we should continue the status quo, whereby we continue to send representatives from the Parliament and Scottish local authorities.

**The Convener:** Thank you for that heartfelt contribution, Mrs Eadie.

**Annabelle Ewing:** I can see both sides of the argument, and I acknowledge that a lot of the responses have suggested that we move to a situation in which we pool representatives from the local authorities, to the exclusion of any representatives from the Scottish Parliament. I can see a logic in that but, on balance, at a time when, because we do not yet sit at the top table in our own right, we need all the voices that we can get speaking for Scotland in any world forum, I would argue that we should retain the possibility of having parliamentary representation as well, even if there were six local authority members and two MSPs.

Some of the responses erred on the side of having only council representatives partly because of practical concerns about MSPs not being able to attend. It would be important to ascertain, as far as is possible, whether the MSPs concerned would be able to attend the meetings. If they were not, we would be back to a situation in which we were not operating at full strength.

**Aileen McLeod:** I agree with Annabelle Ewing. If this committee decides to go down the route of continuing to send our MSPs to the Committee of the Regions, we need to have a look at the issues around timetabling and clashes between the work of the Parliament and the necessity for members to attend the core plenary sessions of the Committee of the Regions and the meetings of the various commissions.

15:15

Much more effective mechanisms need to be put in place to enable members to report back to this committee. I am in a difficult position. I was out in Brussels working in the European Parliament for five years and I still think that our focus must be on the institutions that have legislative power, such as the European Parliament, the Commission and the Council of Ministers. However, I accept that the Committee of the Regions offers another avenue for networking. In the past, our representation from the Convention of Scottish Local Authorities and this committee has been slightly unco-ordinated in that regard. We need stronger mechanisms for reporting back.

**Jamie McGrigor:** From what I have read and heard about the Committee of the Regions, I think that its value should be reviewed altogether, to ascertain whether it gives value for money. If it is shown to be valuable, MSPs should be on it.

**Hanzala Malik:** In our first meeting, I suggested that we need to be clearer and more focused about the direction that the committee will take in its representations in Europe, and to consider whether we will engage with regional authorities, which have traditionally worked on overseas issues, or take charge as a Parliament and deal with overseas issues ourselves.

We are entering an era in which it is imperative that we have strong representation in Europe. Particularly in the context of the entry of new countries into the EU, there is a huge clamour for funds from Europe. We do not want to lose out in the process, and unless we proactively pursue our interest we will be left behind. I agree that representation from the Scottish Parliament is critical. More important is Aileen McLeod's valid point about how we engage, report back and get support to continue that work, so that we can benefit from our engagement. Representation from this committee is pretty important.

**Bill Kidd:** We listened intently to what the cabinet secretary said about how Scotland can make an impact through the Scottish Government and its connections—however they are trailed. Irrespective of the way in which the Scottish Government exists as an Administration within the EU, if the Scottish Parliament does not take every opportunity that it has we are kidding ourselves on. We have to be serious about the matter. We must ensure that delegates from the Scottish Parliament can actually attend. We need to think about how that is going to work.

**The Convener:** That might be a job for party whips.

**Helen Eadie:** I cannot remember whether it was Stuart McMillan—



**The Convener:** Stewart Maxwell.

**Helen Eadie:** Either Stewart Maxwell or Irene Oldfather made the interesting point in their response that they had come to an arrangement—I do not know whether it was formal or informal, but that struck me as a good way forward. In the first and second sessions of the Parliament no pairing was allowed, and in the third session there were unofficial pairing arrangements. Pairing needs to be allowed when members of different political persuasions are away. Members are right to say that we cannot just send names; we have to ensure that individuals are empowered to attend.

**The Convener:** You are absolutely right; we need representation out there. I take the point about numbers and splits; I do not know whether we want to go for 6:2 or 4:4 or leave the decision on that to other people. There is a clear view from this committee that the Parliament needs and wants representation. However, with such representation must come responsibility. We should seek assurances from the Presiding Officer on attendance, so that priority would be given to enabling representatives from the Scottish Parliament to attend. There would need to be some discussion with political groupings about that.

The other issue is that of reporting back. From the start the committee's ethos has been to take a team Scotland approach—how can we push Scotland's interests forward? Reporting back must take that approach. There are issues on which we will not agree with the Government and issues on which we will agree with it and on which we can work alongside it.

We will be working on issues that arise as part of the Parliament's Europe strategy. The representatives on the Committee of the Regions play a key part in informing this committee. We have the work that Ian Duncan does in the "Brussels Bulletin", but we also have the information that we find out informally at networks, which can be valuable and can get us further forward much earlier than would have been the case otherwise.

We need to be clear to the Presiding Officer that this committee would like a formal—rather than an informal—mechanism to be put in place to allow for appropriate reporting back.

**Hanzala Malik:** There is still room for discussion on the make-up of the representation. We should not rush into making a decision today about how we break up the numbers.

We should look more closely at how focused we can be, what responsibility is being taken and by whom, and how many people will ultimately represent the interests of Scotland in Brussels, whether or not we have discussions with COSLA.

We can discuss that first and try to focus on what we are trying to achieve and who is going to take ultimate responsibility. If there is to be reporting back to the committee, it may be that we will take the lead. However, we may want others to partner us and assist us in that process.

**The Convener:** You are right. The only problem is that we have missed the deadline for a response to the Presiding Officer. I suggest that we do not say anything about numbers but make the point that every committee member feels strongly that the Parliament should maintain its representation and leave it at that.

**Helen Eadie:** If that is the view of the committee that is fine, although I put on record that I am in favour of the status quo.

**Annabelle Ewing:** I think that the 6:2 suggestion is based on practicality: it might be more practical to release two MSPs than to release four. The convener's suggestion—which is to say that the committee supports the position that MSPs represent us on the Committee of the Regions—might be the wisest course.

**Helen Eadie:** The only problem is that that might be perceived as a diminution of involvement. The message that we send to our colleagues in Europe and to people in Scotland would seem to be that we do not feel that the issue is important enough to release two parliamentarians at once. There is clearly a divide in the committee. Perhaps the thing to do is to let the Scottish Parliamentary Corporate Body arrive at a view.

**The Convener:** There is a clear issue that unites us, too, which is that every one of us believes that Parliament should still have representation on the Committee of the Regions, although we have arrived at that conclusion in different ways.

**Helen Eadie:** For me, we should emphasise the importance that we attribute to our representation by sending out the message that we should keep the status quo. However, I hear what you are saying, convener.

**The Convener:** Ian Duncan has just suggested that if we append the *Official Report* to the letter, the Presiding Officer would see members' different opinions on the issue.

**Helen Eadie:** Fine.

**Annabelle Ewing:** Yes.

**Helen Eadie:** It seems to come down to practicalities. However, if other members of Parliament agree with us about the importance of the issue they will sort out the practicalities for us. It is not our job to sort that out; it is the job of the business managers.

**The Convener:** We can attach the *Official Report* to our letter and draw the Presiding Officer's attention to it.

**Annabelle Ewing:** Reading between the lines, the 6:2 proposal seems to be informed by practicality, in respect of finding a solution that is workable and at least retains the possibility of sending some members of the Scottish Parliament to the Committee of the Regions. However, given that some of those who responded have indicated that they do not feel that any MSP should be sent, the proposal might be seen as a sort of compromise between the two quite strong positions on either side of the divide. I offer that up having read briefly the opinions that we have received.

**The Convener:** We will write to the Presiding Officer saying that we believe that we should have membership of the Committee of the Regions. If we draw her attention to the *Official Report* she can take cognisance of everyone's opinion. That is not to forget Hanzala Malik's point—Jamie McGrigor made it too—about looking at the value of the Committee of the Regions. If we get a reporting-back mechanism, we can perhaps consider the issue of what needs to be reported back, how it should be reported back and so on. In that way, we will not miss out that piece of work.

Are members happy with that?

**Members** *indicated agreement.*

**The Convener:** We agreed previously that we would take item 5 in private. I thank the public for their attendance. I also thank Leonie Hertel, who is a German intern in the European Parliament information office.

15:26

*Meeting continued in private until 15:56.*

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e-format first available  
ISBN 978-0-85758-833-3

Revised e-format available  
ISBN 978-0-85758-849-4