The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

# EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Tuesday 19 June 2012

Session 4

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## EUROPEAN AND EXTERNAL RELATIONS COMMITTEE
**10th Meeting 2012, Session 4**

**CONVENER**

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

**DEPUTY CONVENER**

*Hanzala Malik (Glasgow) (Lab)

**COMMITTEE MEMBERS**

Clare Adamson (Central Scotland) (SNP)
*Helen Eadie (Cowdenbeath) (Lab)
*Bill Kidd (Glasgow Anniesland) (SNP)
Jamie McGrigor (Highlands and Islands) (Con)
*Aileen McLeod (South Scotland) (SNP)

*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Ian Duncan (Scottish Parliament European Officer)

**CLERK TO THE COMMITTEE**

Ian Duncan

**LOCATION**

Committee Room 1

# Scottish Parliament

## European and External Relations Committee

*Tuesday 19 June 2012*

[The Convener *opened the meeting at 11:03*]

## Decisions on Taking Business in Private

**The Convener (Christina McKelvie):** Good morning. I welcome you all to the 10th meeting in 2012 of the European and External Relations Committee. I request that all mobile phones and electronic devices be switched off, as they interfere with the sound system.

I have received apologies from Clare Adamson, who is currently at the Education and Culture Committee, and Jamie McGrigor, who is unwell. We send Jamie our best wishes.

Under item 1, does the committee agree to take in private items 3 and 4, which are draft reports on horizon 2020 and European Union structural funds?

**Members** *indicated agreement.*

**The Convener:** I am just being reminded that I have another wee bit to do before we move on to item 2. We must decide whether to take the draft reports in private at our next meeting on 26 June, in order to allow us to run through them properly and ensure that they are signed off. Does the committee agree to do so?

**Members** *indicated agreement.*

## "Brussels Bulletin"

11:04

**The Convener:** Item 2 is our "Brussels Bulletin", which is, very topically, coming from Brussels.

I welcome to the committee Dr Ian Duncan, who is beaming in from Brussels. This feels a bit like Eurovision; I hope that we will not give you nul points. Can you hear us okay?

**Ian Duncan (Scottish Parliament European Officer):** Yes, I can hear you fine.

**The Convener:** Okay. You can just run through the "Brussels Bulletin", and members can ask some questions when you are finished. Over to you.

**Ian Duncan:** Thank you. I will go through it very quickly; I am sure that anyone who has read the papers in the past few days is probably as abreast of developments here in Brussels as I am.

The talk of the town just now is the attempt by the Greek Government to form a Government. It is now becoming very clear that what happens in Greece will be almost a sideline issue. There is no doubt that a Government will be formed in Greece; the interesting headline that I read today was, "Parties that led Greece to ruin to form 'salvation' government", which I thought is an interesting way of looking at it.

The big issue will be what is happening in Spain. The size of the Spanish economy is such that any developments there will be very important for the rest of the euro zone. We are currently witnessing two things: Spain is beginning to experience serious pressures in accessing its bond market, which is likely to cause a precipitation in events, and at the same time the developments in the Spanish banks are proving to be problematic for Spain's attempts to grapple with its issues. Those things are likely to come to a head sooner rather than later.

There appear to be three scenarios, moving forward from that point. The first one is the muddle, which involves carrying on as things are and hoping that they will soon get better—the kicking-the-can-down-the-street approach. The second scenario involves a much broader troika bail-out of Spain, probably Greece again and perhaps Cyprus too, in the hope that that will create a firewall. The final scenario, which Germany is currently resisting, is more or less the creation of a full fiscal and political union primarily backed by German finance. Any one of those scenarios could spell salvation or disaster, at the moment.

There are other important things to flag up. There is significant progress in the common fisheries policy, about which members may wish to ask. In addition, President Hollande has been pushing very hard for a growth summit to complement the austerity measures; he is very keen that significant funding be put into growth. It is not yet clear what that funding would look like in practice, but funds are likely to come from the underspend in structural funds, which is the likely source of much of the revenue for that area.

Finally, the energy efficiency directive, which has had such a troubled journey thus far, is now more or less a done deal. It has not satisfied everybody—certainly the rapporteur in the European Parliament is not content with it—but there is progress. Commissioner Oettinger has stated that he would like to revisit the issue sooner rather than later.

I am happy to take questions on any of those issues and other issues.

**The Convener:** Thank you very much. One thing that jumped out at me was the position on the financial transaction tax and the vote that took place on that. Can you elaborate a wee bit on your report on how that sits now? I know that Parliament has only a consultative role because the issue concerns tax powers, but how do you see the matter moving forward?

**Ian Duncan:** As you rightly point out, the matter will be resolved in council by discussion among member states. Things have moved on slightly since the "Brussels Bulletin" was produced; there is now a move afoot to use what is termed enhanced co-operation, which would allow a smaller number than the full 27 member states to take forward that initiative and apply it only within that group. The idea is that if that is successful, it could be built on and could move beyond that group.

Germany is very keen to push that forward, and the political parties in Germany are very keen that progress be made. The question is whether that is how things will move forward. Two countries are vehemently opposed to it, as one might expect. One is the United Kingdom, which would contribute most of the tax. It is estimated that, on the basis of revenues over the past two years, the UK would have contributed more than 75 per cent of the revenues that would be raised by a financial transaction tax, so one can see immediately why the UK is not a big supporter of it.

Sweden is also vehemently opposed to the idea. Sweden created a financial transaction tax in the past. The minute that it was created, almost all financial transactions left Sweden. Sweden has experienced it and Britain does not want to pay for it, and Sweden is unlikely to accept any form of financial transaction tax that applies to all 27 member states.

The real question will be whether Germany and some of its colleagues—particularly Austria, Belgium and some of the smaller countries—are willing to push forward with enhanced co-operation and to create a smaller-unit transaction tax. I do not think that Britain would like that any more than any of the other 27 member states, but that could be the next step.

**The Convener:** I am hearing that a financial transaction tax will work only if it applies worldwide and that having smaller units would create more problems than benefits.

**Ian Duncan:** Yes. At the moment, Spain is more or less saying out loud that, when it created its financial transaction tax unilaterally, deals immediately left its bourse. Sweden is saying to the members of the European Union that, if they do it on a smaller scale, the deals will leave their bourses also. Given that 75 per cent of the financial transactions take place in the UK—in London, Edinburgh and other cities—a financial transaction tax would raise very little finance. That gives rise to the question whether it is worth going forward with more limited revenue drawn from far fewer countries. There seems to be a commitment from Merkel to push forward on it and, given the importance of Germany in various financial circles at the moment, it is likely to continue to move forward.

**The Convener:** The other thing that I have picked up in the "Brussels Bulletin" is the proposal for a growth summit and François Hollande's position on not being able to have austerity unless there is growth paralleling that. It was interesting to hear Alistair Darling, a previous Chancellor of the Exchequer, say this morning that we must grow our way out of recession. Along with a number of people in Scotland, I have been saying that for a long time. What is the perception of that in Brussels? Is the idea attractive and could it be taken forward?

**Ian Duncan:** Yes, there is a great appetite for a growth summit for two reasons: first, because of its intrinsic merit and, secondly, as a distraction from events that are taking place elsewhere. President Hollande has made great play of the fact that we cannot simply move forward with an austerity agenda as the Germans are advocating, but that we must grow our way out of the problems. The real test will be in finding the finance to do that and in finding the projects that can be moved forward in the short to medium term that will enable growth to happen. That is the challenge. At the moment, the Commission is keen to identify projects that might be good to go. Rather than wait for bids to come in and do it in reverse, the Commission is trying to move forward. The money is coming primarily from underspends in the structural funds budget—there is quite a significant underspend, at present—but the Commission is considering other ways of achieving pinpoint focusing of resources.

The work is likely to go ahead because people are no longer confident that austerity alone will work. We are now witnessing almost the endgame of austerity alone. The test will be whether the growth agenda can be pushed forward quickly enough for growth to be realised. There are concerns that, if a dual approach of austerity and growth had been taken in the beginning, the situation would be very different. However, that does not help us in the situation that we are in just now. There is a lot of appetite to grow the economies. The predictions are so dire for almost all members of the euro zone and other EU members that any growth would be welcome.

**The Convener:** You mention that the Commission is looking for projects that are "good to go". Scotland has put forward its programme of shovel-ready projects that are good to go in response to the UK Government's austerity measures, which is showing how we think we could grow, rather than cut, our way out of the recession. May I be so bold as to suggest that the Commission look at the Scottish Government's programme of shovel-ready projects? Maybe you could gauge opinion on that for the committee while you are in Brussels.

11:15

**Ian Duncan:** Absolutely. Scotland is in a very good position to be able to contribute to the on-going preparation. I am meeting representatives from the Scottish Government this afternoon; I have no doubt that it is thinking along similar lines. How can Scotland's good work in that area be best recognised and utilised out here in Brussels? I suspect that there will be an appetite for projects, especially those that cross borders. That is the other thing that will be enhanced because it will have the secondary benefit of allowing greater cohesion between member states. I am happy to take that forward and will be doing so.

**Bill Kidd (Glasgow Anniesland) (SNP):** The "Brussels Bulletin" says that

"The most heated debate centered round the use of Eurobonds."

Eurobonds are a mutualised debt instrument that mean that the stronger countries, mainly Germany, and the countries that have the strongest economies support those that have the weakest economies. Is that a step towards—or away from—full fiscal union? Full fiscal union would require the strongest countries to do that through their funding of the overall European project. Will eurobonds push the EU towards full fiscal union or hold it back from that position?

You have also mentioned the greater deployment of project bonds. Although the European Parliament talked about and agreed on those, is there a timescale for project bonds to be trialled?

**Ian Duncan:** It is unfortunate that the two have similar names. As Bill Kidd rightly points out, eurobonds would almost certainly be a step towards broader fiscal integration. Mutualisation of debt would mean that the stronger member states in the euro zone—primarily Germany, but also Finland, the Netherlands and so on—would more or less shoulder the debt burden of the member states to the south, Ireland, and so on. Germany is resistant to that because it would appear to be forgiving those who have been—the Germans would argue—profligate in the past and to be putting the profligacy of others on the shoulders of the German workers.

There is also a sense that moving down that route might encourage the member states to the south to—it sounds awful to say it—relax and not make full efforts to address their problems. The musculature of the German economy would allow those other economies to muddle through. Germany is vehemently opposed to that. Angela Merkel has commented almost every day for the past week that that is not going to happen. President Hollande would like it to happen. That was the heated point of debate in the recent growth summit, but it did not make progress.

Project bonds are, of course, different. They are more or less a form of co-financing to allow for money from the Commission to be matched by money from member states to push forward on macro projects—for example, the bigger infrastructure or building projects. The timescale for those is for them to happen as soon as they can be got off the ground. As I was saying to the convener a moment ago, the Commission is very keen to make project bonds a priority area. Rather than the timescales being measured in years or months, the projects are being moved forward as swiftly as they can be—the idea being that the money is there and can be moved if other member states can find match funding. Therein is the test: if the member state did not have money to match, it would be harder to draw down the project bonds, but if it can find the funds, the projects can move forward.

There are lots of examples of areas in which the Commission has already identified actions. It has basically said that the project areas would be transport, energy and communications infrastructures, which are where it thinks maximum benefit to the European economy can be achieved. Between the summer and the end of the year, I expect to see movement in that regard.

The bonds also fit within this financial year: the money is there now to make projects happen. It is a question of the member states having projects that are ready to go and get the benefit of those funds. They are also likely to encourage transnational contributions.

**Bill Kidd:** That was extremely interesting. I presume that any country will be able to access the project bonds. One reason for them is that they could improve the economic performance of countries that are having difficulties, but will they be available to all countries—even if they do not have problems—in the EU?

**Ian Duncan:** The simple answer is yes. The situation is complicated because the countries that most need project bonds have least money to contribute to co-financing and we could argue that those that have less need have the money to contribute. The project bonds would have to be structured so that the countries with the greatest need are given the greatest access.

However, no country in the EU is free of problems at present. All have problems that are affecting their growth and their economic position, so they all need some support. The EU is at its strongest when it ensures that no one is left behind and no one is excluded from access to such things.

I am tempted to say that there will be money for all, but that sounds very grand. I suspect that funds will be available for projects that are good to go, with a particular target being to help countries that have greatest need. This will be a real test and it will not be as easy as it sounds. The test for the Commission is to come up with a plan to make the bonds function in the short term. It is talking about piloting them in order to get them going as quickly as possible, which might speed things up.

**Aileen McLeod (South Scotland) (SNP):** The Scottish Government has been considering whether we could use project bonds in relation to the digital sector.

The proposed creation of a European banking union would see regulation of the euro zone banking sector assigned to Europe level, which would clearly have implications for Scotland because it is bound to have serious implications for countries, including the UK, outside the euro zone. How does that fit with the attempt to create a single market in financial services? Will not it affect both Edinburgh and London, given that they are the main centres for the sector?

**Ian Duncan:** Yes. You are spot on. The banking lobbying groups are powerful—as you might expect—and they have done a lot of lobbying to say that what has been proposed is not required, that it is not the way forward and that it will not work. They have also lobbied hard for the start date to be pushed back as far as possible. Although there is agreement to move forward on the measure, it will not be implemented before 2018 at the earliest.

The drive now will be to ensure that the banks are equipped to solve their own problems without recourse to taxpayers. I think that the UK recognises the problem and is broadly supportive of the measure. The intervention to save the British banks was a huge drain on taxpayer resources and the UK Government is trying to find ways to ensure that such intervention is never required again. The UK and all member states have broadly agreed to move forward. The problem is that they do not want to move forward in the short term, because the banks are on such a shaky peg at present that to push them in that direction now might exacerbate the continuing banking crisis across the EU.

There will be challenges for banks in Edinburgh and London, because the proposal requires them to have more resources in hypothecated funds that can be accessed and drawn down, should there be a need. Also, it is much more interventionist, with individuals being appointed to examine banks all the time to check that they are being transparent. As you know, one of the big accusations is that banks have been very opaque in how they have presented the broader details of their relative health. The aim is to move as far as possible down the road of transparency and forewarning. At the beginning of the crisis, there was a slow drip, drip of attempts by others to address it. The aim now is to make the funds available so that they can be accessed and moved immediately to where they are needed.

There is much to be resolved. Although we talk about the proposal being broadly accepted by the EU Governments, there are still issues that will be tweaked and tugged at because they are not to everyone’s liking. Equally, the banking lobby remains extraordinarily strong: you should not underestimate its ability to bring about compromise through various pressures.

**Aileen McLeod:** There is, of course, the fact that a banking union is linked with the wider question of economic, fiscal and political union. Bill Kidd mentioned that earlier. On eurobonds, you have said that greater European Commission surveillance and control over member states’ budgets and greater EU fiscal transfers will have a knock-on effect.

**Ian Duncan:** Absolutely—it is almost like looking at building blocks. The proposals might at first appear to be isolated from each other, but they would quickly form a wall that would lead to ever-greater fiscal, monetary and political union. There is no doubt about that. I imagine that even the UK would have to concede that, in a global economy, that is probably already the case in terms of how the markets recognise it, but what does not exist is a broad approach across the EU to address such problems and to ensure that the banks are held to account for their decisions rather than given carte blanche to escape at the expense of the taxpayer.

If we look from a distance at all the different things that are happening now, it is quite clear that there are movements in every direction towards greater fiscal and monetary integration. As a non-member of the euro zone, the UK would object to that, but broadly its banks are already in Europe and the globe within a network in which that is already happening. I do not think that the UK can stand back from that, and I do not think that it would choose to do so. The big test will be exactly what part it will play and how it will articulate its particular views and the representative views of Edinburgh and London.

**Aileen McLeod:** Perhaps the committee could look at that matter.

**The Convener:** Yes. The committee can look at that.

**Hanzala Malik (Glasgow) (Lab):** We have recently witnessed an interesting new development in respect of the euro zone. People in the major developed economies are now openly asking for the euro zone people to get their act together to deal with the shortcomings that we currently face. They have realised that the issue is not only a European issue, but is a global issue.

I want to return to investment, which the convener mentioned. We should concentrate on parts of Europe that are ready for investment to try to turn our economy around. Projects that are ready to go could do with resource injection to make them happen, if others are not able or willing to proceed with them right now. We must show the international community that Europeans are serious about our economy and that we are not going to hold back just because parts of the European Union are flagging a little. That means that projects that are ready to go should be considered more seriously, because there will be very big implications internationally if the European Union does not demonstrate its willingness to do so. As the convener has indicated, we have many projects that are ready to go; it is simply a matter of getting match funding. Perhaps we should look at how we can speed up that process so that we can benefit from it ourselves and contribute to the greater European theatre, and so that the international markets are not jittery about how poorly we are performing.

**Ian Duncan:** You are absolutely right. I want to draw out briefly a number of points in your comments.

The BRICS countries—Brazil, Russia, India, China and South Africa—have already indicated to the International Monetary Fund that they wish to contribute more money to the broader pot that is available to help to address the various problems, but they have also said that the International Monetary Fund has always been dominated by Europe and America and that they need to have greater influence and a greater role. As part of their quid pro quo, they have sought an enhanced position in and greater influence over the IMF. They have also said that Europe has to get its house in order. President Obama made it clear at the G20 in Mexico: when he was asked whether he would contribute further to the fund, he said honestly that he would not, because it is a European problem that needs to be addressed in Europe.

11:30

A second issue is that the EU needs to demonstrate that it can resolve its problems and can grow. It is important to get that correct. Germany has almost never had it so good. It is continuing to grow and is a vibrant economy, but the peripheral countries round the Mediterranean are anything but. The issue is to find a way of growing so that growth, rather than the problems of debt, can spread.

This morning, I was looking at interesting statistics on the G20 countries, which members might find on the BBC website. Among other things, there was a breakdown on employment, expected growth and debt as a proportion of gross domestic product. Some countries seem to be remarkably healthy. France has a debt to GDP ratio of 149 per cent. However, when we get to the UK at the very bottom, with a ratio of debt to GDP of 429 per cent, we begin to recognise how precarious many economies are and how difficult they will find it to get more money for co-financing. That will be the challenge. There are plenty of things that can be done with money, but the question will be how to find the money and ensure that it is targeted so that it delivers a spectrum of achievements. I mention some of the backdrop to all that in the "Brussels Bulletin".

The situation in Greece is now so bad that people are no longer talking about projects, growth and development; they are talking about electricity bills and support for schools and teachers' salaries. The situation is so desperate that to focus on growth projects would probably not be enough. The situation is so dismal that the Greeks need the money for much more fundamental things, which is why I suspect that, irrespective of the outcome of the negotiations on forming a Greek Government, the Greeks will need more money. They do not have enough. They have money for the next few months and then it drops away. Hanzala Malik is absolutely right that some countries are good to go and must move forward, but other countries are in desperate straits and need support that is more tailored to them. That is a tough ask. There will not be an easy solution to any of the issues.

Set against all that is the further erosion of democracy. The democratic mandate of many countries is being eroded by macro bodies such as the IMF and the EU trying to manage the bigger picture while allowing the democratic small picture to be almost overlooked.

**Hanzala Malik:** Given that response, I suggest that we ask the Scottish Government to take up the issue as a matter of urgency and to explore the possibility of allowing investment to take place. If other European countries are not ready but we are, we have to convince the international marketplace that Europe can still hold it together and be a viable economy. Perhaps we can demonstrate that by tapping into that resource and proving that point. We should not simply sit on our hands until other people are ready to put something together.

**The Convener:** We could point out to the Scottish Government the conversation that we have had and some of the information that Dr Ian Duncan has given us, and ask what action it is taking. I think that Ian said that the Scottish Government has a meeting in Brussels this afternoon to talk about some of the projects, so it is topical to ask what action it is taking.

**Hanzala Malik:** It would be helpful if we could pass our sentiments to the group that is having that conversation today.

**The Convener:** To be constructive, we should write to the Scottish Government and ask how it is tapping into that resource and what action it is taking to take advantage of the notable underspends in structural funds that Ian Duncan mentioned. We should try to access that.

**Helen Eadie (Cowdenbeath) (Lab):** I have a question about the comments in the "Brussels Bulletin" about the European Parliament Committee on the Environment, Public Health and Food Safety report on water metering. I see that a recommendation will go to the European Parliament, which will vote on the dossier on 4 July. It is recommended that there be water metering for all domestic users and for agricultural use, but the dossier is silent on water metering for commerce and industry in general. Can you explain why? What is the likelihood of the proposal being passed by the European Parliament and of water metering becoming binding across all sectors and all users? Who have been the drivers behind the proposal?

**Ian Duncan:** Water metering is an interesting issue. The suggestion is primarily the result of water poverty across large swathes of the EU, particularly towards the south, where climate is the big factor. There is a move to ensure that people are more conscious of their water usage. In certain places, the issue is important because charges are attached to water use. The idea of water metering is not to stop people using water that they need to use; it is a way of helping them to appreciate how much water they use.

Helen Eadie is right that less is being said about commerce, because commerce fits into the slightly different category of using water for a specific purpose. One could argue that, rather than using too much, commerce uses the water that it needs to use. It would probably argue that it uses water efficiently, although I imagine that that is open to debate.

As far as the main drivers are concerned, the dossier is part of the EU's broad strategy of looking at a number of water issues in addition to domestic consumption, such as water-quality issues and the extent to which water is misused by commerce and others. Its purpose is to bring some thinking together ahead of the production of the big strategy for water—the "blueprint for water", as it is being termed—in the EU, which is likely to emerge in November this year. It will be a much more concerted strategy that will look at all aspects of water from source to sea and all points in between, to ensure that the policies—which at the moment are a mosaic—are more finely attuned to the broader economic strategies of the EU and to the more fundamental issues of sustainability and sustainable water usage.

The European Parliament has been one of the drivers, but the position of member states varies. Some of them are extremely efficient and effective on the issue, whereas others are indifferent to it, as members will appreciate. Everyone has different priorities, but the European Parliament and its Environment, Public Health and Food Safety Committee have been dedicated to pushing the issue and to keeping it in the limelight. November will see the publication of a macro strategy for water, which will be interesting. I suspect that the committee may wish to draw that to the attention of the Scottish Parliament's Rural Affairs, Climate Change and Environment Committee.

**The Convener:** That concludes our questions and comments. I thank Ian for joining us from Brussels.

Is the committee content to agree that we pass the “Brussels Bulletin” on to other committees for consideration?

**Members** *indicated agreement.*

11:38

*Meeting continued in private until 12:38.*

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