

ENTERPRISE AND CULTURE COMMITTEE

Tuesday 9 March 2004
(*Afternoon*)

Session 2

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ENTERPRISE AND CULTURE COMMITTEE 8th Meeting 2004, Session 2

CONVENER

*Alasdair Morgan (South of Scotland) (SNP)

DEPUTY CONVENER

*Mike Watson (Glasgow Cathcart) (Lab)

COMMITTEE MEMBERS

*Brian Adam (Aberdeen North) (SNP)
*Mr Richard Baker (North East Scotland) (Lab)
*Chris Ballance (South of Scotland) (Green)
Susan Deacon (Edinburgh East and Musselburgh) (Lab)
*Murdo Fraser (Mid Scotland and Fife) (Con)
*Christine May (Central Fife) (Lab)
*Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

COMMITTEE SUBSTITUTES

Mark Ballard (Lothians) (Green)
Rhona Brankin (Midlothian) (Lab)
Mr David Davidson (North East Scotland) (Con)
Fiona Hyslop (Lothians) (SNP)
George Lyon (Argyll and Bute) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Lewis Macdonald (Deputy Minister for Enterprise and Lifelong Learning)

THE FOLLOWING GAVE EVIDENCE:

John Downie (Federation of Small Businesses)
David Gass (Scottish Enterprise Borders)
Chic McSherry (Forum of Private Business)
Douglas Millar (Scottish Chambers of Commerce)
Stuart Robertson (Highlands and Islands Enterprise)
Jim Speirs (Scottish Chambers of Commerce)
Charlie Watt (Scottish Enterprise)
Alison Wilson (Highlands and Islands Enterprise)

CLERK TO THE COMMITTEE

Judith Evans

ASSISTANT CLERK

Seán Wixted

LOCATION

Committee Room 1

Scottish Parliament

Enterprise and Culture Committee

Tuesday 9 March 2004

(Afternoon)

[THE CONVENER *opened the meeting at 14:01*]

Item in Private

The Convener (Alasdair Morgan): Good afternoon, ladies and gentlemen, and welcome to the eighth meeting in 2004 of the Enterprise and Culture Committee. We have apologies from Susan Deacon.

Under agenda item 1, I invite members to decide whether to take in private agenda item 4, which is an informal discussion on our future work programme. Are members content with that proposal?

Members *indicated agreement.*

Broadband Inquiry

14:02

The Convener: Agenda item 2 is our first evidence session on our inquiry into broadband, which will run in parallel with our inquiry into renewable energy from now until Easter. We have in front of us our first panel of witnesses, which comprises Charlie Watt, who is Scottish Enterprise's senior director of e-business; David Gass, who is the chief executive of Scottish Enterprise Borders; Stuart Robertson, who is Highlands and Islands Enterprise's senior development manager for telecommunications; and Alison Wilson, who is HIE's senior development manager for broadband marketing.

The witnesses have previously submitted evidence so, to move things along at a speed that is appropriate to the topic, we will move straight to questions. Most of the discussions that have taken place on broadband have focused on the assumption that broadband is good for business and will make a significant difference—that is the reason on which our holding the inquiry is based. To play devil's advocate for a while, is there any danger that perhaps the emperor has no clothes? People like the personal computer with the little adapter—or whatever it is—sitting in the corner, and it is nice to have it, but apart from certain specific businesses, is it actually going to do them any good?

Charlie Watt (Scottish Enterprise): I am aware of at least three studies: the broadband stakeholder group produced a UK report; our own Scottish e-business survey surveyed 12,500 businesses throughout Scotland, from the very smallest to the largest of companies; and the broadband industry group did a survey that identified the benefits of broadband. In summary, the benefit is that broadband is a supporting technology that helps businesses with their competitiveness, and we have a lot of evidence to support that.

David Gass (Scottish Enterprise Borders): I will build on that briefly. About a year ago, there was a pilot of satellite broadband technology, the purpose of which was for Scottish Enterprise Dumfries and Galloway, Scottish Enterprise Borders and Scottish Enterprise Forth Valley to trial the technology with a range of businesses in a range of geographies, and to assess how they used it. Even though at that stage the technology was quite new, the feedback was that its benefit was as an enabler, as Charlie Watt described, for downloading information and being able to work online. Companies ranged from Zot Engineering in the Borders to textile computer-aided design companies, which made significant cost savings

and significant productivity gains through using broadband off the back of the pilot.

Stuart Robertson (Highlands and Islands Enterprise): I echo those sentiments. We have encountered a high level of satisfaction in our trials. Businesses do not want to give up broadband once they have had it.

The Convener: If we take that assumption as valid, is it the case that a particular speed or data transfer level is necessary to deliver those benefits? I am conscious that Mr Gass spoke about CAD applications, and it seems to me that they involve a great deal of data. Is ADSL, which seems to be the most common technology at the moment, sufficient to deliver the commercial advantages that Mr Gass says broadband will deliver?

David Gass: I think that access to affordable broadband is the key enabler, regardless of the size of the business. We may see some differences in the pilot that we are running because a number of smaller businesses and micro-businesses may look at the residential package, as opposed to the business package, as their needs are less sophisticated at this stage. The issue of affordable access to broadband continues to be fundamental and the different packages may play a part in that regard.

Charlie Watt: The fact that one size does not fit all, to which Mr Gass alluded, is a key point. A civil engineer might have large files, for example, whereas a typical manufacturing micro-company might have small files. The solution has to be modified to meet particular business needs.

Stuart Robertson: Many of our businesses are micro-businesses and currently require ADSL-type bandwidths. That may change, of course, but I am not certain that it will change within three or five years.

Christine May (Central Fife) (Lab): Like other members of the committee, I was fortunate to attend an informal briefing for MSPs, at which I received a great deal of information. It will be useful for me to reprise for the public record some of the questions that I asked on that occasion. We discussed the availability of fibre optic cable and physical connections. The last 10ft of cable is an issue for many businesses: cable might be present in the street, but might not be extended for the final half mile to the industrial estate. I would like to hear the witnesses' comments in that regard. Given that most locations are connected to mains water or drainage, do our witnesses have any thoughts on the newer techniques for running fibre optic cables along existing water-supply or drainage routes?

Charlie Watt: The availability of infrastructure is just one of the issues. There are several elements:

a robust model, including infrastructure; the availability of the right types of applications; and the appropriate communication of one's message.

Regarding the availability of infrastructure, we have spoken to companies such as Scottish Water that can extend fibre into drainage systems. Scottish Water is examining a pilot programme in that regard. We are also considering trialling a range of other technologies to see where they fit with the right types of solutions, as I said earlier. We need to customise the right type of solution to the right type of business.

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD): This is a rather detailed issue, but I am aware from the briefing that I received from my colleagues in Highlands and Islands Enterprise of the possibility of what I would call a "house-to-house" link-up, which goes from dish to dish. What might be the advantages and, particularly, the weaknesses of that approach to the introduction of broadband?

Stuart Robertson: The disadvantages are that perhaps not every member of the community will want to take broadband and pay for it. There would be a measure of reliance on the good will of people within the community to be involved in the construction of a wireless network. In order to get a line of sight for wireless networks, it might be necessary to use a house where the person does not want broadband. The disadvantages relate to such weaknesses. The use of copper wires that are already in the ground for the British Telecommunications network obviously gets round that problem, because the infrastructure is there for individuals who choose to take broadband. If the approach that Jamie Stone suggests is to be adopted, people in the community need to pull together for the greater good of the community.

Mr Stone: If we forget about copper cable and use the line-of-sight system, is it not a possible weakness that a strong wind or storm could throw out the angle of a transmission receiver very slightly, which could snooker all the branches below that, particularly if it was higher up the pyramid? Are the systems fairly weatherproof?

Stuart Robertson: I believe that the systems are fairly robust; in many ways, they are the same as the equipment that is used for receiving satellite television. I am sure that there are occasionally problems with the equipment, but as it is pretty robust, I would not foresee too many problems.

Murdo Fraser (Mid Scotland and Fife) (Con): I have two questions, the first of which picks up on the convener's first question about the impact on business and business growth. The comparison is sometimes made between broadband and infrastructure such as transport. I do not know whether you have had the opportunity to read all

the written evidence that we have received, but some of it is along the lines that since the state provides roads and railways, it should also provide broadband. How valid is that comparison? Pretty much every business benefits from having a good road network or good transport links. To what extent will every business benefit from broadband? Although many businesses will benefit, the impact will be marginal. Do you have any thoughts on the likely cost? If there were market failure and people were to say that the state should provide the funding to enable every business in Scotland to have broadband, is the cost of that justifiable, compared to the cost of putting an extra lane on a road? How do the benefits compare?

Charlie Watt: The issue comes back to what is appropriate for each business. Therefore, on the face of it, providing 100 per cent ADSL coverage might appear to be the solution, but in fact it is not. It is therefore necessary to consider coverage and availability to all businesses, if that is the aspiration, through a mix of technologies.

A target was set of about 70 per cent for ADSL coverage by March of this year, and coverage is now at about 75 per cent. Based on the fact that we now have detailed information about all the exchanges, the availability of cable and the availability of wireless, we can see a plan to move on from 75 per cent, and we aspire to 100 per cent.

For example, as I said, one of the technologies involved is ADSL. If all the exchanges were enabled in Scotland, we would get up to in excess of 90 per cent coverage with the current demand-side stimulation that we are achieving. We can see how we could close that gap to achieve 100 per cent coverage. Issues to do with the technology are involved in achieving 100 per cent coverage, but that is another matter.

14:15

David Gass: About a year ago, the Borders had zero broadband coverage, bar the individual satellite projects that I referred to. However, with the enabled exchanges that we already have, the exchanges that have hit trigger points and the pilot Scottish Borders rural broadband service, we expect to have 70 to 79 per cent coverage in the areas concerned. If all the other trigger points that BT has set in the area are met, we will end up with about 93 per cent coverage.

The issue is the remaining 7 per cent, which tends to include the more remote and rural communities. Given the commercial viability of such exchanges, it is unlikely that trigger points will be set for those areas. However, discussion on how to address that gap has been continuing with

the Scottish Executive, primarily through Charlie Watt's team and his equivalents in the Highlands and Islands.

Murdo Fraser: That helpful reply leads neatly to my second question, which is also relevant to Highlands and Islands Enterprise. One of the advantages of the internet and teleworking was that it would open up some of our more remote areas and allow people to work from home. Moreover, businesses that did not have to be located near to markets could be located in remote areas such the Highlands and Islands or other rural areas.

However, we are clearly hitting the same old problem. Although the roll-out of broadband is quite far advanced in built-up areas, the further we go from centres of population the more difficult it becomes to access broadband. Surely that negates any potential benefit of homeworking, teleworking and so on to the rural economy. From a public policy point of view, what needs to be done to bridge the gap to ensure that every remote access point can access broadband?

Stuart Robertson: With our Hi-Wide project, we have tried to address broadband issues in the smallest communities by providing them with wireless systems that have satellite back-up. With that help, they can work towards the more mainstream solutions that we have in our larger population centres. Five demonstration sites have been running for some months and we hope to roll the project out more widely. As a result, we feel that we are addressing the matter to some extent.

Although constraints have meant that we have been able to have only 20 users in each of the demo sites, the project has proved extremely popular. Indeed, the people who use the service do not want to give it up. We are therefore considering ways of extending those projects to a point at which we might be able, through some other means, to find a more mainstream solution.

Murdo Fraser: What level of subsidy does your public agency have to provide to each business that accesses the service?

Stuart Robertson: The level is around the £1,000 mark, which is about the same as we offer to businesses for satellite connections through our broadband grants scheme. The idea is that we provide money to allow the system to be set up and then businesses pay enough to keep the service going once the equipment is in place.

Alison Wilson (Highlands and Islands Enterprise): Because of the range of different sizes of population centres in the Highlands and Islands, more than half of the 54 exchange areas that we have managed to trigger are in population centres with fewer than 500 households. The current ADSL trigger system is meeting that size

of rural market and, as Stuart Robertson pointed out, we will have to look to the Hi-Wide system to help even smaller communities.

Christine May: Murdo Fraser must be reading my mind, because his last question was the first part of my supplementary question.

I want to take the matter a stage further. Public policy should, if possible, be made in advance of innovation. Given that we will soon almost reach capacity with the existing technology, there is bound to be something new just round the corner that will make things easier for business. Have you any thoughts about what we should be doing to stimulate demand to ensure that the market picks up as much of the cost as possible?

Charlie Watt: Yes, very much so. In fact, that has been a theme for at least the past four or five years, in that we stimulate demand for broadband indirectly through our e-business activities in Highlands and Islands Enterprise and Scottish Enterprise. As we grow the market for e-business, we stimulate the requirement for broadband. Those elements run in parallel. We foresee that there will be an increased demand for higher bandwidth in Scotland in the next couple of years because businesses are embracing e-business more effectively.

On top of that, however, it is important to test the models of the various technologies. Through Scottish and Southern Energy, we have trialled the powerline system in Crieff and Stonehaven and we have trialled wireless in the Borders, Lochwinnoch, Maybole and various other locations. It is important to trial the technologies as soon as they become available to see what the commercial rationale is.

Christine May: Is that the area in which public investment might be needed?

Charlie Watt: Yes, it might be.

Richard Baker (North East Scotland) (Lab): What prices are the consumers paying for those connections? How competitive are those prices in comparison with the cost of traditional ADSL provision? Obviously, people are crying out for such connections in north-east Scotland.

Charlie Watt: They pay the market price.

Richard Baker: Scottish Enterprise Grampian has suggested to me that connections provided through satellite technology and so on might be more costly to the consumer. However, you are saying that the connections that you are talking about cost the same.

Charlie Watt: I am sorry—I must have misunderstood you. Satellite technology is more expensive than traditional terrestrial ADSL technology. You would pay £20 to £30 each month

for traditional ADSL services but satellite has a wide range of prices, depending on the type of service that you want. In places in which satellite is the appropriate provision, we have provided a subsidy to businesses. The broadband incentive scheme provides £1,200 to businesses that require satellite and £300 to those that require terrestrial ADSL.

Brian Adam (Aberdeen North) (SNP): I am intrigued by the Lochwinnoch project. Although it uses a new technical solution, it is significant because it uses a mixture of business and household provision. In my constituency, because copper wire is not always used in the exchanges, some people are not allowed access to ADSL. Some of those people want it for private use—which is relevant to this committee in terms of lifelong learning—as well as for business use. Could you tell us more about the way in which you have bundled together business needs and individual consumer needs in Lochwinnoch and whether local consortia will be able to arrive at solutions that are financially viable? Most of the people who have come to me with complaints about access to broadband have complained about the cost.

The problem is not just a rural one; it affects those who live in towns as well. The problem occurs wherever fibre optic cables have been used and, basically, anywhere that does not have copper cables. Could you give my constituents some encouragement?

Charlie Watt: As I said earlier, if we continue our activity on demand-side stimulation, we will achieve coverage of roughly 90 per cent. We are working with the Scottish Executive to come up with solutions to bridge that last 10 per cent. One of the solutions involves working with communities to give them some form of financial incentive to provide a solution. In that regard, we have trialled projects in Lochwinnoch, Aberfoyle and other locations to determine their commercial viability. In general, we work closely with communities. For example, in Garioch a new project was recently triggered partly because of engagement with the community and partly because of engagement with Scottish Enterprise Grampian and the promotional activity that was going on at the time. We are examining such models for local communities with partnership working in mind.

Brian Adam: I would like to ask about a slightly different area. On the project for accessing telecoms links across Scotland—project ATLAS—can you give us some idea of when the European Union is likely to decide whether state aid will be involved, and can you spell out where the 13 business parks are?

Charlie Watt: We expect a decision from the directorate-general for competition shortly—during

the next few weeks—but I cannot predict precisely when the EU will give a final decision.

What was your second question?

Brian Adam: Can you give us some idea of where the 13 business parks are? Are they spread throughout the country?

Charlie Watt: Yes.

Brian Adam: Do they include the Scottish Enterprise parks in Aberdeen?

Charlie Watt: There is one location in Aberdeen. I can come back with the exact locations if you wish.

Brian Adam: Thank you.

Chris Ballance (South of Scotland) (Green): The Scottish Enterprise report refers to SDSL as being the next challenge. For clarification, could you tell me what SDSL is?

Charlie Watt: Yes.

The Convener: So that we can all understand.

Charlie Watt: It is one of the technologies that could help with the demand for higher bandwidth. SDSL stands for symmetric digital subscriber line, and ADSL stands for asymmetric digital subscriber line. SDSL is symmetric in that the upload speed is the same as the download speed, so you can download files at the same speed as you send files. It is particularly relevant to firms such as civil engineering firms, which might be sending large files, such as drawings, as well as receiving them. SDSL is being trialled by British Telecommunications at between 13 and 15 exchanges, and it may well help to bridge the gap in the demand for higher bandwidth.

There are other technologies, such as wireless technology, which can deliver a similar bandwidth, and fibre technology, which can deliver that level of bandwidth and much higher. Again, it is a question of mixing and matching technology to business needs, so that there are technologies that can help in the short to medium term and in the medium to long term.

Chris Ballance: What are the implications of SDSL? Does it mean that, by the time we have got up to 90 per cent ADSL coverage, the technology will be out of date and we really ought to be upgrading again to SDSL?

Charlie Watt: Many companies, particularly micro-companies, will stick with the lower levels of DSL services. Some companies will require higher bandwidth, but I stress that SDSL is one of a range of services and that we must consider the medium term from a technology-neutral point of view and decide what is the best mix. I do not see any specific technology solving all our needs. It

might be the case that SDSL meets the needs of a specific type of business or a particular part of the topology of Scotland. Wireless may well play a continuing role in the more rural areas, and fibre will play a part in meeting higher capacity needs. We will have to mix and match depending on what the needs are.

Chris Ballance: I will not say that I thoroughly understand everything that you have said, but I shall leave it at that.

I would like to draw on a point that relates to Murdo Fraser's question. Could you tell me what percentage of businesses you think would benefit from broadband at current price levels? Has there been any study into that?

Charlie Watt: At present, 19 per cent of companies in Scotland have various forms of broadband. If a business is embracing e-business, it will benefit from broadband.

14:30

Chris Ballance: Regardless of the size of the business?

Charlie Watt: Regardless.

Mike Watson (Glasgow Cathcart) (Lab): I have a general question about a point that was made in the Scottish Enterprise submission on the subject of small and medium-sized enterprises. Paragraph 8.14 says:

"There is lack of awareness and understanding on the benefits of broadband; many SMEs don't have the skills to objectively understand the benefits of broadband".

I found that quite surprising, given the amount of coverage on broadband that there has been over recent years. Later in that paragraph, you talk about some of the training that you are providing. I read into those comments the suggestion that you have been making available training or information that has not been taken up by SMEs or by business in general. Is that the case?

Charlie Watt: No. We have put in a substantial amount of effort at e-business demonstration centres, on the neutral broadband website, in workshops and in seminars. It is surprising how many companies are not aware of the benefits of broadband. Several thousand companies are going through the various workshops and seminars.

I cannot remember the exact figures but, in last year's Scottish e-business survey, those companies that were embracing e-business and had a website but did not have broadband said that, if broadband were available, they would buy it. We checked some of the postcodes of the businesses concerned, and found that broadband was in fact available in many of the areas

concerned. That was a year ago. That is why there have been advertising campaigns to make people aware of broadband and to get them to key in their postcode on the website to check that broadband is available there. As I mentioned earlier, infrastructure is one issue; applications and content form a second; the third one is education and awareness raising.

Mike Watson: To press you on my earlier point, is it still the case that

"many SMEs don't have the skills to objectively understand the benefits of broadband"?

Charlie Watt: That is correct.

Mike Watson: That is quite a problem, which will have to be overcome.

Charlie Watt: Yes, it is quite a problem.

Mike Watson: I found that quite surprising.

Charlie Watt: In our broadband incentive scheme, about 40 per cent of those applying wanted to see broadband demonstrated.

The Convener: I wish to pick you up on something else that you say in your submission. You state:

"Businesses don't rapidly adapt their practices prior to or during early adoption of broadband, therefore the expected benefits are delayed, or, fail to occur."

I am trying to match that with what you said in response to my opening question, which was about all the glowing responses you have had and about how everybody was saying that broadband was the best thing since sliced bread.

David Gass: The broadband demonstration centres and demonstration seminars allow businesses to take their own business into the centre and gain a hands-on understanding of what broadband will do for them. It is all part of the overall strategy to encourage education and the use of broadband. For many businesses, particularly smaller businesses, in which time is precious and which might not have particularly information technology-literate people, part of our role is to educate them on broadband as applied to their business. That is what has proved most powerful and we would encourage more people to go down that route in order to understand how to use broadband as it applies to their own business.

The Convener: You have clearly said that, for some businesses—you do not specify how many—the advantages of broadband fail to occur. What percentage is that? How many businesses get broadband and fail to see the advantage or fail to utilise it in such a way as to get the advantage from it?

Charlie Watt: On the question of why such failures typically occur, just because there is

coverage and because premises are connected, that does not mean to say that all businesses get the full benefit of the technology. There is a job to be done within the company to change its processes and systems. That is where we step in with e-business consultancy and helping companies through. It is a constant challenge to help companies to reinvent themselves and transform, so just because the technology is there that does not mean to say that all businesses are taking full advantage of it.

The Convener: I am trying to get an idea of how big the job is that has to be done. Clearly if a significant number of businesses are failing to gain the advantages of where we are now, the Government might well say, "There is not much point putting money in to improve the technology even further if they can't even use what they've got just now." How big is the problem?

Charlie Watt: I am afraid that I do not have a figure for that.

David Gass: I do not have a figure either.

The Convener: In order to gear up your training systems you must have some idea of what the demand is for the service that people are providing.

Charlie Watt: The number of companies that go through our workshops and seminars is about 5,000 a year. We also provide information that companies can download, but that will not give you an indication of how many companies are not embracing technology fully. Something like 75 or 80 per cent of companies in Scotland are now online, but that does not mean that they are taking full advantage of all the facilities that are available in e-business. We are talking about a sliding scale, rather than a cut-off point.

Mike Watson: I was unable to attend the briefing session that most other committee members attended. In paragraph 8.2 of your submission you state:

"Satellite broadband is available across the whole of Scotland and is extremely effective; however, it is currently expensive, has some performance issues and involves additional complexity."

Is it likely that satellite broadband will become more cost effective or cost attractive? Are the barriers that prevent its extension or further use likely to be withdrawn or at least lowered in the foreseeable future?

Stuart Robertson: We have seen no signs of the costs of satellite broadband coming down over the year or two years in which we have been monitoring it. The main barrier is the cost of getting the satellites up. There are not the same economies of scale for satellite that BT could get on a nationwide ADSL roll-out. Satellite broadband

will always be inherently more expensive. Without the economies of scale, I cannot see the prices coming down.

Mike Watson: So we should not be looking for satellite to make a marked difference as far as broadband in Scotland is concerned.

Stuart Robertson: Satellite has a role, but that role is finishing off the last few per cent rather than offering a mass solution.

Mike Watson: Right. Thank you. My next point is on the HIE paper, which mentions state-aid regulation. I noticed that broadband coverage for countries such as France and Sweden is something like 75 per cent. Those countries tend to be fairly quick to assist business through state aid and sometimes, quite surprisingly, seem to either circumvent or ignore European Union regulation. You say that the recent decision on the Cumbrian access project has been studied. Will you give us details on that? The project was allowed to proceed, but it seemed to create more difficulties rather than ease the situation. What might that mean for the Highlands and Islands?

Stuart Robertson: The decision was that the assistance was state aid. The European Commission was notified and the project was allowed to go ahead. In future decisions we will have to decide whether to notify, which is probably the safer route. There appeared to be a suggestion that if such a project went ahead, individual businesses would benefit from taking broadband under it. They would have advantages over other rural businesses in areas where there was not such a project. We believe that we could handle the issue by assisting such businesses at a level low enough for the assistance to fall under de minimis regulations. The difficulty is that businesses involved in areas such as agriculture, transport and aquaculture fall outwith the de minimis derogation. Obviously, that is an important issue in many of our areas, where there are many of those types of businesses. We will have to work round some of those problems.

However, as will be obvious from my answer, I am no state-aid specialist. I will need to look to the specialists to provide us a route through.

Mike Watson: We know about some of the restrictions on the application of state aid, but the EU itself is putting considerable amounts of money into support for broadband. If the EU is not allowing a state-aid approach to broadband, has Highlands and Islands Enterprise or Scottish Enterprise benefited from any EU funding for its work on broadband?

Charlie Watt: Yes. Most of the projects that we have implemented have had a European regional development fund or European structural funds element.

Mike Watson: Has that funding tended to support the resources that were received from either the UK Government or the Scottish Executive?

Charlie Watt: Yes.

Mike Watson: Finally, I want to ask Mr Gass about the Scottish Borders rural broadband project, which is mentioned in the submission. The project works at a micro level—although it involves 1,000 businesses—but it seems to be a very useful way of overcoming some of the difficulties that small businesses experience with broadband. Will you say a little more about that? I know that the roll-out of the project commenced only last month, but will you say what you intend to achieve beyond the initial 1,000 businesses? Will it go further than that? Secondly, could lessons be learned for areas in the Highland and Islands, which are in some respects similar to Borders communities?

David Gass: If I may answer the second question first, part of the rationale for the Scottish Borders rural broadband project was to pilot fixed wireless as a solution for some of the more rural and remote communities. On how we go forward from here, the original intention was to build a sustainable model within two years that would have the potential to be taken up by the private sector as a going concern. The project aims to connect business and residential customers in nine Scottish Borders communities to broadband through fixed wireless. The signal is then relayed to Galashiels and on to Edinburgh.

As Charlie Watt mentioned earlier, the project has been worked up in partnership with the private sector's programme of enabling the telephone exchanges. We have reviewed the project a number of times and we have changed the communities within the pilot if it looked likely that they would hit BT's trigger point for that. That has allowed us to include not only the bigger Borders settlements, such as Kelso and Jedburgh, but smaller settlements, such as Duns and Eyemouth. The project has therefore created a sustainable model that could serve both smaller and bigger communities that are some distance apart.

As you mentioned, the first subscribers went live only last week. The official launch, at which four of the communities went live, took place in early February. The technology has been thoroughly tested and is working in each of the nine communities. We will see all of them go live over the next month.

Mike Watson: Is there a minimum size for that type of project? If it were to be rolled out in other parts of Scotland, could it be done with a smaller population base than there is in the Borders?

David Gass: That is one of the elements that we are testing. We have already tested the model by removing some of the larger communities, such as Peebles and Selkirk, from the original model. Whether the model works depends on the number of subscribers collated across the nine communities. We are looking at a minimum of 1,000 subscribers—a mix of business and residential customers—which we believe provides a sustainable model. At the moment, our feeling is that the model has the potential to be applied elsewhere. However, we will test that as we go.

Christine May: I have a quick question, which I give notice I will ask of all the witnesses.

The final bullet point in the executive summary on the first page of Highlands and Islands Enterprise's submission refers to the need to carry out an impact study. What plans do you have to undertake such a study? What work have you set in motion? At the briefing day, we heard from a business that could quantify the difference that having broadband had made to the amount of business that it could generate and chase, the number of staff who could be employed and the extra markets that could be accessed. What have you done or what do you propose to do?

14:45

Stuart Robertson: Last year, only two exchanges had been broadband enabled. That figure is now 17, so this year the e-business survey—an annual survey of Scottish business—will receive more useful information and feedback from our companies about the impact of broadband.

We are also continually on the look-out for case studies, which not only provide feedback about advantages to businesses but allow us to give powerful information to other businesses to encourage them to invest in broadband. At those levels, we will consider the impact.

The Convener: I ask for an explanation about the telecoms trading exchange, which I have not totally understood. Scottish Enterprise's submission says that one of its aims is

"to limit the disadvantage Scotland suffers due to ... global networks terminating in London."

Does that mean that those networks physically terminate there? If so, what physical structures did the exchange project create? I notice that a backhaul link from Edinburgh to London was put in place. Is that a one-way link? Will you explain that?

Charlie Watt: Yes.

The Convener: Good.

Charlie Watt: The telecoms trading exchange consists of backhaul—a high-capacity telecoms link between Scotland and London—because most internet traffic is global traffic, so we must connect to and route all the traffic to London first, because no international cable lands in Scotland. The traffic is two-way.

That facility is aimed at internet service providers that require the backhaul link to London. It provides internet service providers with a cheaper high-bandwidth connection to London. Prices have fallen for those internet service providers more quickly than they have even in London, so the benefits to ISPs that are based in Scotland have been substantiated. The telecoms trading exchange has some time to run. We review it quarterly against a set of key metrics.

The Convener: The exchange makes the system less expensive for ISPs to establish and operate but does not reduce the cost to the consumer.

Charlie Watt: It might not do that. That depends on whether the internet service provider passes on the cost reduction to its customers.

The Convener: My final question is on the Northern Ireland situation. The minister who is responsible for telecoms there has set two interesting targets. One target is for 100 per cent 512 kilobits per second coverage by the end of next year. The other is for 100 per cent 2 megabit per second coverage at competitive cost by the end of 2006—perhaps you could explain what you think that means. Should we consider an equivalent target for Scotland? If we did, what would it mean?

Charlie Watt: On the target of 100 per cent for ADSL-type services, we see a path from the current level of coverage, which is 75 per cent, to coverage in excess of 90 per cent. We are also discussing with the Executive how we can bridge the gap between 90 per cent and 100 per cent. Our aspiration is to achieve 100 per cent, but at an affordable level. We have found that our intervention, particularly on the demand side through stimulation from advertising and field marketing activity, is a cost-effective way of triggering exchanges and raising awareness of broadband. The challenge is to achieve the final 10 per cent. We might do so through a supply-side intervention.

Northern Ireland is aiming for a 2Mbps service that can be delivered via various technologies—for example, wireless and SDSL. We are trialling such technologies. Not many other places in the UK are trialling and working out their commercial viability. When we get information on that model, we will consider how we can address the need for higher

bandwidths and decide on appropriate targets and their timescales.

The Convener: If Northern Ireland achieved the second target of 2Mbps, would we not be at a significant competitive disadvantage? If not, is that because such bandwidths affect only a small proportion of businesses?

Charlie Watt: Currently, only a relatively small percentage of businesses require 2Mbps and above. We have not mentioned previously that telecoms companies can deliver up to 10 or 20Mbps. Such high bandwidths can be delivered by what we call private leased lines and other services, which are available at a price. A bandwidth of 2Mbps is available to most businesses in Scotland, but whether they need it depends on the technology that they are trying to apply.

Mike Watson: I have one further point for the HIE representatives. One of the bullet points in your written submission states:

"HIE would therefore welcome an early move by the Scottish Executive to develop and fund a comprehensive roll-out of affordable broadband services in the areas where the private sector has no plans to invest."

You cite examples in Cumbria, north-east England and Northern Ireland.

The Executive's broadband strategy has three main approaches, one of which is

"examining the case for supply-side intervention to extend coverage to areas not likely to receive commercial provision in the near future."

That seems to fit neatly with HIE's request. Have you made that request, either directly or in conjunction with Scottish Enterprise, to the Executive? If so, is the request likely to be acceded to in the near future? We would like to be able to comment on it in the committee's final report.

Stuart Robertson: Yes, we have discussed our request with Scottish Enterprise and the Executive and a consultant has had a preliminary look at the question, so we have made headway on that matter.

The Convener: There are no further questions, so I thank the panel from HIE and Scottish Enterprise for their attendance.

We welcome our second panel of witnesses. John Downie is the Scottish parliamentary officer of the Federation of Small Businesses; Chic McSherry is the managing director of PROSYS Business Solutions Ltd and is representing the Forum of Private Business; Jim Speirs is the chief executive of the Ayrshire Chamber of Commerce and Industry; and Douglas Millar is the chief executive of the Lanarkshire Chamber of

Commerce. The latter two are representing the Scottish Chambers of Commerce.

I will start off with a question that any of the witnesses may answer. It follows on from item 5 in the FSB submission, which says that

"some method of evaluating the impact of broadband is required".

Earlier, the witnesses may have heard during my questions to the witnesses from the enterprise networks that, for some firms, some of the benefits of broadband were either not occurring quickly enough or not occurring at all. What has your experience been? I am thinking of people who have acquired the technology but are not getting the benefits at all, or are not getting sufficient benefits. If the problem exists, how big is it and what needs to be done to address it?

John Downie (Federation of Small Businesses): We have done surveys of our members in relation to broadband. We have found that 56 per cent of our members who have broadband said that it made their businesses more productive. It comes down to bottom-line benefits—time and money. I spoke recently to one of our members in the tourism sector, 99 per cent of whose marketing is done online. They are using their website extremely effectively to attract customers; all their marketing investment goes into their website, to show what the business can offer.

I have been talking to a few of our members this week and have found that different issues arise depending on the sector. Time and money can be saved in administration. Most businesses complain to us—and to you as well, I am sure—about the time that it takes to deal with Government red tape. Dealing with, for example, student loans or payrolls all takes time, but the right technology and packages can be helpful. Within the next few years, the Inland Revenue will be dealing with the accounts of limited companies online.

There are bottom-line benefits. One member told me that his administration person used to spend a week on certain tasks that she can now do in two days. That involves connecting with various agencies and using the right package. Because of the drive towards e-procurement, it is key that businesses are connected to their customers, whether public or private.

Jim Speirs (Scottish Chambers of Commerce): For sole traders and small businesses, it is fundamentally important to be able to access the phone and the internet at the same time. That is a starting point for them, and the benefit should not be underestimated. They need information in their supply chain and that can be as simple as looking up addresses or the

details of companies. Access to broadband is essential, especially for small businesses. The degree to which they use it is based on their knowledge—a point that was raised earlier. We have to help companies to understand the benefits.

Douglas Millar (Scottish Chambers of Commerce): We have to consider the benefits to small businesses. We have heard about usage and you asked, convener, about how many businesses were using broadband. The sad fact is that many businesses could benefit from using broadband and e-business but are not doing so. Chambers of commerce and other business organisations are working hard with British Telecom, other providers and Scottish Enterprise to get the message across, but it is a hard slog. Usage of mobile phones has built up and built up; the same is happening with e-business. We do not want to be left behind. We have to remember our competitors in Europe—some of our small businesses are now trading in Europe. Europe is sometimes slightly ahead of us in this game; we need to be in there and fighting hard.

The Convener: If we are all working hard trying to get the message across, but the message is not getting across to a lot of people, will it simply be a matter of time, or is there something that somebody else needs to do? If so, what?

John Downie: Broadband has been sold on its features—its speed and the fact that it is always accessible. It is not being sold as a business development tool and on how it can benefit businesses. In his response, Jim Speirs mentioned some of the specific gains. That is the way we have to approach the problem because speed is not the issue; it is about what else we can do with the technology.

15:00

Brian Adam: To what extent is the availability of broadband a problem for your members in urban areas? Rural businesses are often highlighted as being disadvantaged, but I am aware that there are difficulties in my substantially urban constituency. To what extent are you able to encourage your members to band together in order to make some of the alternatives stack up financially? Are there mechanisms in your organisations that help your members to get together enough clout to make things happen in their areas?

Jim Speirs: That is an issue. We need to take up what is available today rather than creating major extra expenditure. Some of our organisations have been working with local economic forums. We have been working together on the marketing and advertising campaigns that

are being driven particularly via Scottish Enterprise to target certain exchanges that have not yet reached the trigger levels that have been set for them. We have been doing a lot of work to target certain areas to encourage the uptake of broadband and registrations to enable the exchanges. We have to be aware of the benefit of use once an exchange has been enabled.

The availability of broadband in rural areas is a bigger issue and it is a continuing challenge to identify smaller organisations that can make use of broadband.

Brian Adam: Is it not true that the problem is not just in rural areas? There are significant urban areas that are outwith the 6km line length of the copper cable and where there is aluminium in the ducting, which interferes with fibre optic cable and causes problems. Have you any idea, from what your organisations tell you, to what extent those kinds of technical issues exist in urban areas?

Douglas Millar: I know an industrial estate near Cumbernauld that is outwith the 6km radius and where there are businesses that do not have access to broadband.

Chic McSherry (Forum of Private Business): My business is one of them.

Douglas Millar: You can probably say more about it than I can. However, I understand that another private sector provider is looking at alternatives for that particular industrial estate. We have heard about the different technologies that are being tested throughout Scotland at the moment, but we do not know what the eventual outcome of the trials will be in all cases and we do not know what the best solution is. Why should a private sector provider step in and provide a service at a higher cost so that businesses end up paying £200 every six months for the service whereas at the moment, it could be provided more cheaply through one of the technologies under trial? We do not know what will happen.

Brian Adam: I know that those alternatives exist, but my point is that the published figures suggest that we now have at least 70 per cent coverage in Scotland. The reality might be that, although 70 per cent of people are nominally covered, there will be big gaps, for the technical reasons that I have described. I was hoping that you might be able to say, "My members are saying to me that the 70 per cent figure just isn't true," because that is what my constituents are saying to me.

John Downie: There are gaps all over the country. One only has to travel between Glasgow and Edinburgh on the train to know that there are points on the line where one does not have mobile phone coverage. There is no point having 100 per cent broadband coverage if there are major gaps

where one cannot use one's mobile phone or laptop. There are certain areas—such as parts of Edinburgh and Cumbernauld, as was mentioned—where people have problems. Local businesses must band together. Our local branch in Deeside got together with Scottish Enterprise Grampian and BT to encourage businesses and consumers in the area to sign up to reach the trigger level for broadband. That local stimulation of demand has sometimes worked more effectively than the national advertising has.

Jim Speirs: I agree. That has often been the case. The rural issue is important and there is a need to target areas where triggers have been defined but not reached. We have to work together at a local level. There are examples of colleges, higher education institutions and trade associations working with the marketing material available. Using supermarkets and other such locations, we have dramatically increased the uptake of registration, allowing triggers to be set off. The approach is not high-tech and there is almost no cost involved. We are working initially to get the uptake to get the exchanges triggered. The next stage is what we can do to educate businesses about the real business opportunities.

Chic McSherry: It is a chicken-and-egg situation. Businesses cannot access the opportunities right now, so they do not know what opportunities exist. The marketing to date has largely been about e-mails, faster connections and existing servers, as was mentioned in one of the briefing documents. That concerns me. My business develops internet software for businesses, not for consumers, and we have lots of case studies of organisations that are getting real benefits from internet technology—I am not talking about broadband, although if a business is going to go on the internet, it needs high-speed access.

The media tend to focus on the always-available online e-mail for the small florist or potting shed that is doing really well. Fine. That small business is doing well. That is really great. We are a nation of small businesses, primarily. However, there are some tangible and measurable business benefits out there that are not being showcased properly.

The technology is driving forward all the time. I do not mean just the delivery mechanism, which is what broadband is. Broadband also makes software available to rent, for example. If a business could rent a sales force automation tool such as sales contact management or a marketing system for \$10 per head per month, it would make a substantial saving on what it would pay to buy that software. However, it cannot do that unless it has rapid access to the internet.

My business connected up through a leased line. We have broadband, although not the kind of

broadband access that we are talking about here. That costs me £9,000 a year. If we are paying £9,000 here and £9,000 there, pretty soon we are talking about real money. We ought to be able to get a decent, affordable service in an area such as Cumbernauld. I live in Stirling and I cannot get such a service there—I should be able to get at least ISDN in my house. That is a personal slant on it, but it shows the flaw in the argument that there is 77 per cent coverage and that businesses can get access to broadband.

A lot of our customers suffer, too. The main service that we offer our customers is online service and support. We have made massive savings internally and massive productivity gains, which I quantified in my submission. Those are only the tip of the iceberg. Our problem is that only about 30 to 35 per cent of our customers have an affordable online connection to the internet. When they start to become more online and wired in, our savings will multiply even further. We have got about 150 customers—it is a small survey size—but about 30 to 35 per cent of them have broadband access, not 70 to 77 per cent.

Brian Adam: How do you think that we should plug those gaps? Whose responsibility is that? Are the gaps in urban or rural areas? If we assume that we can get to the trigger levels everywhere, who ought to have the responsibility for that?

Chic McSherry: That is a tough one. BT is a commercial organisation that needs to make money like everybody else. The small business community can club together in small groups to try to push the thing forward. I hesitate to say that the responsibility is the Government's, because I do not think that it is its responsibility to wire the whole of Scotland, but some initiative has to be taken.

Perhaps we have been blinded by the statistics, rather than getting down there and seeing where the holes really are and what we can realistically do to plug the gap. For example, I do not know the extent to which local government and Government agencies are wired up and enabled for broadband, but, if they are wired up, the infrastructure round them would have to have been wired up and enabled, too. If that infrastructure was made readily available, the businesses in the area would perhaps have easier access. Perhaps I am blue-skying a bit, but that might be one way of achieving greater coverage. I read somewhere that 35 or 40 per cent of the population have some contact with a local agency.

Brian Adam: Yes, but small businesses need to compete on a level playing field. If one business subscribes to BT because it happens to be near an exchange that is already wired up, while the competitor who is half a mile down the road spends £9,000 a year, they are not on a level

playing field. Someone has to address that difficulty. Costs can be reduced by co-operating, either between businesses or with the general public but, nevertheless, there is not a level playing field.

John Downie: There is not a level playing field. Many sectors of industry and commerce do not have a level playing field and never will. You mentioned trigger levels but, to be fair, the problem is not just about that. A number of issues have to be addressed. The development of broadband will in some ways be driven more by consumer demand and use than by business use in Scotland. I agree with Chic McSherry on that. Consumer demand will be a key driver, especially when kids are using broadband at school and they want it when they get home to do their research and homework.

We have to look at the commercial aspects. The price of broadband is coming down because of competition. In the past week we have seen a number of companies reduce their prices. That is all well and good in urban areas, for the majority of the population of Scotland, but it will not help in rural areas. There will still be gaps that commercial providers will move into if they see a market, but if the Scottish Executive is going to invest in broadband, it has to look at where there is market failure, rather than where the private sector provider will come in, perhaps eventually rather than immediately.

Murdo Fraser: Good afternoon. My question is similar to the one that I asked the first panel, which you may have heard. If I understood correctly what our witnesses said, their claim was that 90 per cent-plus of Scotland would be linked up to broadband without any major public sector intervention, but that, to get beyond that to 100 per cent, or as near to that as we want to be, there would have to be some sort of public policy change or investment. Given the sums from the public purse that might be involved in doing that, and given the value to business of broadband, would that be the best use of public money or, for example, would we be better spending that money on more training and skills for employees or on better transport links? Is it justifiable, in terms of the value to the business community, for the state to step in and say, "Right, we want to put money into making up that target from 90 per cent to 100 per cent"?

Chic McSherry: The quick answer is no. Broadband is an important plank of the economy and will become more and more important but, God, we need to get the roads fixed as well. We have a few things ahead of us before broadband. I do not think that the broadband issue is of sufficient magnitude, but it does address head on

the "Field of Dreams" question—if we build it, will they come?

Technological capabilities are coming at us like a freight train and they are coming out of the United States, where I have spent a fair bit of time recently. We are about to launch a new product and we are launching it in the US for the specific reason that the US has the infrastructure to deliver it. As I said, the technology is coming at us like a freight train and we will be left behind. My concern is that, as a nation, we are continually playing catch-up. We are not even fast followers. We wait and see and, once the risk is taken away, we try it. We say, "Prove it to me. Is someone else doing it? Does it work for them?"

We have a huge opportunity. If there is a way in which you guys can put your heads together, get the right kind of budget and push it through so that more businesses become more e-aware and take up the opportunities, that will be the right outcome. However, is the broadband issue of that magnitude? Absolutely not.

15:15

Jim Speirs: I reinforce that view. If something is a cost-competitive and compelling interest for business, business will do it anyway.

My concern is that trigger levels might not be reached in some parts of Scotland. For example, in Darvel in Ayrshire, we found that businesses wanted to make an investment by putting broadband in place—they would make a multi-year investment for perhaps three years. The problem is—and this is where intervention might be able to help—that, if the businesses do not know that some new technology is going to come along and overtake broadband, giving a more cost-effective option, they might be entering into multi-year contracts that will be more expensive for them. In Darvel, the exchange will be triggered by some other means with no cost and little effort.

The business community is asking why it should spend the money, because it does not know whether someone is going to come along later with a cheaper technology. Some of our members are saying that they have business plans to put in satellite capability, but they do not know whether they can roll it out because they do not know the ground rules under which they are operating.

The Convener: Are you perhaps looking for a holy grail that does not exist? Is it not a fact of modern life that, no matter what you buy, there will always be a newer and better one out tomorrow, if not later today? Businesses just have to go ahead and take those decisions at some point.

John Downie: They have to decide to invest in technology at some point.

I disagree slightly with Chic McSherry. We believe that broadband is as important as transport infrastructure. In some rural areas in Scotland, the roads will never be as good as we would like them to be, especially in the middle of winter. However, for businesses in such areas, broadband connection allows people to source goods and services and to access customers.

Chic McSherry mentioned a range of other reasons for having broadband. He also talked about the infrastructure in the US and why his company is launching a new product there. That proves why broadband infrastructure is as important as transport. The holy grail would probably be to have both good transport and broadband. However, we believe that broadband is a key economic factor for Scotland and an area in which we have to remain competitive.

Mike Watson: I have two points to make that follow on from the evidence of Scottish Enterprise and Highlands and Islands Enterprise. Paragraph 3.13 of the Scottish Chambers of Commerce submission says:

"The ability to fully exploit the benefits of broadband though adequate training must also be a consideration when targets are being considered."

You gentlemen were in the room when I asked Scottish Enterprise about its comment that

"many SMEs don't have the skills to objectively understand the benefits of broadband".

Why is there such a gap when Scottish Enterprise has funds and has been running training courses? Why has there not been sufficient take-up? If there had been sufficient take-up, those comments would not have been made.

Douglas Millar: Scottish Enterprise has done a good job in educating the business community. The chambers of commerce have certainly played a role in that. We have set up e-business clubs throughout Scotland, with some financial support from Scottish Enterprise. Our businesses are engaging, going through a training process and learning.

However, we are finding that some people in their late 50s who are running businesses have not had the benefit of using computer technology in the past and so do not understand what it can do for businesses. They are almost like luddites: living in the past, saying to themselves that their business is just fine the way it is and that they do not have to embrace that new technology. The chambers of commerce, Scottish Enterprise and other organisations are getting out the message that that approach cannot be maintained. Those businesses will be overtaken by their competitors if they do not get in there.

It is a long, hard slog and a slow process. However, we are making inroads. I have certainly seen several companies going through the process. In the past six months, 600 companies in Lanarkshire applied for grants from Scottish Enterprise for taking up broadband. Some companies are going through the process and they are picking up the training, but there is a lot more to be done.

Mike Watson: Is that the message that the individual Scottish chambers of commerce will be giving to their members?

Douglas Millar: With Scottish Enterprise, we took a satellite broadband bus down into the Clyde valley, which is an area that is not enabled through local exchanges. We showed about 100 member companies in the area what they could do by using broadband. People who had never used the technology before told us that they could see the benefits to their businesses. The thing that precluded them from moving to the next stage, however, was the cost of satellite broadband. They told us that they did not want to invest the money that was needed to get the service, but that they would be interested if the service was a lot cheaper. There are businesses out there that will embrace the new technology; it is a question of leading them and keeping the costs attractive.

John Downie: A number of pressures are involved. Certainly, large companies can apply pressure down the supply chain; they can say to their suppliers, "We want to make you more efficient at the same time as we are making ourselves more efficient."

A few weeks ago, I was talking to a business that has 60 employees and works for a major conglomerate. Although it does not have any computers, it has worked successfully for the conglomerate for the past eight years—indeed, it is one of the conglomerate's major suppliers. The conglomerate is now working with the business to help to reduce its costs, to make the business more efficient and to drive things forward. Chic McSherry mentioned that kind of process. Although the business has done a successful job in the past, its people are now seeing the light in terms of technology as a whole and not just broadband.

I will give another example, which follows on from Douglas Millar's point. It involves another of our members—a small, five-employee branded design company that also offers website design to its clients. The approach that it takes with its clients is to go out and see them to discuss their needs. On the same day, the company sends material to its web designer in San Diego. He works on it during what is effectively our night, which means that the company has something to show the client the following day. Broadband

speeds up the process of how the company works with its clients. That is a creative way of working. It reduces costs and time and allows companies to deliver on something that they have agreed to do. Businesses are using broadband creatively.

Mike Watson: If targets have to be set, what form would they take? Will a target be for, let us say, a certain number of members of your organisations to have had some sort of training course by the end of this year or the middle of next year? I am thinking not specifically of figures, but just of the targets that it would be reasonable to set.

John Downie: Charlie Watt, I think, said that Scottish Enterprise spoke to 5,000 businesses or that 5,000 businesses went through training. There are 250,000 businesses in Scotland, but a lot of them might be getting access to training through private sector providers. We have to see the technology as a business development tool—as a part of developing businesses. We should not be talking about technology as such; we should be talking about what technology can do to reduce business costs. We seem to be teaching people more about technology than about the business benefits that it can bring. I suggest that Scottish Enterprise's emphasis might have to change.

Mike Watson: That leads me neatly to my second point. In your submission, you talk about the lead that is being taken by the LECs in establishing a dialogue about broadband with the local business communities in which there is

"no obvious demand from local business".

Is the Federation of Small Businesses' relationship with Scottish Enterprise, Highlands and Islands Enterprise and the LECs sufficient in that regard? It surprises me to hear that those sorts of initiatives are not being pursued. Our previous witnesses told us that they were taking a lot of steps in various areas. Why did you make that claim in your submission?

John Downie: We were talking about taking the issue forward. I agree with Douglas Millar that Scottish Enterprise, in its work with the chambers of commerce, other business organisations and us, has done a good job in getting the message out there. There are many more demonstration centres, including the Scottish Borders rural broadband initiative, which was highlighted earlier—that is a good example of a situation in which businesses and consumers were crying out for something like that to happen.

The process takes time. As Charlie Watt said, Scottish Enterprise reached 5,000 businesses last year. We need to double that figure before that work will show a greater economic impact. As I said, we want more teaching about the business benefits of using broadband; we do not just need

teaching about the technology. The message and the approach need to change. More needs to be done if all the public sector investment is to pay dividends. That is what we are looking for. If public money is to be invested, we want a bang for our buck.

Christine May: I have just one comment to make in respect of something that I think Chic McSherry said about local authorities. Do not hold me to this, but I think that every local authority in Scotland is now e-enabled through the e-government scheme, although I could be wrong about that.

I have some questions. First, what are your organisations doing to assess the impact on your business members of having broadband? What evidence do you have for those who would like to have broadband of the benefits—if any—that it might have for their business?

My second question is perhaps directed more at Chic McSherry than the other panel members. You say in your evidence that there has been a focus on getting fast e-mails, but the e-business suites that the local enterprise companies have set up have the whole range of applications that are available through broadband. Have you encouraged your member businesses to make use of those applications?

My final question is to all those on the panel. If an element of Government funding is required to bring the benefit in question to business—which we hope would enable businesses to be more efficient and to remain in business—and that funding is not to be at the expense of the roads programme or whatever, how much would you be prepared to see business rates increasing by to provide funding? [*Laughter.*]

Chic McSherry: Is that a bit of politics?

Christine May: No, I do not think so.

The Convener: Any takers?

Christine May: Last one first, maybe?

Jim Speirs: The benefits to members are evident and we hold many events in which we try to promote the use of broadband. We do not promote the technology itself, but the end results. There are disadvantages with the internet in that businesses' being online can open them up to threats if people do not understand what they are doing. Therefore, we have tried to show practical examples.

One issue that keeps emerging in many smaller and medium-sized businesses is that they are seeing the benefits not of the technology itself, but of what it can do for their business. For example, people do not want a full-time IT person on their site to run their business, but some companies

think that that is the only way in which they can manage all the new technology. Perhaps through some investment and access to broadband, they could have remote support. If the right investment is made in computers and software, there will be a fast link. We must show companies more practical examples of the way forward; we must show them that they do not have to have someone on site. They should not be frightened by the technology. However, there are not enough real, hard business benefits for smaller companies in particular.

Christine May: Do you support what the previous panel said about the need for more case studies across a range of businesses.

Jim Speirs: Yes. There should be a broader range of case studies. We do not really know what will be a trigger for each person, but the technology must make it easier for them to tune into a particular area, whether it be supply-chain work or doing their tax returns and saving money. The trigger could be as simple as showing a person that they can still use a phone while they are on the internet, or showing them that they can transfer files and get a quick reply. There is a need for a swathe of choices that will make it easier for people not to be frightened. The problem is that things are too much based on technology at the moment—there are too many buzzwords.

John Downie: Some examples are so technology based that they do not show the real savings that businesses can make. BT, the chambers of commerce, other business organisations and we are involved in Scottish Enterprise's and Highlands and Islands Enterprise's e-business survey. In our individual surveys, one of which the University of Strathclyde is currently analysing, there are at least half a dozen questions about technology issues. We talk to our members. As I mentioned earlier, the Deeside branch has worked closely with the LEC and BT Scotland to drive forward and first of all to reach the trigger level—although that is not the only issue—that will get businesses involved. We are all working quite closely to try to do something about stimulating demand.

You mentioned increasing business rates.

Christine May: I just thought that I would ask about them.

15:30

John Downie: As I said previously, demand for broadband is very much driven by the consumer. The last 10 per cent or 20 per cent of coverage in rural areas is, to be frank, more an inclusion agenda issue than an economic issue, although broadband coverage in those areas will bring business benefits in terms of retaining businesses

in rural areas because it will help them to compete and to retain jobs.

However, the majority of people who will benefit from broadband in rural areas will be individual householders. We must ask how much they are prepared to pay. The two biggest issues that emerged from all the consultation responses were the need to advance broadband as a business development tool and the question of how to get tenders out so that the telcos can provide answers on how much it will cost to wire up the last 10 per cent or 20 per cent of the population in whatever way you want. If we knew the answer to that, we would get a better feel for how much public investment is needed and how much economic or individual impact will be made. We have to think about those big questions.

In our submission, we highlight the fact that the initiatives in Northern Ireland, Cumbria and the north-east of England represent reasonably good models for progressing matters.

Christine May: We have already heard from the chambers of commerce that some businesses are delaying investment decisions, partly on the ground of cost, but also because they want to find out what will be invested by others. Is there a great deal of time for us to wait and see and to evaluate the situation? If not, will we be guilty of making decisions on the basis of insufficient information, just to get them made?

Douglas Millar: If Northern Ireland achieves what it intends, all businesses in Northern Ireland will have greater access to the technology than will businesses in Scotland. That could affect our tourism industry and it will certainly have an impact on businesses in rural areas that are competing with similar businesses in rural areas in Ireland. I do not think that we have too long to wait; we need to draw a line in the sand and move forward as quickly as possible.

Chic McSherry: I will pay higher business rates if you give me a tax credit on the profit that I make.

Christine May: I was thinking of charging you more tax on the profit.

Chic McSherry: I figured that that is how it would work.

Chris Ballance: I have a question for John Downie. In your submission, you talk about the need for a "transparent strategy and timetable". You give an example of someone whom you believe was put off opting for satellite broadband by their local enterprise company. Is that much of a problem or was that case a one-off? How much advantage would there be in setting out a transparent timetable?

John Downie: As with some of the issues that have already been raised, the advantage relates

to investment decisions by businesses. The Scottish Enterprise report highlights the fact that, in most cases, the case for satellite broadband is unproven. Although satellite broadband could be part of the mix, HIE was right to advise the business in question not to invest in satellite broadband, because it cannot offer quantifiable benefits.

If we are to make progress, businesses should have a timetable for putting the last 20 per cent of areas out to tender. That timetable should show us how long the process will take, what the business benefits will be and when businesses in rural areas will be able to access the technology. That is most important at the moment. For us, the question is a no-brainer and the answer is simple: we want more delivery, whether in the form of better roads or broadband infrastructure. The issue is how soon that will be done. Will it take six months, a year or two years? As Douglas Millar said, it is certain that we cannot afford to wait two years.

Chic McSherry: I have a point to add on the satellite issue. I have been trying to get a satellite link, even though we are a bit dubious about the quality of the technology, because it might offer us some cost savings. Our problem is that we have been trying to get planning permission from our landlord for six or seven months. A satellite broadband link would save us money, but we do not know whether it would perform as well as the lease line. We cannot get planning permission, so we are having a bit of a struggle.

The Convener: You do not seem to have much luck.

Chic McSherry: I need some lucky white heather.

Chris Ballance: I will play devil's advocate on a completely unrelated topic. We are talking about linking up the last 10 per cent of the population, which means businesses and households. You have mentioned linking up households, which could involve the use of public money. To link up businesses would obviously offer a clear benefit to business but, if we link up households and they use broadband for shopping and downloading entertainment, it occurs to me that that will surely damage your members, particularly from the small business point of view. Do you have any comments on that?

Chic McSherry: In what way do you think that linking up households would damage our members?

Chris Ballance: I think it could damage them in so far as it would encourage centralisation of supply rather than encourage people to go out to small local businesses. It is probably less of a question for you in relation to medium-sized

businesses than it is for John Downie in relation to smaller businesses. What is your response to that point?

John Downie: It is a competition issue. Access is being provided to goods and services. I can give as an example one of our members in the Highlands and Islands who supplies smoked salmon. She does all her trading over the internet. She takes payment online by credit card, so the money is paid up front and she does not have any problems with late payment. She now has access to a wider market, whereas previously the market was limited to people who passed her door.

It is true that people in rural areas can shop online—it might be at John Lewis's website or the website of a hi-fi shop in the centre of Glasgow. The issue is access to goods and services. If people want to buy from a supplier and that supplier's product is good enough, we do not see households shopping online as being a major problem. The benefits for Scotland, especially in sectors such as tourism, are that access via broadband enables people to see what is being offered and it brings more people in.

Jim Speirs: I agree. Many small companies that we talk to are involved in consultancy, training, web design, marketing and promotion. They would benefit rather than lose by having access via broadband because they would have access to a much wider market.

Richard Baker: We heard from Scottish Enterprise about progress that is being made on delivering broadband to areas where there could be no ADSL connection. The FSB submission states:

"The Pathfinder aggregated public sector demand project offers a solution where ADSL would not be commercially viable. However, we are disappointed that while the scheme has been discussed for some time we have yet to see any real progress in its implementation."

Does that mean that overall you are less impressed with the progress that is being made in providing different sorts of access to broadband?

John Downie: We have said to ministers that we think that the situation has got better. If you look back to 18 months ago, the work on the aggregate demand initiative, the work of Scottish Enterprise and the work of the Scottish Executive was all being done in silos. We now have a much more joined-up approach and the situation is improving.

I have not seen a report on aggregate demand for the public sector lately. I have not received any update on progress or on the impact that it has had, but we feel that it is stagnating. If there had been progress, I am sure that we would all have been well aware of it. It is a key aspect, because having the public sector connected together would

create demand in certain areas. Given that we are moving to e-procurement for public sector procurement for all sizes of businesses, aggregate demand is something that has to be developed, but I would be interested to know what the answers are and how much progress has been made. I am not certain, but we do not feel that progress has gone very far.

Richard Baker: I have a quick follow-up question about small private businesses in rural communities. Is Scottish Enterprise making good progress, as it indicated, in delivering broadband access to businesses that cannot access ADSL?

John Downie: I think that it is. When you look at the number of initiatives that Scottish Enterprise and HIE are trying, it is clear that there will not be the same solution for every part of Scotland. We agree that a one-size-fits-all solution will not work. Some of those initiatives have the potential to be rolled out as examples of good practice—the initiative in the Borders is a case in point—which could be used in other areas. The wise thing to do is to test the approaches; how long we do that for is another question.

The Convener: I thank the witnesses for their evidence. I propose that we move now to item 3, which I do not think will take us too long. We will have a short break before item 4, since the minister is already in attendance.

Subordinate Legislation

Renewables Obligation (Scotland) Order 2004 (draft)

15:40

The Convener: Agenda item 3 is consideration of the draft Renewables Obligation (Scotland) Order 2004 and a motion on it. We are joined by Lewis Macdonald, the Deputy Minister for Enterprise and Lifelong Learning, who is accompanied by Neal Rafferty and Neil Stewart. I will give the minister an opportunity to say anything he wishes about the draft order, then members will be able to ask questions about it. After that, we will move to the formal debate on the motion.

The Deputy Minister for Enterprise and Lifelong Learning (Lewis Macdonald): Thank you, convener. I should say that Neal Rafferty and Neil Stewart are from the energy policy unit of my department.

It might be helpful if I first say something about the purpose of the renewables obligation (Scotland), which was introduced in 2002 to create a robust market in renewable energy. Given the healthy trading price of renewables obligation certificates and the current level of developer activity, it seems to have succeeded in meeting that objective.

As we wanted to ensure that the obligation continued to operate as originally intended, we concluded that it was necessary to review the working of the obligation at the end of year 1. I should stress that the review centred on the operation of the renewables obligation that Scotland was operating, and on whether the operation required any technical adjustments. We did not review either the policy or the purpose of the obligation itself.

We fully consulted interested parties in the industry to identify whether there were any technical areas where we could streamline the obligation; we have taken a number of their points on board. A further full-scale and more comprehensive review of the Scottish obligation and the equivalent English and Welsh obligation will take place in 2005-06.

On the basis of the review and the consultees' comments, we have laid the draft order. Rather than lodge several pages of technical amendments to the original order and ask members to compare it with the proposed changes, we have chosen to revoke the original order and replace it with an entirely new one. As I said, some aspects are completely technical and others are meant to clarify the order's intentions. If

I may, convener, I will briefly run over the four or so significant areas that the order addresses.

The Convener: Could you do so briefly, minister?

Lewis Macdonald: First, there have been changes to the rules on co-firing of biomass with fossil fuels in order to encourage the development of energy crops take-up in that area. As take-up has been slow in Scotland, we are extending the period in which it can happen to encourage that development. To balance that, we have placed limits on the amount of co-firing that individual generators can use to satisfy their obligation. We still intend to reduce and eliminate co-firing altogether by 2016.

Secondly, we seek to relax the rules to ensure that small generators and microgenerators can qualify for ROCs by counting their period of generation over a year instead of over a month. That will allow community renewables schemes or photovoltaic schemes in local communities to sell any surplus to the national grid and to obtain ROCs by doing so.

Thirdly, we are removing barriers to further development in locations where a scheme was created under the previous Scottish renewables obligation, which rewarded renewables generators differently. That change will enable further development on an SRO site, but we have introduced additional accompanying measures that will ensure that SRO contracts are fulfilled and that developers do not switch from an SRO to an ROS contract.

The final change allows for late payments to be made to the buyout fund under article 12. That is important because the buyout fund is the financial mechanism by means of which we incentivise renewables generators and raise revenues for non-renewables generators. The change reflects the fact that no facility is in place at the moment for collection of late payments. We have made adjustments that will ensure that such a facility is created.

15:45

The Convener: The order gives certainty to those who are producing energy and electricity from renewable sources by certain methods. If I were to ask what the minister will do to incentivise other technologies that have not been incentivised sufficiently, such as tidal energy or the direct production of heat other than by means of electricity, I assume that he would say that there is nothing in the order to prevent that because it will come through in the review.

Lewis Macdonald: Absolutely. As they stand, the ROCs support a number of different

technologies, including the marine technologies that the convener mentioned and biomass. The ROCs do not apply only to existing technologies; they are also in place as an incentive to the development of new technologies.

The Convener: If it is felt that such technologies have to be incentivised more than other technologies, I assume that such a measure is not being closed off at this stage.

Lewis Macdonald: That is correct. The acceptance of this order this year will not prevent us from bringing forward an additional order next year. We do not need to wait for the major review if we choose not to do so.

Christine May: Is the Scottish legislation the same as the UK legislation?

Lewis Macdonald: The broad principle is that we seek to keep them as close to identical as we can. The parallel consultation process on both sides of the border did not throw up any significant differences. The Department of Trade and Industry was able to take on board representations that were made south of the border after the consultation process, but we will not be able to do so before the 1 April deadline.

The differences will not have a significant impact in Scotland. They relate to the complete conversion of a fossil-fuel power station to a biomass station, for example. We would like to see the development of such a project, but as none of the generators in Scotland plan to do so in the next year or two, the changes will not have an impact.

The second change relates to co-firing and does not have any particular application in Scotland at present. We will return in a future order to both areas to restore an identical character to the two obligations.

Murdo Fraser: I have two fairly brief questions. The date for the changes to the regime for co-firing biomass is some years away. What is the duration for growing short-rotation willow coppice, for example, so that it becomes ready for market?

Lewis Macdonald: We think that by setting the dates in question, we will allow for approximately three growing cycles. We are talking about four years for crop rotation.

Murdo Fraser: What are the minister's plans to review the situation? Does he have a particular cycle in mind for re-examination of the matter and to see whether the changes that will be brought about by the order need to be revisited?

Lewis Macdonald: My officials are relieved to get to the end of this process, but they notified me some moments ago that they will soon begin the next process of review. It is an ongoing process.

We intend to have a fairly fundamental review in 2005-06 and we will begin to address the issues in that regard soon.

The Convener: I would like to ask another question about co-firing and the restrictions on how much biomass has to be put in to allow people to qualify. Can the minister explain why the restrictions exist? Am I right to assume that if there were two separate power stations—a conventional non-renewable station and a totally biomass station—the biomass station would qualify for ROCs? Obviously, the penalty would be paid on the other one. If the two forms of station were combined into a bigger co-firing power station, the benefit of the biomass contribution would not eventually be received even though the amount of CO₂ sequestration and output is exactly the same.

Lewis Macdonald: In practical terms, the obligations and incentives are in place to encourage conversion from one mode to another. We anticipate that co-firing is transitional and involves a fossil-fuel generator taking on board as part of the mix a—we hope increasing—proportion of non-fossil fuel. We want to incentivise that and to encourage generators to do that because it is clear that such power stations represent a large part of the existing source of supply. We recognise that we want, ultimately, to move beyond the stage of co-firing and we have a set a target date for the end of the incentives and encouragements for co-firing for that reason. We recognise that the process of converting a large coal-firing station entirely to biomass may take some time. We want to enable and to incentivise that process as we go along.

The Convener: If there are no further questions, I will ask the minister to move the motion.

Motion moved,

That the Enterprise and Culture Committee recommends that the draft Renewables Obligation (Scotland) Order 2004 be approved.—[*Lewis Macdonald.*]

Motion agreed to.

The Convener: We now move into private session.

15:51

Meeting suspended until 15:58 and thereafter continued in private until 16:25.

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