

ENTERPRISE AND CULTURE COMMITTEE

Tuesday 18 January 2005

Session 2

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ENTERPRISE AND CULTURE COMMITTEE

1st Meeting 2005, Session 2

CONVENER

*Alex Neil (Central Scotland) (SNP)

DEPUTY CONVENER

*Mike Watson (Glasgow Cathcart) (Lab)

COMMITTEE MEMBERS

*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)

*Michael Matheson (Central Scotland) (SNP)

*Christine May (Central Fife) (Lab)

Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

COMMITTEE SUBSTITUTES

Mark Ballard (Lothians) (Green)

Mr David Davidson (North East Scotland) (Con)

Fiona Hyslop (Lothians) (SNP)

Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

George Lyon (Argyll and Bute) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Laura Barjonas (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Eddie Biber (BAA plc)

David Grant (Glasgow Prestwick International Airport plc)

Eoghann C M MacLean (Glasgow Prestwick International Airport plc)

Alastair Smith (BAA plc)

Mr Jim Wallace (Deputy First Minister and Minister for Enterprise and Lifelong Learning)

Allan Wilson (Deputy Minister for Enterprise and Lifelong Learning)

CLERK TO THE COMMITTEE

Stephen Imrie

SENIOR ASSISTANT CLERK

Judith Evans

ASSISTANT CLERK

Seán Wixted

LOCATION

Committee Room 1

Scottish Parliament

Enterprise and Culture Committee

Tuesday 18 January 2005

[THE CONVENER *opened the meeting at 14:04*]

Item in Private

The Convener (Alex Neil): As it is 4 minutes past 2, we will start. I ask everyone to switch off their mobile phones. Christine May has been held up by the weather, so I propose to return to item 1, on her declaration of interests, at a suitable point later in the meeting. We have received one apology from Jamie Stone, who is snowed in up in Caithness and Sutherland.

We move to item 2. I ask members whether they agree to take item 9 in private. The item concerns a draft report and our normal practice is to take such items in private. Are we agreed?

Members *indicated agreement.*

“A Smart, Successful Scotland”

14:05

The Convener: Item 3 is our consideration of the Executive's revised strategy document, “A Smart, Successful Scotland: Strategic direction to the Enterprise Networks and an enterprise strategy for Scotland”. I welcome the Minister for Enterprise and Lifelong Learning and Deputy First Minister, Jim Wallace. He has circulated some information and will give the committee an update on the subject.

The Deputy First Minister and Minister for Enterprise and Lifelong Learning (Mr Jim Wallace): With your permission, convener, along with my brief introductory remarks on the refreshed strategy, I will say a few words about item 4, on individual learning accounts, and item 5, on the green jobs strategy. I think that that will assist the committee when it moves on to questions on those items.

I thank the convener for inviting me to update the committee on three very important topics. Members will have seen the refreshed “A Smart, Successful Scotland” document. It is important to make it clear that the Executive made a deliberate choice that the document would be a refresh and not a rewrite. Throughout the consultation process, a clear consensus emerged among stakeholders that what they wanted us to do was not to dig up the tree and replant it but to build on what was already there. The fact that we have done a refresh and not a rewrite has been widely welcomed. We also wanted to reflect on the progress that we have made since the initial document was launched in January 2001 and to take account of the new challenges that face Scotland in a changing economic environment.

There was broad support for the three overarching themes of “A Smart, Successful Scotland”: growing businesses; global connections; and the development of skills and learning. Numerous underlying objectives come under those themes and we have changed the emphasis of some of them. For example, under the growing businesses theme, we have put more emphasis on growing businesses of scale, and, under the skills and learning theme, we have recognised the importance of the need to reduce economic inactivity. The achievement of those objectives will require partnership working among many organisations including those in the enterprise networks.

The promotion of lifelong learning is also integral to the strategy. The relaunch of individual learning accounts reflects our focus on education and on investing in skills development. In turn, our green

jobs strategy will put more flesh on our sustainable development objectives. The aim of the strategy is to stimulate job creation in the new green industries and to increase productivity by encouraging all businesses to make environmental improvements. I believe that there are tremendous business opportunities in areas such as renewable energy, waste recycling and resource efficiency. I want Scottish companies to seize those opportunities and secure a leading role for Scotland. If we succeed, we can reduce our impact on the environment and develop a new generation of green jobs.

We believe that our enterprise strategy is the right one for Scotland. It provides direction to the enterprise networks, but we want a wide range of partners to buy into and support the strategy through their actions. By working together and contributing to the delivery of the strategy, we can maximise Scotland's economic potential.

The Convener: I propose to take questions in the order in which items were set out on the agenda, as that will make for a clearer discussion. The minister is with us until 3 o'clock or thereabouts, which means that we have quite a lot of time—about 50 minutes—to cover the three subject areas. I will try to judge the level of interest in each subject as we go along and ensure that we cover all three. We will start with questions on “A Smart, Successful Scotland”.

Chris Ballance (South of Scotland) (Green): Minister, in the chamber on 24 November, you said:

“Our vision is of a smart, successful and sustainable Scotland”.—[*Official Report*, 24 November 2004; c 12156.]

On page 7 of the refreshed document, you talk about our performance in sustainable economic growth in terms of gross domestic product and carbon emissions. I have two questions. Should the local enterprise companies' conditions for advice and grant include a commitment to sustainability? Is it time that we stopped focusing entirely on GDP as a measure of success, as you do in the document to some extent? In other words, would you like to see the word “sustainable” up there in the title of the document, along with the words “smart” and “successful”?

Mr Wallace: As the partnership agreement indicates, the concept of sustainability is one that flows through and underpins the Executive's activities in general. In the refreshed strategy, we can see that the importance that the Executive attaches to sustainability is flagged up more than was the case in the original document. I do not want to get into a discussion about the semantics of the document's title. If we had changed the title, that might have detracted from the idea that we had undertaken a refresh, not a rewrite. However,

as Mr Ballance has pointed out, I have made it clear in my comments, both in the parliamentary debate in November and in our consultation paper on the green jobs strategy, that sustainability is an important part of our economic approach.

During the past year, we have imported environmental and sustainability concerns into decision making by requiring a sustainability audit dimension to all regional selective assistance grants of more than £2 million. However, a number of grants that are dealt with by local enterprise companies may not necessarily lend themselves to such an audit. When our green jobs strategy is published in the spring, I hope that it will provide us with a number of ways in which we can identify how we can promote sustainability and take the idea forward at all levels, including in local enterprise companies.

The issue is not an either/or. Economic opportunities can flow from a more sustainable and environmentally friendly approach. Indeed, companies are looking to see what impact such an approach can make on their bottom line by reducing costs and being more efficient in their use of resources. Given that so much of the industrial revolution in the 18th and 19th centuries flowed from improvements to labour productivity, it is not inconceivable that we could achieve considerable gains from improvements to resource productivity in the 21st century. Such improvements will be beneficial to the companies that undertake them, but I also want to see what opportunities there might be for Scotland in innovating, devising and inventing the technologies that will achieve those improvements so that we can gain some commercial benefit from their production.

Chris Ballance: The other half of my question was whether GDP should be the sole criterion for measuring success.

Mr Wallace: GDP is our criterion at the moment and we have no proposals to change that. I am aware that a number of academics and others have suggested that a broader basket of measures should be used, but it is not our current policy to switch to such an approach. Although there is a live debate on the issue, there is perhaps a problem with uncertainties over the quality of such measurements. Therefore, although I cannot rule out the possibility for ever and a day, I do not have confidence at the moment that there are other accurate ways of assessing growth.

However, I should also say that a Scottish target for CO₂ emissions features in “A Smart, Successful Scotland”. Since the report “Measuring Scotland's Progress towards a Smart Successful Scotland 2004” was published back in August, the emissions figures have been revised. Originally,

we were not in a very good position—we were almost at the bottom of the pile—but the revised figures place us 15th out of 28. I accept that improvements must still be made, but our position is not quite as dire as the original figures suggested.

Mike Watson (Glasgow Cathcart) (Lab): Under the heading “the approach: the Executive and the Enterprise Networks”, the refreshed strategy document makes it clear that—as the minister and I both know—the enterprise networks are key to the promotion of economic growth in Scotland. Page 10 states:

“Ministers expect the Networks to focus on the overarching objective of sustainable economic growth at all times.”

That is certainly what I and many others want to happen.

However, the minister will be aware of discussion in the business press about whether the new chair and chief executive are committed to that agenda. There was a suggestion that Scottish Enterprise believes that it should not really be involved in economic regeneration in inner-city and urban areas. The approach in “A Smart, Successful Scotland” is clear, but can the minister say a bit about the discussions that he or his officials have had on that issue with Scottish Enterprise, as opposed to the local enterprise companies? It is important that Scottish Enterprise provides the lead for the whole enterprise network on the issue.

14:15

Mr Wallace: For completeness, I will read out the rest of that paragraph, which is relevant. It states that the networks should

“focus on the overarching objective of sustainable economic growth at all times. In doing so, however, the Networks should seek to close the gap in opportunities.”

That is an important part of the equation and I assure members that the Executive is committed to closing the opportunity gap for Scotland’s most disadvantaged communities.

The refreshed strategy provides the enterprise networks with a clear direction to pursue activities that have a primarily economic rationale, but they need to do so in a way that contributes to our goal of closing the opportunity gap. Projects and programmes, wherever appropriate, should be designed to contribute to that agenda. That does not mean that I am asking Scottish Enterprise to undertake the work of Communities Scotland, social work departments or local authorities, but it emphasises the importance of partnership working. The refreshed strategy not only provides a strategic direction for the enterprise networks but involves partners.

On regeneration, there is to be a memorandum of understanding between Scottish Enterprise and Communities Scotland with perhaps a better definition of where their respective boundaries lie. It is clear that both organisations have a role to play. We are working up an employability framework, which we hope to complete by the summer, in which we will try to ensure that, nationally and locally, partners play to their strengths. I indicated that clearly in a letter to the chair of Scottish Enterprise when the refreshed “A Smart, Successful Scotland” document was published. I have discussed the point with the chair on a number of occasions, the most recent of which was a week ago, when I met him and the chief executive.

Mike Watson: I am pleased to hear that. To be fair to Scottish Enterprise, a couple of months ago it gave a briefing at which the convener, other members and I were present, in which its commitment to the broader agenda was clear. I had it in my mind that doubt had been expressed. You are saying that Scottish Enterprise is clear about its role in driving the strategy forward.

Mr Wallace: I am clear about that. We must always be wary of some interpretations given by the press.

Mike Watson: I accept that.

My second point relates to something that is covered on page 21 of “A Smart, Successful Scotland”. I refer to the large number of people in Scotland—the figure of 600,000 is given—who are economically inactive or so-called workless. I am particularly concerned that a large proportion of those people are found in Glasgow. This might impact to some extent on the discussion on ILAs, but how will you take forward the efforts to reduce that number significantly as the strategy develops? How will you ensure that, as far as possible, the current high number of people who are out of work but who are able to work decreases?

Mr Wallace: Of those 600,000 people, it is estimated that about 200,000 want to get into work. I have made the point on a number of occasions that although there is an important social inclusion dimension to the issue, there is also an economic issue to address. If 200,000 people want to work but for some reason are not working, that is a loss to them as individuals and to us as a community, given the contribution that they could make to our country’s economic performance. We can use a range of measures, depending on how far from employment individuals are. Our approach to some will be much more challenging than our approach to others—I am thinking of those who are caught up in drug abuse or who are newly released from prison. As a society, we have an important role to play in trying to get people who are quite a way

from the workplace into work or closer to employability. Provision such as the modern apprenticeship helps people to gain the core skills that might not be related to only one particular job or activity. I hate the phrase "soft skills", but it tends to capture the idea. It is important that we focus on delivering such skills.

I accept that a range of agencies will be involved, and that is why, in my answer to Mr Watson's previous question, I indicated that we are drawing up an employability strategy so that we have a clearer definition of where the responsibility lies for tackling the different challenges in getting people along the road and into the workplace.

Mike Watson: Do you or your officials intend to consider other parts of the United Kingdom? Some cities, such as Manchester, Birmingham and Liverpool, are broadly similar to Glasgow, in that they are post-industrial, if I can put it that way, but seem to have a lower percentage of people outwith the workforce. Are there any lessons that could be learned about why the figures should be significantly different in broadly comparable cities?

Mr Wallace: I do not have an immediate answer to that question. I am never averse to examining good practice elsewhere to see whether we can learn anything. However, it would be wrong to think that the problems of inactivity are confined to Glasgow.

Mike Watson: Indeed. It is a question of scale.

Mr Wallace: I am aware that a general concern has been voiced by UK ministers as well as by Scottish ministers. I would not have a problem with considering the matter. As I said, the employability working group is working up an employability framework, and I will encourage that group to look for examples of good practice elsewhere in the UK.

Murdo Fraser (Mid Scotland and Fife) (Con): I have two questions. First, I want to ask about the intermediary technology institutes, or ITIs. Did the minister read an interesting report in *Scotland on Sunday*, which mentioned that the University of Sheffield found that it was able to commercialise academic research by raising funds on the alternative investment market?

Mr Wallace: I did not see that specific article.

Murdo Fraser: Given that the ITIs were set up to address market failure, it has been suggested that there might be no market failure and that funds might be raised from private sources. Would you reconsider that point?

Mr Wallace: It is not a question of choosing one approach or the other. I would certainly encourage our research institutions to seek ways of finding resources to carry through their work into

commercialisation. Indeed, it is not anticipated that all commercialisations and spin-outs will have to go via the ITIs. It might be premature of me to tell you what kind of spin-out is being worked on at the University of Aberdeen, which I visited yesterday, but it is being done because the university is proactive and has sought ways of accessing private and other sources of capital to help with spinning out its ideas and research commercially. It would therefore be wrong to suggest that we are putting all our eggs into the ITI basket; far from it.

We should almost look at it the other way round to see the strength of the ITIs. The example that Murdo Fraser gave was of research that is being done at the University of Sheffield and the way in which that is being put out into the marketplace. I am not being pedantic, but the ITIs are intermediary technology institutes, not intermediate technology institutes. The intermediary function is about mediating between business and the research institutions. That agenda should be driven more by business than by the academic institutions. It is not that the universities are only going to be doing work for ITIs, but businesses should be indicating where they think that there will be a need for further research in order to progress ideas and projects. With business input, the ITIs are the bridge that can help to deliver research from the academic and research institutions. That is a useful string to our bow in trying to promote different levels of research and development in Scotland. We are still in the early days. We have had one contract from the ITI Techmedia, and I hope that we shall see more in the course of 2005, although I was answering questions on this subject yesterday from a business audience and I assured them that I would prefer them to make the right decisions rather than make decisions just to get a headline tomorrow.

Murdo Fraser: I have a slightly more general question about "A Smart, Successful Scotland". The original document was launched in 2000, so it is getting on for five years old. However, some of the key indicators relating to the economy—GDP growth relative to the UK as a whole, for example, and the rate of business start-ups—have not shown substantial improvement in that time. Is the strategy actually working?

Mr Wallace: Yes. I believe that it is basically the right strategy. I do not want to nit-pick, but the first document was launched in 2001. The important point to make is that it appeared after, rather than before, the original framework for economic development in Scotland. In 2003-04, Scottish Enterprise assisted with a total of 9,700 business start-ups, of which 1,369 were in disadvantaged areas and 192 were high-growth business start-ups. We have exceeded our target for modern apprenticeships, with a total of more than 31,000.

We have seen some improvements, but I would be the first to admit that there is far more to be done in improving business research and development. It is a strategy for the medium and longer term, and that is what we have lacked over a generation or more. A criticism that we have all heard, because it is directed not only at ministers but at all of us generally as politicians, is that we never have strategies or ideas that look beyond the horizon of the next election. "A Smart, Successful Scotland" tries to put in place a number of the building blocks that will deliver benefits in the medium to long term, and it will not necessarily bring about a quick hit. That said, however, there has been progress in relation to modern apprenticeships and assistance from the enterprise networks for business start-ups and some improvements in business R and D.

The wide welcome for our undertaking a refresh rather than a rewrite of the strategy suggests that, in the widespread consultation that we undertook, the key stakeholders, including business, the universities and the trade unions, thought that we were on the right lines; it did not suggest that we should go back to the drawing board and start again.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): I welcome the decision to produce a refresh rather than a rewrite. I certainly hope that that will avoid any loss of time and momentum, as has perhaps been seen in other areas where rewrites have been favoured.

On page 25 of the document, the spatial dimension is addressed. With specific reference to city regions, the document observes that

"the success of the national economy depends on the economic competitiveness of our city regions."

What steps is your department taking to ensure that our city regions are effectively developed? In particular, I would be interested to know what work is taking place with local authorities and local enterprise companies within the city regions in that regard. What work is under way within the Scottish Executive to look at international comparisons on the extent to which city regions are economic drivers in many of our counterparts in Europe and abroad? What is being done within those other countries to exploit fully the potential of city regions? Lastly, do you have any specific work under way on how the scale and pace of planned developments in our city regions in key areas such as infrastructure development, transportation, land use and planning might be accelerated so that Scotland's city regions and, in turn, our national economy can keep pace with our neighbours?

14:30

Mr Wallace: That is a wide range of questions. I will pick up first on the final question. You asked me specifically about my department, but the important point about the city region idea—the city region being a catalyst for growth—is that it involves more than just the activities of the enterprise agencies, although their role in our key cities is clearly vital. As has been said, planning is also important. The national planning framework that we produced last year puts the city region idea very much in context. Although the framework is not a detailed planning guideline, it sets out the stall; it is the blueprint or route map for other activities.

On the activities of my department—again, however, they also relate to other departments—there are the proposals for the Clyde waterfront, the Clyde gateway and there is the work that is on-going on the Edinburgh waterfront. Those are examples of significant initiatives that involve the public and—importantly—the private sectors in our cities. However, as I said, the city regions idea also includes planning issues and ensuring provision of a proper transport infrastructure. I also think that cities are about quality of life. As the report says:

"Cities represent the focal point for people, production of goods and services, technology development and retail as well as leisure and recreation."

We want to make our cities attractive places and that ambition exists in most portfolios in the Administration. I am not aware that we have commissioned specific research on benchmarking cities against other cities. However, I remind the committee that Scotland was judged to be the UK region of the future in the *Financial Times* "fDi" magazine's European cities and regions of the future awards, which were announced at the beginning of last October. Scotland was identified as getting many things right and as being attractive as a region within Europe for investment because of a range of things that we are doing, including the work of the enterprise agencies and Scottish Development International and because of a range of other factors.

I think that I am right in saying that Dundee was voted city of the future because of the activity that has gone on there. I am not saying that I do not enjoy visits to other parts of Scotland, but I thoroughly enjoy visits to Dundee. Encouraging things are going on there. For example, there is the academic strength of the University of Dundee—particularly in the life sciences—and that of the University of Abertay Dundee, which is renowned internationally for its games technology. The city itself has done a number of very encouraging things to try to move ahead.

We can look at a number of specifics, but they are not solely within my department's responsibility; they are embraced by all sections of the Government.

Susan Deacon: The committee understands and accepts that point. Can you clarify, however, whether the leadership role for developing work on city regions falls within the enterprise portfolio? I guess that the work that was previously run in the cities review would come within that category. If such work is done within the enterprise portfolio, how is that drive being carried through across Executive portfolios and departments to ensure that appropriate steps are taken to develop fully the potential of our city regions?

Mr Wallace: As I said, Tom McCabe has particular responsibility for the city growth fund. There is a ministerial working group on regeneration. I cannot remember all those who are on it, but it consists primarily of the Minister for Communities and me, with input from the Finance and Central Services Department and the Enterprise, Transport and Lifelong Learning Department.

You also asked whether the Cabinet has a sub-committee on cities. The answer is no. As I said, Tom McCabe, as Minister for Finance and Public Service Reform, also has responsibilities for local government and he has the primary role in respect of the city growth fund.

Richard Baker (North East Scotland) (Lab): Joint working is highlighted in the document as being key to the success of the strategy. How can the Executive help to encourage more joint working between universities and the business sector beyond that which results from the intermediary technology institutes? Scottish businesses should work with the best research facilities, whether in Scotland or in other countries.

The document also talks about the need to encourage enterprise and entrepreneurship skills. Excellent business education is, of course, provided in our universities. However, calls have been made for a new dedicated business school to be set up in Scotland. What are your thoughts on that?

Mr Wallace: I endorse the importance of partnership working and joint working, something that is also endorsed in the strategy. Partnership working and joint working between the universities and business is important, not just through the ITIs. Two other measures—SEEKIT, which is the Scottish Executive expertise, knowledge and information transfer, and SCoRe, which is the small and medium-sized enterprises collaborative research programme

The Convener: Did you say "SEEKIT" or "sleekit", minister? [*Laughter.*]

Mr Wallace: Seek it and you will find. SEEKIT and SCoRe are programmes that are principally geared to businesses in the small and medium-sized enterprise sector. The Executive recognises that, whereas global corporations have the capacity to have one or two people whose job is to make connections with universities, smaller businesses do not have the capacity to do so. The aim of SEEKIT and SCoRe is to ensure that interchange is facilitated between universities and SMEs. We recognise that, although small businesses have good ideas, without help they do not have the time or resources to follow them through with the universities. The programmes are one way in which we are trying to help in that regard.

The universities are to the fore in taking the initiative and engaging with the business community—after all, universities are also looking for resources. Although the 2004 spending review settlement is very beneficial to our higher education sector, universities would be the first to accept that state funding is not their sole source of funding. Universities know that they have to go out and win contracts and to engage better with the business community. I meet regularly with university representatives and am encouraged by the fact that they are doing that. Universities are proactive in trying to promote their activities to the business community. In terms of entrepreneurship, in the past we have discussed "Determined to Succeed: Enterprise in Education" and the importance of promoting entrepreneurship in our schools in particular.

The issue of a dedicated business school has raised its head on a number of occasions; I have asked officials to prepare some work for me so that I can decide whether we ought to go down that road. The initial feedback that I have received is that the case for such a school is doubtful. That said, we should not turn our backs on the possibility.

The Convener: Before I bring in Christine May, I ask her to make a declaration of interests.

Christine May (Central Fife) (Lab): I apologise to the convener, committee members and the Deputy First Minister for my late arrival, which meant that I missed item 1.

I have two new interests to declare, the first of which is my appointment to the board of Community Enterprise in Strathclyde, which is a not-for-profit organisation that deals with community regeneration in the social economy, but not only in Strathclyde. I spoke to the local member before I accepted the position.

Secondly, I declare that I have been co-opted as a board member of the East Fife Football Club Supporters Trust. I hope that all members—

including the Deputy First Minister—will join me in wishing the club success tonight in its replay match against Dunfermline Athletic.

The Convener: We will not ask you who you went on holiday with in case you have any other interests to declare.

Christine May: I stayed at home in Fife. I will take members' silence as tacit support and pass that message on to the club.

In 2001, I believed that "A Smart, Successful Scotland" was the right medium-term to long-term strategy for Scotland; I still believe that. I include the ITIs in that. However, at the time I was a member of the Scottish Enterprise board and I expressed concern about the ability of local enterprise companies to be flexible at the margins where matters might be particularly appropriate to local economies.

My question follows on from Susan Deacon's question about the city regions. I support those because our cities are the hubs of the economy. However, the peripheries of those city regions are also important. Although it is not directly referred to in the document, I would be grateful for the Deputy First Minister's assurance that there will continue to be flexibility in generating a renaissance in the economies of peripheral areas, such as mine. Of course, it is not just my area that is affected; parts of Glasgow are just as badly affected by long-term unemployment as is Methil.

Mr Wallace: I am happy to give that assurance. Although in response to Susan Deacon's question we quite properly focused on the cities and the fact that they could be catalysts, that must not happen to the exclusion of other parts. One of our objectives is wealth creation; the benefits of growth should be experienced in all parts of Scotland.

I draw Christine May's attention to page 10 of the document, which states:

"The Networks must continue their drive for consistent and high quality business support within their areas. They must also continue to allow for discretion in addressing local opportunities and needs."

I hope that the words and their spirit address Christine May's concern. I add that if East Fife wins tonight, then beats Celtic, and is drawn against Dundee United, which won last night, I am sure that the committee will be interesting.

Michael Matheson (Central Scotland) (SNP): In a couple of responses you mentioned the importance of partnership arrangements and of organisations working together. The document covers that in the section on success through partnerships, which lists several different organisations and bodies that could be involved in such arrangements. A number of the suggested

partnership organisations strike me as being fairly obvious, such as the higher education institutions and so on. However, a couple strike me as being not so obvious, for example the quality organisations and the cultural organisations such as the Scottish Arts Council. What is being done to ensure that organisations that might not consider that they have a role in the strategy are aware that they should be actively promoting it, and will you give us examples of what is happening on the ground?

Mr Wallace: I will explain why I believe that both sets of organisations are relevant. I return to my answer to Susan Deacon on the city regions and the culture and recreation opportunities in them. Culture goes hand in hand with successful economic development. It is not only that jobs can flow directly from activities that have a culture dimension; we are also trying to attract people to Scotland, or to particular locations within Scotland. One of the attractions might be that a place has a vibrant cultural life. There is therefore a role to be played by the various cultural organisations.

There are also the equalities organisations, in respect of which I return to what I said about employability. The equalities organisations reflect the fact that Scotland will maximise its potential and individuals will maximise their potential if they are given the opportunity of employment and can participate in the life and work of their communities. Therefore, I believe that the various equalities organisations can be important partners in trying to ensure that the barriers that have been identified that prevent people from being able to take their place and to move forward in the workplace can be eliminated. Gender equality organisations have a role to play in addressing the question of gender equality—the role of women in the workplace—and in trying to ensure that there are more business start-ups among women. You will note that, at the end of the section that you mentioned, we say:

"we will ensure that the role of ... NDPBs (non-departmental public bodies) and agencies in contributing to"

the implementation of a smart, successful Scotland will be

"reflected in strategic guidance and corporate plans"

that the Executive agrees with the NDPBs.

14:45

The Convener: I have two or three questions for you on "A Smart, Successful Scotland", the first of which is on private sector research and development. As you know, although some progress has been made in the spend on private sector research and development—it is now running at just over £600 million a year—we need

to double that to achieve the Executive's strategic target of having the same percentage of our national income spent on private sector R and D as is spent by our competitors. On top of what is being done, which shows some improvement in the situation, we need a step change in the level of investment in private sector research and development. How are we going to achieve that?

Mr Wallace: I accept the importance of that question. It is welcome that we have improved the situation, but I accept that a significant step is needed to take it further. I am not going to pretend that I have the answer to that; however, I assure you that I have been having serious discussions with officials about the kind of levers that we have and the incentives that are needed.

Most recently—although I suspect that this is not yet reflected in any of the figures—we have introduced R and D plus, which is a grant scheme operated by Scottish Enterprise. I think that I am right in saying that Rhodia Pharma Solutions Ltd in Annan—I was there in August last year—was the first company to receive money from R and D plus. It is a relatively new scheme that has the support of the European Commission, and it can focus on R and D needs, especially in large companies, without regional selective assistance, which almost invariably must have jobs attached to it. I am not going to pretend that R and D plus will be the answer to all the problems, but it is a measure that we have introduced to address them. I accept that there is more to be done and I assure the committee that my officials and I are considering what other incentives can help.

The Convener: My second question is a related question about mobile inward investment. We all accept the fact that the days of the large manufacturing assembly plant are over, by and large, given the competition from the far east and eastern Europe. Nevertheless, there are many attractive projects related to research and development that do not necessarily involve a large number of jobs but which involve a large amount of wealth creation, intellectual skill and so on. Are you satisfied that the incentives that are available in Scotland for that kind of foreign direct investment project are adequate?

Mr Wallace: R and D plus was introduced to address that. As I said in answer to the previous question, I am not going to pretend that R and D plus is the whole answer; however, it was a specific response to that specific issue. We must see what other measures we can introduce.

For companies that are looking to invest in research and development facilities, one of Scotland's attractions is the quality of our workforce, especially in areas such as the life sciences and the most sophisticated electronic technologies. I am told—I am very pleased to hear

it—that the quality and skills of our graduates and skilled workers who do not have a graduate qualification give Scotland an edge.

I will not name the companies, but when I told an indigenous company that an inward investor had told me how satisfied it had been in its early days in Scotland because of the quality of the graduates it had employed, the representative of the indigenous company told me, "Yes, they took three of ours." Joking apart, in the spending review, the Executive made an important investment in higher and further education.

The Convener: Do you benchmark the effectiveness of our incentives for FDI projects against those of our competitors in other parts of the European Union?

Mr Wallace: I am not sure that "benchmark" is the right term, but we always try to see what other countries are doing. I was recently told that the French could produce a package that was much better than ours and, as always, we followed that up. The matter is rarely as straightforward as that, but if we get intelligence, we follow it up. Part of Scottish Development International's work—which it does well—is to keep in touch with companies, particularly those that have interests here. That does not happen only when a particular project is up for grabs; SDI tries to find out from companies what their investment strategies are and when it hears that another EU country can offer X, we are pretty quick to find out more detail about that.

The Convener: We often hear from the business community that Scotland needs a level playing field. That comment is usually about business rates, but I want to widen out the issue to include matters such as transport costs, the costs of accessing markets and labour costs. Has the Executive undertaken an exercise to examine whether Scotland is on a level playing field or what we can do to create a level playing field?

Mr Wallace: The closest we have come to that in recent times was in the work of the manufacturing advisory group, which examined comparability of business rates. A preliminary investigation shows that such a comparison is of limited use because some of our competitor countries have a different approach to business taxation and do not tax property as we do through business rates. Therefore, we examined the range of corporate taxation using a measure that the Confederation of British Industry used in submissions to HM Treasury, which included an element of transport costs. The study showed that although we lag behind some competitors, over the piece Scotland is above—in the favourable sense—the EU 15 average and had a competitive advantage over a number of EU countries. I am not sure whether that information was passed to

the committee at the time, but I more than willing to make it available now.

The Convener: That would be useful.

For my final question, I obviously have to ask about the reports in *The Herald* and *The Scotsman* this morning about a study that Scottish Enterprise commissioned. There were many interesting quotes that related to “A Smart, Successful Scotland”, but I will pick a couple. *The Herald* quoted the study as saying that

“This low-value service bias combined with a large public services sector is not likely to produce a globally competitive knowledge economy in Scotland.”

The Scotsman said:

“The researchers say Edinburgh is the only place in Scotland able to act as a strong magnet for migrants and that the whole of the country, except Glasgow, needs better transport links with the rest of the UK.”

Given that the study was commissioned by Scottish Enterprise, have you had time to read it?

Mr Wallace: I have read reports. The study was also well trailed in the *Financial Times* yesterday. My answer is that that is why we have the smart, successful Scotland strategy. No one could challenge the fact that the thrust behind a smart, successful Scotland is the aim of building a high-value activity and knowledge-based economy.

The quote that I saw in yesterday's *Financial Times* was a travesty of what the economic strategy is about. It suggested that the only thing that we are interested in is tourism. Let us get this right: tourism is an important industry for Scotland. Given the growth in world tourism, we would be daft to miss out on it. Traditionally, tourism has been associated with lower-paid and lower-skill jobs, but I am sure that, given his previous engagement with the issue, Mike Watson would agree that it is not only about growing our tourism market share. Tourism must also become a sector of our economy in which we place far greater emphasis on skills and training than we have done so far. The tourism strategy that the Executive announced last year made great play of the fact that improving skills and training is an important strand.

No one can suggest that we are focusing on a low-skill service-based economy if they examine the areas that we are focusing on, such as ITI Techmedia, ITI Life Sciences and ITI Energy, and our promotion of quality food and drink. Indeed, the thrust of a smart, successful Scotland is a recognition that Scotland's competitiveness and future economic well-being are linked to how we develop and promote high-value and high-skill jobs and industry.

The Convener: We all agree that that is all going in the right direction, but the issue is scale

and impact. According to the Scottish Enterprise report, we still do not have the scale to get the impact that we need to turn round the Scottish economy and get it up from 36th to the top 10 of competitiveness.

Mr Wallace: As I said in answer to an earlier question, the strategy will not bring us the hit and the headline tomorrow. That does not mean that we should not implement it. Perhaps one of the problems is that we did not do it earlier.

We have had a pretty tumultuous 40 or 50 years. Dare I say, convener, that when you and I were at school what we were taught about Scotland's economy was based on the staple industries of shipbuilding, coal and steel? We have seen the first major transformation, and it has been a huge upheaval. In the 1980s and 1990s we had the inward investment that was referred to previously, with the establishment of large-scale production plants, many of which were linked to the electronics industry. Scotland has not been alone in experiencing the downturn in that industry—far from it—which has caused further upheaval. We are not going to create the successor to that situation overnight, but the strategy shows that we are going in the right direction and it highlights our areas of acknowledged expertise and excellence. We have to build on that. The strategy can provide the required scale of success in the future.

The Convener: It would be useful if we could get access to the Scottish Enterprise report, because it will contain a lot of factual information.

Mr Wallace: You can see it. I am informed that it is on the internet, but that is probably the last place to look if you want to find something.

Individual Learning Accounts

14:59

The Convener: We also want to cover individual learning accounts. My impression from your introductory remarks was that we would have a much shorter discussion and period of questioning on that, and then we would quickly go to the jobs strategy.

Mr Wallace: There is not much to add to the debate, other than the fact that we are coming closer to producing the strategy.

The Convener: I will take questions, although not from every member. I do not suspect that every member wants to ask a question on individual learning accounts.

Susan Deacon: Thank you, convener. I have taken a continuing interest in the subject, not least because I was a member of the Audit Committee when it conducted its inquiry on ILAs. I read with interest the paper circulated to this committee that sets out the Executive's response to the inquiry. I am pleased that the new scheme has been launched.

I have two questions. First, can you indicate why it took quite so long to develop a new scheme? It took almost exactly three years from the suspension of the previous scheme. Successive answers by successive ministers to successive parliamentary questions kept indicating that it would be the next year, then the next year and then the next. That said, I am sure that we would all recognise that it was important to get the scheme right, not least in the light of previous experience.

Secondly, could you give us some sense of what the current relationship is with regard to the schemes and their operation between Scotland and the rest of the United Kingdom? For the benefit of colleagues, I highlight one of the primary observations that the Audit Committee made on an inherent weakness of the previous arrangements. The initial scheme was closely linked to what was happening at UK level and a sufficient grip had not been taken in Scotland following devolution. Can you assure us that we now have the balance right and that we are continuing to share and learn from the experiences of our UK colleagues, while at the same time being in firmer control of the scheme here?

Mr Wallace: Susan Deacon's first question was about delay, and it is fair to say that I share some of her frustration about that. However, I was never in any doubt that the reasons for that delay were legitimate. We wanted—and I would hope that this

committee and the Audit Committee would support us in our desire—to ensure that the practical lessons of the original ILA scheme were properly taken into account and to consider the reports from Audit Scotland and the Audit Committee to ensure that their recommendations were taken on board, assessed and evaluated before we launched the new scheme. We also had to take into account the parliamentary timetable.

It was important to ensure that the quite significant new systems that have been developed by the Student Awards Agency for Scotland and learndirect Scotland were thoroughly tested before being publicly launched and made available to learning providers. I said—as did my predecessors—that I would launch the new scheme only once I was fully satisfied that all the steps had been completed. We had a launch date in mind which, fortunately perhaps, we did not get round to publishing because, late in the day, the new gateway process of testing the scheme indicated some difficulties. Arguably, we could have gone ahead and it might have been all right, but given past experience I was not prepared to give the green light when I was being told that there were still some difficulties. We therefore delayed the scheme's introduction until I and the accounting officer were satisfied that it was right and proper and that the difficulties that had been highlighted had been ironed out.

We wanted to ensure that learning providers themselves were fully equipped and had the information necessary to allow them to participate. That involved a number of seminars and workshops around the country to get learning providers up to speed by the time that we eventually launched the scheme. There were a number of reasons for the delay, and I hope that the committee will accept that our decisions were made in good faith as we tried to ensure that the lessons from the first scheme were properly learned.

As far as the position in other parts of the United Kingdom is concerned, I can assure Susan Deacon that our scheme was devised in Scotland. It is my understanding that, in England, it has been decided not to have a standalone ILA scheme. No successor is planned in Northern Ireland. There is an ILA Wales scheme, which was launched in the summer of 2003. We will monitor the scheme in Wales, and we are liaising with our colleagues in the Welsh Assembly Government to share their experiences.

Mike Watson: I note that, 51 weeks ago today, you were before us discussing the same issue. We have come a long way since then, but I will follow up on a couple of points. One of them, which I mentioned on your previous visit, concerned the monitoring procedures. I am

pleased to see that the papers that we have in front of us make it clear that the Student Awards Agency for Scotland and the Scottish university for industry have confirmed that they are happy with the monitoring arrangements.

Another point that I raised concerned learning providers and the lessons to be learned from the first round of individual learning accounts. I suggested, not exactly that we constantly look over the learning providers' shoulders, but that it would be useful if there were unannounced visits to learning providers to check that everything that was claimed to be happening was indeed happening. You were unable to respond to that suggestion 51 weeks ago, but we have obviously come a distance since then, so can you tell me whether that will happen so that learning providers will be kept sharply focused?

Mr Wallace: The first step, which takes place before somebody is admitted to the scheme and becomes a learning provider, is pretty rigorous.

Mike Watson: I can see that.

Mr Wallace: I assure you that quality checks will take place not only at the beginning and that learndirect Scotland will regularly monitor every learning provider's compliance with the rules. I ask Laura Barjonas to clarify whether that will include spot checks.

Laura Barjonas (Scottish Executive Enterprise, Transport and Lifelong Learning Department): It will include site visits. Full-time audit staff have been employed to undertake those visits based on the feedback that they get once the learning is taking place.

Mike Watson: Will the visits be announced in advance?

Laura Barjonas: They would generally be announced as part of a normal audit programme based on any sense of problems arising. The timescale for going in is short, as required.

Mike Watson: I do not want to sound too doom laden, because I am sure that lessons have been learned from the first round of ILAs and that similar problems will not be a major feature of the new system.

For the original scheme, there was a target figure of, I think, 100,000 learners, which was achieved remarkably more quickly than the two years in which the Executive aimed to achieve it. Is there a similar target figure for the new system? I am aware of what the minister referred to as dead weight—that is, people who would have engaged in learning anyway without the incentive of an ILA—within the 100,000. Are you confident that you can eliminate that dead weight as far as possible when the new ILAs get under way?

Mr Wallace: We are expecting something like up to 50,000 learners this time. I have explained to the committee that there are two steps to the implementation. The first is the ILA scheme that we launched in December, which covers a range of courses but is means tested, which will address the issue of dead weight. The second will be the follow-on scheme, which will relate only to information technology up to level 5 of the Scottish credit and qualifications framework and be made available universally. We aim to reach 50,000 ILA learners by 2006, with the vast majority of them being people on low incomes.

Mike Watson: The press release says that the scheme

"has been funded until at least 2008",

and I wondered what significance there was to that three-year period.

Mr Wallace: It is simply the period of the spending review.

The Convener: That is, subject to any change of Government in 2007.

Richard Baker: I was pleased to see that the Scottish Trades Union Congress supports the new scheme. In England, the Trades Union Congress is a provider of work-based learning; I presume that there is scope within the scheme for similar provision in Scotland.

Laura Barjonas: There is no such STUC provision at present, but the STUC could apply to provide learning, provided that it went through the process and met the quality standards. It might wish to do that in future.

Mr Wallace: There is certainly nothing to stop it if it meets the criteria, but it does not do so currently.

Michael Matheson: I have two questions. First, has there been any difficulty in attracting learning providers given the difficulties that you experienced with the earlier system? I am conscious that you have been working to identify providers since May last year. Secondly, have there been any difficulties in ensuring that the learning providers come up to the standards that are being set, which was one of the recommendations in the Audit Committee's report?

Mr Wallace: There has not generally been any difficulty in recruiting learning providers. Perhaps there was some initial difficulty in the HE institutions, but now that the system is up and running, that might change. Currently, 128 learning providers are formally approved under ILA Scotland. As I said in my answer to Mr Watson, not only is there a stringent and rigorous registration process, the providers have to submit

documentary proof of acceptable quality standards and accreditation and learndirect Scotland will authenticate those. There are important rules and procedures that have to be followed and there will also be quality checks.

Providers must be recognised by the Scottish Higher Education Funding Council as being in good standing with the Quality Assurance Agency for Higher Education; or they must be recognised by the Scottish Further Education Funding Council as being in good standing with Her Majesty's Inspectorate of Education; and/or they must be fully accredited through the Scottish quality management system and hold a current SQMS certification; and/or they must be approved as a branded learndirect Scotland learning centre and hold current learndirect Scotland branded status. The Scottish university for industry is responsible for verifying the standards claimed by learning providers directly with the relevant certificating body.

Learning lessons from the first system has been an important part of the work. We need to make sure that stringent conditions are in place. I am confident that learndirect Scotland is well equipped to police the system.

Michael Matheson: Is that figure of 128 learning providers an increase in the number that were available under the previous scheme?

Laura Barjonas: There are significantly fewer providers because the quality standards are much more restrictive this time round. The maximum number will be lower than the numbers that were potentially able to participate last time round.

Mr Wallace: I hope that that is a reassurance.

The Convener: Finally, are there any questions on green jobs? Given that we had a debate on that just before Christmas, I suspect that there is not much of an update on that. Is everybody happy with that?

Members *indicated agreement.*

The Convener: On behalf of the committee, I thank the minister and his colleagues Jane Morgan and Laura Barjonas for a useful session and wish him every success in his forthcoming trip to China.

Mr Wallace: Thank you very much.

Renewable Energy

15:13

The Convener: We move to item 6. I welcome the Deputy Minister for Enterprise and Culture and his colleague Wilson Malone. I am glad to see that the roads to and from Kilbirnie are unblocked. It is nice to see you, minister. Would you like to say a few words by way of introduction?

The Deputy Minister for Enterprise and Lifelong Learning (Allan Wilson): I do not think so; we have recently debated the subject extensively. I am familiar with the committee's on-going inquiry and I hope to be able to add some value to it. At the end of the exercise, I am sure that our paths will cross as they have done in the past. I am here to answer questions as best I can, but if I cannot answer them directly, we shall make sure that the information is sought out and provided to you subsequently.

The Convener: I remind committee members that in the debate on renewable energy last month, the minister agreed to come to the committee to answer outstanding questions and supplementaries. A paper has been circulated to committee members. We thank the minister for keeping his promise. Three members, so far, are indicating that they wish to question the minister. We will start with Chris Ballance.

15:15

Chris Ballance: Minister, will you comment on the committee's recommendations on developing marine energy? We regard marine energy as key to future Scottish export potential. The main companies at the moment are Wavegen Projects Ltd, which is working to develop a device commercially in the Faroes; and Ocean Power Delivery Ltd, which is working to develop a device commercially in Portugal. Both those companies are getting huge interest abroad, but neither feels that there is enough United Kingdom support to allow them to start developing commercially here.

Given that those are key companies, will the minister at least give a commitment to meet representatives of the companies to hear more about their potential and their concerns about what is holding them back at the moment?

Allan Wilson: I am pleased to give you that commitment, Chris. In the short time that I have been in this job, I have made a commitment to go out and meet as many companies, operators and others in the renewable energy field in Scotland as possible. Most recently—between Christmas and new year—I met two of the largest companies in Scotland that are involved in marine energy

technology. We had a very fruitful discussion about the companies' developments.

As members know, the Executive supports a broad range of renewable energy technologies, but we have especially high hopes for marine renewable energy technology—wave and tidal—and we are determined to become, if possible, world leaders. To that end, I am pleased to take part in discussions with any companies, or others in the field.

We are currently involved in discussions with the Department of Trade and Industry on the marine energy fund and its possible usages. I hope that the outcome of those discussions will benefit the marine energy technology sector here in Scotland.

Chris Ballance: Thank you, minister—that reply is very helpful. Can—

The Convener: I am sorry, but before you carry on, Chris, I think Murdo Fraser wants to ask about the same issue.

Murdo Fraser: I was interested in that answer, minister. A major part of our report was on the fact that we want additional incentives for marine technologies. We considered the situation in Portugal, where I believe the development of marine technologies is leading the rest of Europe. We understand that that development is driven by tariff subsidy.

We have in front of us the Executive's response to our report, and paragraph 6 deals with renewable obligation certificates. It is rather disappointing that the Executive does not share the committee's view that those certificates are the correct mechanism to encourage new technologies. The evidence from Portugal seems to be contrary to the Executive's position. Will you explain the Executive's position?

Allan Wilson: I am not sure that all the evidence is contrary to our position. We believe the existing mechanisms to be supportive of the development of renewable technologies generally and marine technology specifically. We will shortly be consulting on a review of the renewables obligation in Scotland. We will take that opportunity to seek views on the use of mechanisms to support developing technologies.

On your specific point, the industry's view was that there is an argument that such support is best provided separately from renewables obligation Scotland support. I am mindful of that, and the issue features in our discussions with the DTI on the marine energy fund. As I said to Chris Ballance, I expect that the outcome of those discussions will address some of the concerns—if that is the right word—in the industry.

Murdo Fraser: Thank you, minister. I encourage you to look closely at the Portuguese model.

Allan Wilson: We referred to it in the debate, and I responded in part to those concerns when they were raised at the time. I am mindful of them. As I said to Mr Ballance, we are anxious to ensure that whatever mechanism we put in place will be one that will best exploit the marine resource.

The Convener: Richard Baker has a question to ask before we return to Chris Ballance, if that is okay.

Richard Baker: That was a key issue in the evidence that we heard from a number of people, and members certainly heard about it when they went to Orkney for a case-study visit to the wave energy test centre. From the research and investment by the Executive and the DTI and investment in EMEC, it is clear that the Executive and the Government are taking a lead, but the industry and those who are involved in academic study in the area have emphasised heavily the need for a market stimulus and incentivisation to ensure that we have the best technology. In fact, we might already have the best technology, but market stimulus is the key.

Can you reassure the committee that the Executive is considering carefully—and certainly is not ruling out—greater incentivisation through the ROC system to encourage marine technology? I believe that that could be done without disincentivising or having a detrimental impact on the wind energy market. Further, can you assure us that the Executive is considering with the DTI other ways of continuing to support research and development?

Allan Wilson: I agree with you and make it clear, if I have not already done so, that we accept that the emerging technologies—in this instance, marine technology—are likely to need support beyond ROCs. One option that we are discussing with the DTI is making available as revenue support the greater part of the marine energy fund—to which I referred in my answer to Mr Ballance. That would be in parallel with the support that is provided by ROCs. I hope that that gives Richard Baker the assurances that he and the rest of the committee seek. Our discussions with the DTI and others are very much in line with the representations that the committee has received and, indeed, has made to the Executive.

The Convener: Chris Ballance may resume his questions.

Chris Ballance: That was a helpful follow-up, for which I give my thanks.

Allan Wilson: I stress that the committee's representations have been taken on board. When we meet industry representatives, they are obviously anxious—as we are—to see that marine technology gets beyond the drawing board and becomes a practical reality. Given the proximity of

the marine resource, Scotland is well placed, irrespective of what might be happening in Portugal or anywhere else on continental Europe. Major companies are involved in the technology's development here. If we cannot do things here, there must be doubts about whether they can be done.

Chris Ballance: Yes, indeed. It is worth emphasising how thoroughly impressed members across parties were by the potential. What you have said today is excellent news.

In response to the committee's recommendation that there should be

"clear measurable targets for the reduction of energy consumption in the Scottish domestic heating and transport sectors",

you point out that there are targets for reducing the number of homes that have poor energy efficiency and for renewables development. However, you do not refer to the target that we specifically recommended. Given that your response almost accepts that targets are a good thing, is there any chance that the Executive will accept the rationale behind the targets that we argued for? I believe that you are about to spend £20 million per annum on energy efficiency. Do you have a clear idea of the amount of energy that that funding will save?

Allan Wilson: In December, we announced our intention to develop an energy efficiency strategy for Scotland that would establish a framework, define objectives—which I think is what you want us to do—and perhaps create a more joined-up approach to energy efficiency and the interventions that we might make across the public sector, the housing sector or whatever. We are seeking views on the content and scope of that strategy—on the objectives and targets, if you like—as part of an on-going consultation on the Scottish climate change programme that is being undertaken by my colleague in the Environment and Rural Affairs Department.

As part of that process and in other programmes such as the central heating programme, we have attempted to equate our investment and its outcomes with reductions in CO₂ emissions. In 2002-03, which is the last year for which figures are available, the predicted annual reduction in such emissions for the central heating programme, for example, was about 30,000 tonnes.

The purpose of the energy efficiency strategy and the framework that has been developed as part of it is to give greater information on and insight into the outcomes for CO₂ emissions as a consequence of the programmes. Obviously, that is not the only outcome of the central heating programme; another important outcome is that people have warmer homes. I simply want you to

understand that there is a read-across between departments in relation to programmes' impact on our sustainable development objectives.

Chris Ballance: Given that you produce every kilowatt at 30 per cent efficiency, if we take into account the fuel's calorific value; that another 5 to 10 per cent is lost in transmission; and that we need to take into account the initial energy expenditure of building the wind power or nuclear power station, the committee was clear that energy efficiency had to be at the heart of the Executive's strategy. Do you completely accept that?

Allan Wilson: I certainly do. Work that the Scottish Energy Efficiency Office and the Carbon Trust carried out on precisely those outcomes and targets indicated that a potential saving of 220,000 tonnes in CO₂ emissions could be made. In developing our energy efficiency strategies, we conduct a read-across with the Carbon Trust on potential savings in CO₂ emissions.

I point out that reducing demand for energy is as important to climate change as ensuring that we produce more energy from renewable sources. The do a little, change a lot campaign was designed to show that every individual—not just Government—can make a contribution to meeting climate change targets and objectives by reducing their energy usage. That campaign was useful in persuading people to change their opinions and attitudes to energy efficiency.

15:30

Chris Ballance: After such a big inquiry and so much cross-party consensus, many of us were deeply disappointed with the initial Executive response, which seemed to say, "We are perfect at everything," and to ignore much that came out in the inquiry. The follow-up response and the comments that you have made today have been helpful and take us forward. Will you keep us in touch with any further developments in Executive thinking that appear to chime with the recommendations that we made in the inquiry?

Allan Wilson: I think that there was a misunderstanding, in that I do not believe that the officials' initial response responded fully to the points made by the committee and those made in the debate. I hope that Mr Wallace's subsequent communications restored relations—if I can call it that—between us. I assure you that I want to work completely and comprehensively with the committee on its inquiry. The department and I await with interest the outcome of the committee's deliberations.

The Convener: From the spirit of the debate and your response to it, it is clear that we all accept that.

Christine May: I did not share Chris Ballance's deep disappointment, but I acknowledge that there are issues that were not covered in the initial response and which have now been dealt with.

The more that I look at what is being done in the renewable energy sector, the more the whole thing changes. I have four questions and they are all about support for the sector.

First, paragraph 7 at the top of page 3 of the supplementary response is about biomass and mentions making

"recommendations about a range of issues facing the sector, including financial support."

Has your thinking developed any further from last November when we last discussed the issue of energy crop grants?

Secondly, on co-firing—mixing biomass or other substances with coal—has the Executive taken a view on or given any consideration to the appeal court decision in the case of Scottish Power and co-firing with sewage sludge?

My third question is about an answer that I got from your predecessor on the £10 million that is currently lying with the Office of Gas and Electricity Markets, which I understand is to be made available to the Executive for use on renewables. Has the legislation been finalised that will allow that money to be transferred?

Finally, paragraph 8 of the supplementary response refers to

"the processing and development of bio fuels"

and making the licensing regime less onerous. How far has that developed?

Allan Wilson: The FREDS report on biomass is complete and is expected to be published at the end of the month. I was at the debate on green jobs when we talked about the grants that are available for energy production. The Forestry Commission currently operates such a grant, and I gave that information during the debate. The FREDS report discusses that and will recommend that the Forestry Commission keeps the situation under close review.

Indeed, that is something that I want to do. I have recently been in discussion with biomass companies and we are keeping in close touch with them about their needs and the development of their sector, which, like the marine sector, we are keen to exploit. With something like 70 per cent of the nation's forestry resource, Scotland has substantial biomass resources. As a result, there is tremendous potential for producing energy from biomass sources.

As for the fossil fuel levy surplus that you mentioned, it is not the case, as some quarters

have claimed, that we have ignored such funding. The fact is that it has become available only recently through the enactment of provisions in the Energy Act 2004. When it is secured, that funding, which is in addition to the considerable total funding that we make available for developing new technologies, could of course be used for biomass developments. We have been looking at such developments in the south of Scotland and in Methil—I acknowledge your interest.

In summary, we are consulting the industry on the best way of developing the biomass resource in Scotland and the funds that you referred to can be used for that purpose.

You also mentioned Longannet and co-firing.

Christine May: Yes. What about the decision on the burning of sewage sludge?

Allan Wilson: I watched the hearing with some interest and note that the Minister for Environment and Rural Development was questioned on the matter at last week's meeting of the Environment and Rural Development Committee. I do not want to comment on the outcome of the particular case, because the decision is subject to appeal by Scottish Power—I suppose that the correct terminology is that the matter is still sub judice.

Christine May: My final question referred to the biofuels licensing regime. You said that you are considering the best way of resolving the matter. Have you made any progress on that?

Allan Wilson: Given Scotland's biomass resource, there is tremendous potential to address climate change predictions and greenhouse gas emissions. Biofuels are a vital component of the entire strategy. Incentives for their development are available nationally via the Exchequer and we are working with colleagues to ensure that the licensing process in Scotland is as amenable as it should be to companies that are involved in developing those technologies. Biofuels represent an important development that could have a tremendous benefit for Scotland.

Christine May: I know that you are aware that the Forestry Commission grant is considerably less than the specific grant given in England for the production of energy crops. Is that a separate issue that will be considered in the FREDS report?

Allan Wilson: Did I not mention that?

Christine May: No.

Allan Wilson: I believe that the commission's grant is 50 per cent of the English rate. We will ask it to consider the matter.

I want to return to the fossil fuel levy and its use in the development of biomass technology and so on. In fact, the energy crop grant is a case in point. Believe it or not, £10 million is very small beer

indeed compared with the direct investment that the Executive or the DTI makes in developments in renewable technology, such as those at the European Marine Energy Centre in Orkney and elsewhere, or through energy grants. Indeed, if we consider the investment that generators and others involved in energy supply are making, it is clear that substantial sums of money are being made available for renewable energy across the board. For example, that £10 million would be a tenth of a single company's investment to date in such energy and a fiftieth of its potential investment in renewable technology. However, the moneys are important in getting the technologies from the drawing board into commercial practice.

The Convener: Do you have any other comments to make?

Allan Wilson: I do not think so, convener.

The Convener: Your evidence has been extremely helpful in clearing up outstanding issues. We thank you for your written evidence and your helpful answers to our questions.

Allan Wilson: Let me just say that we want to work closely with the committee on these important areas of potential development.

The Convener: Thank you very much indeed. I think that we should have a five-minute break for a cup of coffee.

15:41

Meeting suspended.

15:47

On resuming—

Transport (Scotland) Bill: Stage 1

The Convener: For agenda item 7, I welcome from BAA plc Alastair Smith, who is a fairly well-known face round the Parliament, and Eddie Biber. From Glasgow Prestwick International Airport plc, I welcome Eoghainn MacLean and David Grant. The witnesses have circulated papers, and I think that I am right in saying that Alastair Smith and Eoghainn MacLean will make introductory statements, after which we will ask questions.

Alastair Smith (BAA plc): Thank you for the opportunity to address the committee. We recognise with almost grudging admiration the care with which the title of the organisation from which you have already taken evidence—the rather grandly named Scottish Independent Airport Park and Ride Association—was chosen. You might well be thinking, “What’s in a name?” but names carry connotations, and the term “park and ride” certainly does.

In making the arguments that we will answer today, SIAPRA seeks to dress itself up as an environmental protection organisation—certainly, Sir Michael Hirst and David Flint laid great store by their operation's green credentials—but let us be clear that the organisation that gave evidence to the committee before Christmas represents owners and operators of private car parks. I am quite sure that they make a good living from their operations around our airports and presumably they would like free rein to continue to do so without any of the associated costs or other implications. I know that the Parliament has set its face against the so-called spin doctors, so I will try to assist you by referring from now on to private, off-airport car park operators, which is what they are.

Having said all that, BAA welcomes the service that is provided by off-airport car parks. They provide a service for our mutual customers and have created a market for which there is clearly a demand. We welcome the competition that they provide. We also welcome the additional capacity that they provide to our ever-expanding business, and our willingness to invest £100,000 at Glasgow airport and £250,000 at Edinburgh in facilities to accommodate their operations should indicate our recognition of the importance of off-airport car parks and the choice that they give to our customers. The off-airport car park operators are being asked to make a contribution—which, incidentally, will not cover the cost of provision in many cases—for the use of those facilities and the associated infrastructure. That contribution is

decidedly not a charge that is being levied for access to our airports. There is no such charge and there are no plans to introduce such a charge, nor has there been any attempt at any of our airports to introduce in the new byelaws anything that would facilitate access charging for competing operators.

My colleague will deal with the byelaws and our right to make them, but there is a single overriding principle. The byelaws and our authority under the road traffic legislation, both of which are subject to public accountability, exist so that we can ensure that airport forecourts can be managed safely and securely, kept free from congestion and managed in the best interests of the travelling public. To allow a free-for-all would be hugely detrimental to the service that we provide to the travelling public and could even restrict future development.

I ask the committee to picture the scene as a foreign visitor gets his first impression of Scotland on arriving at the airport and sees black taxis vying for kerb space with private hire cars; coaches and minibuses clogging the forecourt as they drop off their passengers anywhere they like; and people abandoning their cars to go into the terminal to find out whether Auntie Jeannie has arrived. What next—hamburger stalls, ice cream vans and advertising hoardings promoting political parties? Who knows? In the middle of it all is the poor passenger who is trying to get across the road to begin his journey. That is to say nothing of more serious issues of security.

That is not a picture that we dare to contemplate and we hope that the committee will assist us in avoiding it.

Eoghainn C M MacLean (Glasgow Prestwick International Airport plc): Glasgow Prestwick International Airport plc is obliged to the committee for the opportunity to respond to the evidence that SIAPRA submitted. David Grant will answer any questions that relate to the operation of the airport, but I have been asked to lead and to address the committee on the thrust of our written submission, which is the effect of competition law on airports.

Glasgow Prestwick International Airport plc does not oppose SIAPRA's first proposal for reform of section 63 of the Airports Act 1986—the provision under which the byelaws are made—because we do not seek to create rights to charge for any use of the airport by taking special powers under byelaws. We own the airport ground and the airport roads over which access to the airport is taken. There being no public rights of way over those roads, the airport is in the same position as any other owner of commercial property in that it has the right to determine how and by whom its property is used.

The airport seeks from the committee an assurance that those rights will not be cut down—

or, at least, if they are cut down, that that be done only because of a specific justification based on the particular economic circumstances of the airport—and, by extension, that any transport facility will be dealt with in a similar way. Therefore, we specifically oppose SIAPRA's second proposal: the blanket creation of public rights of way over all roads and accesses within transport facilities in Scotland.

It might be thought that enterprise or competition concerns are the basis for SIAPRA's second proposal, but any such proposal is entirely unnecessary and wholly inappropriate. It is unnecessary because a well-established system of competition law already exists. That system deals specifically with a competitor's access to an essential facility, including a transport facility. When a question of competition law arises, the application of the law requires an economic analysis of the circumstances that affect the facility and the markets and competitors that use it. If a case is made out in competition law, the duties that that law imposes override property rights. Competition law also provides effective remedies by which, if a case is established, competitors can force access to the facility in question, albeit sometimes on payment of a fee set at an objectively justified level to reflect the facility owner's investment.

SIAPRA's second proposal—to create blanket rights of way over transport facility access roads—would cut right across the system of competition law. The proposal would have the effect of prejudicially deciding all competition issues in relation to every transport facility in Scotland, both now and in the future, by effectively deciding those issues now, in favour of the competitor of the transport facility owner, by giving the competitor a permanent right to make free use of the transport facility owner's asset in the generation of its own profits. In many cases, including that of Prestwick airport, the overall effect across a range of markets in which the facility is used would be anti-competitive.

The specific aspect of competition law that is engaged is the essential facilities doctrine. At its simplest, that doctrine dictates that where an undertaking is dominant in the provision of a facility and the use of that facility is also essential in a secondary market for the provision of other goods and services on which that undertaking also competes, it abuses its dominant position in the upstream market if it refuses without objective justification to provide access to the competitors, thereby eliminating competition. That doctrine has been applied consistently in European law. An example is the Frankfurt airport case, in which the owners of the airport were found to be dominant in the market for the provision of take-off and landing services at and around Frankfurt, and they were

required to open up access to the airport apron to ground-handling service providers.

In the current case before the Court of Session, *PIK Facilities Ltd v Watson's Ayr-Park Ltd*, which is a member of the Scottish Independent Airport Park and Ride Association, that is the very doctrine upon which the park-and-ride operator relied before the Court of Session. It is something of a surprise that the park-and-ride association representative who gave evidence to the committee on 14 December did not draw that to the committee's attention. However, the point is that that doctrine of general application is now of domestic application in this country.

Prestwick airport was purchased and developed almost exclusively with private investment and with considerable success. Some 2.6 million passengers are expected to pass through the airport this year. The airport achieves that success by attracting low-cost air service providers, and it can do that only by being highly competitive in its aircraft-handling markets. As a consequence, it is heavily dependent on non-aeronautical income—that is to say, income that comes from the retail side of its business and from car parking in particular. Car parking forms 40 per cent of the airport's revenues from non-aeronautical income. Without that income, the airport could not continue to attract the low-cost air service providers that it does; indeed, it might not be sustainable as a business.

Providing the park-and-ride association with a free ride on the airport's investment would have a serious effect on the airport's ability to be competitive in upstream markets from car parking. It might also affect the airport's ability to sustain the cost of maintaining the railway station, which is the only such station attached to any airport in Scotland. The on-going costs of the railway station, which are considerable, are met entirely by the airport owners. Although there are substantial benefits to the airport in having such a facility, and although the railway station forms part of an environmentally friendly transport policy for surface access to the airport, the costs are substantial. In addition, the presence of the railway station reduces the income from car parking. If that income were to be further reduced by allowing park-and-ride association members to have a free ride with completely free use of the airport's facilities, the airport's ability to sustain the cost of the railway station would be impaired.

Prestwick airport joins BAA in taking the view that park-and-ride operators are wrong to claim significant environmental benefits for large car parks that are near airports. Prestwick airport does not claim such a benefit for its car parks and it does not fall in favour of the park-and-ride case. Accordingly, Prestwick airport urges the committee

to reject SIAPRA's second proposal as a general principle and to recommend no amendment to the bill to create public rights of way in transport facilities. The matter should be left to competition law.

16:00

Murdo Fraser: You both make an articulate and powerful case. We also heard an articulate and powerful case from SIAPRA. I will play devil's advocate for a moment and address my question to Alastair Smith, because it is slightly more relevant to BAA. If I, as a private citizen, had a lot of money—I do not—and I obtained planning permission to build my own airport somewhere in Scotland, which I constructed with a terminal, a runway, car parks and roads, and I had permission to connect to the public highway, it is understandable that I would be very upset if someone came along and sought to use my private airport without paying me a charge.

With respect, however, I point out that BAA is not really in the same position. The airports that you run were previously in the public sector. They were created with public money and privatised subject to several safeguards to protect the public and competition. You have the right to make byelaws in relation to traffic flow and congestion, but is that not an historical accident, given your circumstances?

Alastair Smith: You will have to ask that of the people who drafted the Airports Act 1986. The position is not an accident. Obligations are placed on us to act properly and fairly in everybody's interests. Members should not forget that, in bringing the airports to their current position, we have spent more than £500 million in the past 10 years to develop the infrastructure in Scotland. We plan to spend another £500 million in the next 10 years. Those sums of money are substantial and we are not taking such money from our Scottish airports in profit. It is not unreasonable for people who share in our airports' success to contribute to the facilities that we provide.

I repeat that we welcome the service that off-airport car park operators provide. We could not cope with the traffic flow if they did not exist. However, they are private operators, like us. The situation should involve a business arrangement between two private companies.

Murdo Fraser: I understand that BAA does not intend to make a charge to private operators, other than a charge for services provided.

Alastair Smith: We would charge only for facilities and not for access to an airport. No one is charged for access to Glasgow, Edinburgh or Aberdeen airports. A charge would simply be for the facility. We have recognised the importance of

such car parks to airports and to passenger service at airports by investing in facilities for them. The facility that has been built at Glasgow airport cost about £100,000 and is not being charged for. It is not being operated at the moment because of a policing issue with services such as charter buses, but it will come into operation as soon as that is resolved. A couple of stances are being used on the other aisle of the forecourt, for which no charge is made.

The facility at Edinburgh airport, which cost about £250,000 to provide, was not solely for car park operators—to be fair, it was also for coaches. All companies apart from one pay about £5,000 a year for that facility.

Michael Matheson: The witnesses agree that they do not want the committee to go along with what the park-and-ride association is looking for, but they take different approaches. BAA's view is that the forecourt area can be used, provided that the agreed charge to access the facilities is met. Is that correct?

Alastair Smith: Yes.

Michael Matheson: What is the situation at Prestwick? Can the park-and-ride companies reach financial agreement with the airport's owners so that there is a similar arrangement to that at Glasgow airport or Edinburgh airport, for example?

Eoghainn C M MacLean: The airport is seeking to establish in the courts its right to exclusive use of the airport as a matter of property law. In defence, the park-and-ride association has said that the airport's property rights are limited by competition law. The airport's position on that is not that competition law does not apply, but that the particular requirements are not met in this case, especially because the use of airport roads is not truly essential to the business of such companies. The airport's overall position is that it wishes to establish the principle of its right to control its property. Three years ago, the off-airport car park operator simply took access without permission and managed to resist an interim interdict. It has operated on the airport's land, but has never done so with the airport's consent. The airport wishes to establish its right in property and is thereafter prepared to consider negotiating payment for access. However, the current position is that, as the airport is faced with unauthorised access for which no payment has been offered, it has been forced to take the matter to court to establish its property right.

Michael Matheson: In lay terms, what would happen if I set up a park-and-ride company in Prestwick and opened a car park, punters came along, parked their cars, jumped into my bus and I drove along to Prestwick airport and pulled up outside the forecourt?

David Grant (Glasgow Prestwick International Airport plc): At the moment, nothing would happen in operational terms, because the interim interdict was overturned on the balance of convenience—in other words, the court decided that it would take a long time to decide the matter in the court diary. In answer to the question who would suffer most from the interdict either being in place or not being in place, it was decided that the car park operator would perhaps be long out of business by the time that the court got round to deciding the matter.

In effect, the court has instructed us to allow free, unfettered access with no charge. If we are successful in the court action and the car park operator is excluded—assuming that that is the course of action that we decide to take—he can still drop off his passengers at the bus stops on the public road. Contrary to what Mr Flint has stated, passengers can be dropped off almost adjacent to the terminal—I am talking about a distance of around 50yd—or on the other side of the road, at the railway station. Passengers can use the railway station bridge to go directly into the terminal.

The off-site car park operator has stated that access to the front door is essential, but obviously it is not essential for the 38 per cent of our passengers who come by rail, as the train drops them 200yd from the terminal. In the court case, the lord ordinary recognised that the car park operator would be no more disadvantaged than the railway operator, which must drop off passengers even further away from the terminal. That does not prevent 38 per cent of our passengers from using trains.

Michael Matheson: I do not want to get too caught up in all the legal shenanigans—I simply want to identify what is happening. I presume that the Prestwick airport authorities took out the interdict to prevent park-and-ride operators from using the forecourt area. Is that correct?

David Grant: Yes.

Michael Matheson: So you are trying to prevent the operators from being able to drop people off at your airport in order to force people to use your car park or trains.

David Grant: No. People could still use the off-site car park. If the car park operator used his private minibus to convey passengers from the off-site car park to the airport, he would simply have to drop off passengers at bus stops on the A79 rather than drive round. That sounds like a moot point, but the point of the court case is to establish our property rights. To use the expression that SIAPRA used, this is the thin end of the wedge. If the car park operator is allowed free access, why should the car hire companies pay us any money

for being in the airport? Why should the taxi companies pay us any money?

Michael Matheson: You keep referring to your court case, but I want to be clear about the operational situation. You say that park-and-ride operators can use the bus stop that is on the other side of the main road. That does not strike me as convenient when you consider someone humphing five bags across the bridge with two kids in tow. At Glasgow and Edinburgh airports, there are convenient canopied areas that keep people dry and the walkways are properly maintained.

If the court rules in your favour, do you intend that the operators should not be allowed to come on to your forecourts, even if they are prepared to enter an agreement—as they have done with BAA—to pay a charge for using the facility?

David Grant: No—that is not what we are saying. Two points arise. First, we have to establish our rights. We cannot enter a negotiation to charge somebody if they have established in court that we have no right to do so. The question is, do we own our property? Have we the right to the exclusive use of our property, or can anybody come along and trade in a competing business without even telling us? That is the point of the court case.

Following the court case, having established our right, we may enter negotiations with anybody who wishes to conduct a business—competing or otherwise—at the airport.

May I correct Mr Matheson on an earlier point? With the benefit of funding from the west of Scotland transport partnership, for which we are very grateful, we have provided covered walkways from the A79 up to the railway station. Access from that side of the road is therefore much more convenient than it used to be.

Michael Matheson: That is helpful. Thank you.

The Convener: I remind everybody that we dare not enter into discussions on the merits of the court case, which is sub judice. I am not a lawyer and I do not think that anybody has yet strayed, but I am sure that somebody somewhere will tell me if we do. We have to keep things tight.

Chris Ballance: GPIA's written submission states that people can be dropped off at the bus stop at the airport railway station. I presume that, if you win the court case, you will have established your complete control over the facility and, therefore, over the bus stop at the airport railway station, which you also own.

David Grant: No—the bus stop is on the public highway.

Chris Ballance: It is not part of the railway station?

David Grant: No, it is not.

Chris Ballance: Okay. Thank you.

Mike Watson: For most of my colleagues, this is the second time that we have discussed the issue; for me, it is the fourth time, because I am also a member of the Public Petitions Committee.

My first question is for BAA. I know that you submitted draft byelaws in August last year. Our information is that ministers are awaiting a resubmission. As of 22 December, that resubmission had not been received. Has anything been submitted since then? If so, what does it say?

Eddie Biber (BAA plc): A reply has been sent; I sent it earlier this month and we are awaiting a reply from the Scottish Executive.

Mike Watson: So you made a submission in August and have subsequently made what is termed in our papers a resubmission. How does the second submission differ from the first?

Eddie Biber: One of the Scottish ministers asked us to consider one particular point, which I did. I replied to the Executive.

Mike Watson: Are you able to say what that point was?

Eddie Biber: It concerned disability discrimination and taxis.

Mike Watson: Right.

I wanted to pick up on a couple of points in Mr Smith's submission. You talk about BAA's investment of £100,000 at Glasgow and £250,000 at Edinburgh. Were minibus operators at off-site car parks operating in your airports before these facilities were there? I suppose that the question relates to Prestwick as well.

Alastair Smith: Yes—in fact, at Glasgow they still operate on the old system, outside the terminal building. Having only two stances, shared by 10 companies, was not convenient. My understanding is that there has been no charge for that up to now, and there is certainly no charge at Glasgow at the moment. In fact, there will be no charge until the operators move into the new custom-built facility.

Mike Watson: When I travel to Glasgow airport, I often take a bus from the city centre. Do the bus companies that operate that service pay you for their stances at the airport?

Alastair Smith: I understand that they do.

Mike Watson: Would that charge be similar to the one that you would seek from car park operators?

Alastair Smith: I do not know; I would have to take advice on that.

Mike Watson: I was not asking whether the charge would be a similar amount, but whether the type of charge would be similar.

Alastair Smith: Yes, given the facilities that would be provided.

Mike Watson: So basically you are asking car park operators to pay for something for which other people pay a similar type of charge.

16:15

Alastair Smith: Yes. It all comes down to organisation and ensuring that we have not a free-for-all but a sensible operation for the passenger. Most companies accept that our proposals would be good for off-airport car park operators, who have freephone facilities in the building that allow people to contact them and ask them to bring their car round. There are three such operators at Glasgow airport, and the facility will shortly be introduced at Edinburgh airport. Even those operators acknowledge that that is a sensible way of doing business.

Mike Watson: SIAPRA told the committee that it has reached agreement on paying for services. However, when I asked a specific question on the matter, it drew a line between services that are paid for and picking up and dropping off cars, which it regarded as a facility, not as a service. What services do operators pay for at the moment?

Alastair Smith: At Edinburgh airport, there is access to a dedicated coach park that is directly opposite the domestic arrivals hall and a free telephone that allows customers to call and ask to be picked up. Obviously, that park is shared with coach operators, but it is a sensible way of clearing a lot of traffic from the front of the terminal. The issue is not just about convenience; it is about safety and keeping the forecourt clear. There are also security issues to take into account, but I do not want to make too much of them.

At Glasgow airport, there are three freephones in the terminal building. We have also completed a covered walkway and waiting area just outside international arrivals, which should be convenient for people who are returning with all their luggage from Ibiza, for example. That new facility is not yet in operation, because we are not clear about how it will be policed. If we are to offer airport car park operators the further convenience of that walkway and waiting area, we will need to ensure that they have a space to drive up to and that their space is not occupied by a charter coach that has simply found a convenient place to drop people off. As I said, there is no charge at Glasgow airport at the moment, but one will be introduced once operators start making use of the facilities.

Mike Watson: Perhaps I am not quite clear in my own mind. I thought that SIAPRA told us that it had already reached an agreement on the services that it will pay for.

Alastair Smith: Yes, it has. I have just described those services. We are not charging for them yet because they are not fully operational.

Mike Watson: Now I am confused, because SIAPRA does not regard those as services and is not willing to pay for them. Are operators paying anything at the moment?

Alastair Smith: Not at the moment.

Mike Watson: I cannot get the distinction between the services that SIAPRA talked about and the dropping-off facility. I understood that the organisation was already paying for something, but you are saying that no payment has been exchanged between the organisation and BAA.

The Convener: Is there some confusion between what constitutes a service and what constitutes a facility? Alastair Smith described the investment in facilities, which I take to mean the new covered walkway and waiting area. I do not imagine that BAA spends much on providing a phone, but I presume that that is both a facility and a service.

Alastair Smith: Yes.

The Convener: We are simply seeking some clarification on the matter. SIAPRA has agreed in principle to pay for the phone, the use of the covered area and so on. Is that correct?

Alastair Smith: Yes.

The Convener: And those elements are not in operation yet, but they will be.

Alastair Smith: I will double-check the existing arrangement.

Mike Watson: If we are talking about an in-principle arrangement, that makes things perfectly clear and answers my point.

The Convener: I seek further clarification. Will the additional charges that we are discussing be levied on operators to allow them to come on to your forecourts in order to pick up and drop off passengers?

Alastair Smith: No, it is not an access charge.

The Convener: So, to be clear, there is no access charge.

Alastair Smith: No, and there is no access charge for any member of the public who wants to drive up and drop off passengers.

The Convener: And there are no plans to introduce an access charge.

Alastair Smith: None.

The Convener: Apart from the charges on which agreement has already been reached, what other charges do you propose, if any?

Alastair Smith: None that I know of.

Mike Watson: I have one other question for the gentleman who represents Prestwick airport. We have heard about what BAA provides at Glasgow and Edinburgh airports, but am I to understand that you have not invested in a similar facility on Prestwick airport's forecourt?

David Grant: There must be a dedicated area under the Department for Transport rule, which is commonly called the 30m rule. That relates to the security and parking of vehicles within 30m of the front of a terminal building. For security reasons, we have to control who parks where. At present, there is a facility on the east side of the terminal that is commonly used by the off-site car park operator, courtesy coaches from hotels and charter coaches—there is disabled access there. There is a dedicated, signposted area.

Mike Watson: But there is no covered walkway or other facility similar to that provided by the operators of Glasgow and Edinburgh airports.

David Grant: Unfortunately, we do not have £1 million a week to spend on our property, so I cannot claim that the facility is the same quality as the facilities that BAA provides.

The Convener: I should remind you that you are being broadcast.

Mike Watson: I noticed in your submission a comment about the previous owners and operators of the airport.

You mentioned the coach operators and the hotel courtesy coaches that use the facility. Do they pay? I asked a similar question of BAA.

David Grant: They do not pay at the moment.

Mike Watson: Have they been asked to pay and have they refused on similar grounds as apply to the off-site car park operators?

David Grant: No, we will not pursue revenue from those businesses until we establish whether we have the right to do so at law.

Mike Watson: So the case that is currently in the Court of Session is a test case as far as Prestwick is concerned.

David Grant: The main thrust of the submission is that there is a body of competition law that relates to all those issues. It is not a case of one size fits all. We are not BAA; we are a different animal altogether. The SIAPRA proposal takes a broad brush and applies it to every transport facility, whereas the body of competition law

allows every individual situation to be assessed on its economic merits and a decision to be taken on an individual basis. We have made a submission to the Court of Session in relation to the competition law tests. The SIAPRA proposal pushes that to the side and asks for law to be made that rules in its favour without going through all those tests. I am talking about the application of what is already in place for the purpose of establishing rights of access to essential transport facilities and, if there is a charge, what that level of charge should be.

Eoghainn C M MacLean: From the competition perspective, Prestwick airport must be able to reserve the right to charge for bare access. The reason for that in competition terms is that it has created by private investment a transport facility that generates economic activity in its upstream markets—the air service handling markets. That has created a secondary market in car parking. The competitiveness of the airport in its upstream, aircraft-handling market is significantly dependent on its incomes from its secondary market. In that market, the off-site car park operators are direct competitors of the airport. That is not like the example of Mr Flint's wife dropping him off—she is not in competition with the airport.

Mike Watson: I see that. You have referred to quite a lot of case law. It seems to me that, because of the Frankfurt case, you will ultimately prevail.

Eoghainn C M MacLean: That will depend on—

Mike Watson: I am just saying that whether the case is decided in the Court of Session or has to go to the European Court of Justice, the test seems to me to be a general one. I am not talking about the specific case.

Eoghainn C M MacLean: It is not obvious that the airport will definitely prevail. On balance, our argument that the use of the private roads is not essential has a prospect of success, but that is not certain. It is important to make the point that a distinction has been drawn between services that are provided and bare access. I submit that the committee should not take the view that charging for bare access is in some way illegitimate. Such charges may be critical to Prestwick airport's ability to remain competitive in its upstream markets, which will determine the future of the entire facility.

Prestwick airport might not be the only case in which that is so. The analysis of such matters is gone into in competition law. The proposal to provide free access across the board is an economically unattuned proposal and the balancing exercise should be left to the provisions of section 18 of the Competition Act 1998 and the European law that goes with it. It should not be cut

across by a provision that would run right through competition law and might have serious consequences for Prestwick airport.

Richard Baker: I seek clarification so that I understand the debate properly. My understanding is that SIAPRA has indicated that it is happy to pay for facilities of the sort that BAA provides. I agree that there are revenue implications and that we want to retain a level playing field for providers of services at airports. However, I will pick up on something that BAA raised in its initial statement. You say that you have no plans to charge for access but that you wish to retain the power to do so in case of potential problems or situations in the future relating to congestion or safety issues, for example.

Alastair Smith: I will ask Mr Biber to comment, but I should add that congestion can also be dealt with under our road traffic responsibilities.

Eddie Biber: The airport is a highway authority, so it can make road traffic orders and create yellow lines and so on, in consultation with the police. It advertises such provisions in the usual way so that anyone who objects can make representations. In effect, that work controls the traffic. I do not think that byelaws control traffic, although obviously they control what people can do at the airport—for example, people cannot climb fences and take photographs.

Richard Baker: If you can handle congestion in other ways, why do you want to retain the current byelaws? SIAPRA is happy to pay for the dropping-off facility that you provide.

Eddie Biber: If we give a right for anyone to come on to the airport roads, we cannot control—

Richard Baker: Yes. On that point, it seems to me that there is an argument about the facilities that are provided. I thought that SIAPRA said that it was happy to pay for those facilities and that the debate is not about access. Is that a misconception?

Michael Matheson: My understanding, too, is that SIAPRA is quite happy with the idea of a service charge and that it has reached agreement with BAA on that. Its concern is about the fact that BAA can introduce a charge for access to the airport area.

Alastair Smith: I have made it as clear as I can that there are no plans to introduce an access charge.

Michael Matheson: What would the process be if BAA wanted to introduce a charge for access to Glasgow or Edinburgh airport or to any of its airports? Would you have to ask ministers for byelaws?

16:30

Eddie Biber: I do not think that such charges can be imposed under the byelaws, as has been suggested. I have read the byelaws, but if you can tell me—

The Convener: Would primary legislation be needed to do that?

Michael Matheson: How would it be done?

Eddie Biber: It would be done through primary legislation. There is also a suggestion that, because an airport is in effect a local authority under the transport legislation, it could apply to create a charging area. Obviously, the legislative procedures would have to be followed in order to do that.

The Convener: Why have you submitted draft byelaws?

Eddie Biber: We wanted to update the byelaws, which were made in 1986. The byelaws for the south-east airports were updated in 1996 and the Scottish airports wanted to do the same thing. That is what we have done.

The Convener: Is ministerial approval required for you to impose charges for facilities and services on operators?

Alastair Smith: No. Such charges are an arrangement between two private companies. Obviously, the companies will discuss those matters, as we did with SIAPRA, which agreed that the charge is reasonable. That is how we do business.

Michael Matheson: If primary legislation were not required and the charge could be imposed under byelaws—

Eddie Biber: That cannot be done under byelaws.

Michael Matheson: Are you quite clear about that?

Eddie Biber: That is what I am saying, but if you can tell me something different, I will be pleased if you can take me through the process.

The Convener: Let us bottom this out. As far as BAA is concerned, it already has the power to charge for facilities and services. It has reached agreement with the operators on those charges, although the measures have not yet been implemented—

Alastair Smith: I will check that in relation to what I was saying about the Glasgow situation.

The Convener: Is it your understanding that any attempt to charge for access would require primary legislation? Is that BAA's position?

Eddie Biber: Yes. We cannot do that under the byelaws, so some form of legislation would be required. I have not really got the gist—

The Convener: I want to be absolutely correct about your interpretation.

Eddie Biber: My interpretation of section 63 of the Airports Act 1986 is that we cannot do that.

The Convener: Is it your interpretation that primary legislation would be required to change the situation?

Eddie Biber: Yes.

Alastair Smith: Let me add to the convener's summary. There is no intention to charge for access. We are not even considering the subject.

The Convener: Prestwick airport is a different kettle of fish, because it does not have the same history as the BAA airports. Like BAA airports, the airport is entirely privately owned, but BAA inherited certain public responsibilities under the legislation. My understanding is that Prestwick airport is entirely free from such obligations and that the company does not have the same power or statutory duties as BAA has.

David Grant: We have the right to make byelaws, which was conferred when Prestwick was a BAA airport. We have not updated our byelaws and we would not seek to use them to impose charges.

Eoghainn C M MacLean: In relation to the imposition of charges, Prestwick seeks to do no more than to exercise its property rights, just as any other owner of commercial property would do.

The Convener: That is why you are going to court to establish your property rights.

Chris Ballance: When do the witnesses from Prestwick expect a decision in the court case?

Eoghainn C M MacLean: No decision has been issued today; I checked before I came to the meeting. I expect that the decision will be issued within the next month or two.

The Convener: If we need any further information to clear up the issue, we will require a quick turnaround, if the witnesses would oblige us with that. I hope that we will not need further information, but if we do we will come back to you and ask for a quick reply, because the situation must be clear. I think that it is clear, but we might need to clarify one or two technicalities before we discuss our report to the Local Government and Transport Committee. I thank the witnesses for their extremely interesting and useful evidence.

Scottish Rugby Union

16:34

The Convener: Item 8 is consideration of the proposal to take evidence on the current developments in the Scottish Rugby Union. I will hand over to Susan Deacon, who initiated this agenda item, and ask her to explain the background to it.

Susan Deacon: I will start by again declaring a registered interest: I served as a member of the strategic advisory group that was established by David Mackay, the previous chairman of the Scottish Rugby Union, to develop a strategic framework for the future of Scottish rugby.

I am grateful to you, convener, for agreeing to put this item on the agenda for today. In a sense I do not think that I need spend long explaining the background because, in the space of just a week, everybody around this table and in Scotland more widely has seen played out in full public view the sequence of events that has occurred in Scottish rugby.

To summarise, the situation began with a motion of no confidence in the chairman, David Mackay, which was passed by the SRU's general committee. Subsequently, David Mackay resigned. After that, three non-executive directors of the executive board also resigned. That all happened over three or four days. Finally, there was the resignation of the chief executive, Phil Anderton. That has resulted in what is essentially a vacuum at the top of the organisation of one of our major national sports.

As colleagues will know, there is to be a special general meeting at the end of this month. Trying to be relatively neutral, I would say that many people were surprised about the fact that that meeting was pre-empted by the no confidence decision; nonetheless, the meeting will go ahead at the end of the month and the representatives of Scottish rugby will debate the issues in full. In particular, they will have an in-depth discussion about the proposals in the strategic review. The main question that seems to be testing everyone's minds in the rugby world is that of governance.

I think it right and proper for the Enterprise and Culture Committee to take an interest in the situation. Rugby is one of Scotland's major national sports. Moreover, it is in receipt of substantial public funds, to the tune of about half a million pounds per annum.

Colleagues might have caught the statement that sportscotland put out at the weekend. It said:

"Future funding revolves around the independent strategic review ... as of this week, all decisions regarding funding have been put on hold."

That is a serious situation. The strategic review exercise that was being progressed under the previous executive team had a great deal riding on it. Colleagues might recall that the then chief executive of sportscotland, who came before us last year, made repeated references to the fact that sportscotland was hoping that that piece of work would allow a substantial funding package and plans for the future of Scottish rugby to be put in place. That all hangs in the balance now.

I am sure that other members will have views on the events that have taken place. My suggestion is that the committee, taking evidence from the appropriate individuals at the appropriate point—it is rather difficult at this stage to say who those might be—ought to consider where Scottish rugby goes from here.

The Convener: I am happy simply to go round the table—I think that everybody has a comment to make. We will start with your good self, Christine.

Christine May: I do not think that it is appropriate for the committee to involve itself in the minutiae of the dealings between the various clubs that make up the SRU. However, it is appropriate for the committee to do exactly as Susan Deacon has said and to consider what the future holds for one of our key sports. Rugby union is potentially in receipt of a large amount of public money and it has the potential to generate significant revenues for tourism and business in Scotland. I would like us to be able to speak with the people concerned when they are in a position to tell us whither now—that is the important thing for Scotland and for the committee's interest.

Michael Matheson: I agree with what has been said so far. The committee has a responsibility to scrutinise the governance of sporting bodies in general and of the SRU in particular, given that the SRU is in receipt of more than half a million pounds of public money each year from sportscotland. As a category 1 national governing body, the SRU has a specific remit to ensure that its governing structure ensures the betterment and proper development of the sport. My understanding is that some of the changes were proposed as a result of recommendations in a Deloitte & Touche report to UK Sport on governance within national governing bodies.

I agree with Christine May that we should not get involved in the minutiae of developments within the SRU but that we should hear evidence on the wider matter. I can suggest a number of individuals from whom the committee should hear. Should I offer some names now?

The Convener: We will deal with the issue in principle today and have further discussion later.

Murdo Fraser: We need to be a bit careful. Over the weekend, I was contacted by people in club rugby who made representations asking why the committee is getting involved in a matter that is entirely for the clubs. I am conscious of the fact that the Scottish Rugby Union is a private organisation. Susan Deacon has expressed a firm view, both today and in the motion that she lodged, on what should be done. To an extent, therefore, her contribution is compromised by her partisan viewpoint.

Having said all that, I accept that rugby is a major national sport and that it is in receipt of large sums of taxpayers' money that we have a duty to ensure is properly spent. I believe that we should keep a watching brief on the issue rather than rush in at this stage. Let us see how things settle down over the next few weeks. We can consider how to take the issue forward in a month or two.

Richard Baker: I agree with Susan Deacon that we should take evidence on the matter. We all have pre-stated opinions on other issues on which the committee takes evidence and the SRU will be no exception to that. As I argued in the context of our football investigation, the fact that an organisation is an important national sporting body that has knock-on effects in many other areas of Scottish life is a valid enough reason for us to take an interest in it. The Parliament has a duty to consider the issue on that ground alone. Given the involvement of public funds, we have not just a locus but a responsibility to look into the matter. I believe that the course of action that Susan Deacon recommended is absolutely appropriate. We do not need to look into the details, as the issues are quite clear cut. Our involvement could be beneficial, as we might shed some—perhaps more impartial—light on events in the SRU.

Mike Watson: I have little to add, other than that it would be wrong for us to do anything before 30 January, which is when I hope Scottish rugby will sort its house out one way or the other, although I fear that that will not happen. We cannot get into who are the good guys and who are the bad guys in the two sides of the argument. It is possible that they are all bad guys or—[*Interruption.*] Members must let me finish the sentence. It is also possible that they are all good guys.

Certainly, we need to ask questions about the use of public money. I agree with Christine May that we need to consider the value of international rugby to Scotland's economy and tourism industry. I seem to recall that the money that is generated from a six nations game in Edinburgh is in the region of £20 million to £25 million. However, that is not likely to come to a stop. I am also concerned about Scotland's stature. Rugby is one of the main

ways in which our country is projected worldwide and is given status and standing. Even before the events at the SRU, the message that was being sent through rugby was not particularly positive. As the committee with responsibility for sport in Scotland, we have a duty to examine what is happening within rugby to ensure that the best use is made of public money and that a positive image of Scotland is projected through Scottish rugby.

That brings us back to the need to ask about Scottish rugby's future, which involves what is happening in youth and development work. The only people whom we can ask about that are those who are involved in the game. We should not just go for people at the top or for whatever committee is arguing with whatever other committee. The discussion will be about the future of Scottish rugby and how the present situation will affect it—I suspect that the effect will not be positive, but we may be of assistance in drawing out some of the issues. I agree with Richard Baker that, given that public money is involved, we have a duty to ask the people who are entrusted with that money what is happening.

16:45

Chris Ballance: We must be clear about the objectives of the evidence-taking session. The actions that the committee can take to sort out Scottish rugby's immediate problems are probably relatively few. I suspect that the matter is more down to sportscotland in the immediate couple of weeks. However, we can try to find out what has gone wrong, what lessons can be learned and what future direction we want Scottish rugby to go in from a political point of view. We should have the evidence-taking session in about a month, just after the February recess, when some of the dust will have settled and what is going on will be slightly clearer.

The Convener: We are nearly at one on the issue, although obviously there are worries and reservations. I will give my sense of members' thoughts. The first is that the committee can legitimately take an interest in the issue and should do so. The second is that the format of that interest should be along the lines that Susan Deacon suggested of a one-off hearing rather than an inquiry. The third is that, as Chris Ballance said, the most appropriate timing would be to let any heat from the special general meeting of 30 January die down a bit—we should not rush in too quickly. I suggest that the earliest and most appropriate date for the session is 22 February—the first meeting after the February recess—which will give a three-week gap after the special general meeting. Another advantage of that date is that it allows us, either on 1 February or 8 February, to discuss whom to invite to give evidence. That will

give the clerks time to invite those people and, I hope, ensure that they attend the meeting.

The final point that members have made is that we must be clear about what we are trying to achieve. I underline Mike Watson's comments on that. Our hearing should concentrate on the future, rather than on trying to apportion blame for the past. Are those suggestions generally agreed to?

Members indicated agreement.

Susan Deacon: Your summary is fair, convener. One point that none of us has factored into the discussion is that, as well as public funding, there is also a major issue about corporate support and sponsorship for the sport. That is another reason why restoring stability, in whatever shape or form that might take, is so important. I hope that we can, as Richard Baker suggested, add value to the process by having in that timescale a discussion that, as you outlined, starts to look to the future so that progress can be made.

The Convener: I am always reluctant for the committee to get involved in the operational matters of any organisation, let alone one that is entirely independent. We all agree that the importance of rugby is such that there is a legitimate public interest for a host of reasons, but we will not get involved in the SRU's operational issues, which are entirely a matter for that organisation, its sponsors and other stakeholders. Do members agree to that?

Members indicated agreement.

The Convener: We should now move into private session, but it would be daft, given the time, to start our discussion on our report on the Transport (Scotland) Bill. We still have plenty time to report back to the Local Government and Transport Committee, so we can have that discussion next week. I apologise for the length of today's agenda, but we were trying to accommodate the two ministers. We had to extend the agenda—as happens from time to time—because the Minister for Enterprise and Lifelong Learning is going to China on Saturday. Nevertheless, we got through a fair amount of work and we can fit in the discussion of our report on the Transport (Scotland) Bill next week. Do members agree to have that discussion next week?

Members indicated agreement.

Meeting closed at 16:49.

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