



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Thursday 15 November 2012

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

15th Meeting 2012, Session 4

CONVENER

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

DEPUTY CONVENER

*Hanzala Malik (Glasgow) (Lab)

COMMITTEE MEMBERS

*Clare Adamson (Central Scotland) (SNP)

*Roderick Campbell (North East Fife) (SNP)

*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

*Helen Eadie (Cowdenbeath) (Lab)

Jamie McGrigor (Highlands and Islands) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Chic Brodie (South Scotland) (SNP)

Patricia Ferguson (Glasgow Maryhill and Springburn) (Lab)

James Johnston (Clerk)

Dr Fabian Zuleeg (European Policy Centre)

CLERK TO THE COMMITTEE

Ian Duncan

LOCATION

Committee Room 2

Scottish Parliament

European and External Relations Committee

Thursday 15 November 2012

[The Convener *opened the meeting at 09:01*]

Decision on Taking Business in Private

The Convener (Christina McKelvie): Good morning and welcome to the European and External Relations Committee's 15th meeting in 2012. I make the normal request for all electronic devices and mobile phones to be switched off, as they interfere with the broadcasting system. We have apologies from Jamie McGrigor, who is not here, for understandable reasons.

Under agenda item 1, does the committee agree to take in private item 6, which is a discussion in relation to a Scottish Government country plan?

Members *indicated agreement.*

Eurozone Crisis (Impact on Scotland)

09:02

The Convener: We move on swiftly to our report on the eurozone crisis and its impact on Scotland. I welcome to the meeting Dr Fabian Zuleeg, who is the chief economist at the European Policy Centre. He has kindly come along to give us his thoughts on the eurozone crisis and the committee's report. I invite him to make a brief opening statement.

Dr Fabian Zuleeg (European Policy Centre): Thank you for inviting me to give evidence. It is always interesting to talk about the eurozone crisis—it always means checking the news in the morning, to see whether anything else has happened. This morning, I think that we are safe.

I will briefly describe where we are in the crisis. It is important to emphasise that it is not simply a public finance crisis. It is a public finance crisis—some eurozone countries had a lot of problems with excessive debt—but we are talking about a much more comprehensive crisis. This is a financial crisis—it all started in the banking sector, which is still in a fragile state across Europe. It is an economic crisis and a crisis of growth and competitiveness in the crisis countries and in the European Union as a whole.

In a number of countries, it is clear that the crisis is now social. Unemployment is at completely unacceptable levels—a 25 per cent unemployment rate and a 50 per cent youth unemployment rate are certainly crisis levels. It is a political crisis that has already led to many political changes, and a number of national Governments have fallen. In Greece and Italy, Prime Ministers were replaced because of the crisis, with a lot of pressure from the European level.

Underlying all that is the fact that the situation is a European political crisis. To put it simply, we had monetary union but we did not have the economic and political union that was needed to underpin that. We did not have the governance that we needed to make economic and monetary union work.

We are now trying to deal with both the immediate crisis and the longer-term crisis. Obviously, the focus of the immediate crisis in a number of countries has been the public finances, with debt levels in countries such as Greece rapidly approaching 200 per cent of gross domestic product. However, although debt levels are still creating very significant problems, we are in a slightly better position than we were a few months ago, at least as far as the immediate crisis

is concerned. Probably the most significant intervention has been the European Central Bank's statement that, in essence, it will do whatever it takes to sustain the euro. That is what the markets needed to create the certainty that the euro would exist in future and, since that statement was made, the immediate crisis has eased significantly. There is much less speculation about any agreed exits from the eurozone, although some people still think that that might be the best option.

There have also been political changes. For example, the elections in the Netherlands unexpectedly produced a pro-European coalition, which disproved the point that if you carry out reforms or support eurozone Governments you will lose your next election. The fact that that did not happen in the Netherlands was positive.

Moreover, Germany has changed its attitude. As far as the crisis is concerned, it is by far the most important country economically and politically; not only is it the economic heavyweight of the eurozone, but it is very clear that, politically, no solution to the eurozone crisis can be reached without it. It has committed to a long-term solution to the euro crisis which, put simply, is all about having significantly more economic and political integration. For Germany, it is very important to have political as well as economic union, because given the legal limitations on the country it cannot go much further than it has already gone without political union.

At the European level, we have put crisis mechanisms in place. For example, the European stability mechanism is now up and running and providing funds to countries and banks that are getting into trouble. Of course, the countries that access those funds have to submit to a programme of reform—or what is often called an austerity programme. There is also a tacit acceptance that the European Central Bank can now do things that it did not do before the crisis, mainly buying the debt of eurozone countries on secondary markets, which is by now quite a large-scale operation.

We also have put in a huge array of economic governance measures such as the so-called six-pack, the two-pack and the fiscal compact. I will not go into detail on all of those measures but will say that their main focus is discipline in public finances, ways of enforcing that discipline and closer surveillance of and checks on what is happening in member states. That is a clear indication that the European Union is changing. In the past, what happened in a member state was pretty much the member state's business. That is no longer the case, and we now have a very clear process by which member states must account for their economic policies at a European level, with

sanctions if they do not follow the rules that have been put in place.

A banking union is starting to be put in place, with common supervision of European banks through the European Central Bank. That is the first step. Further steps are envisaged, such as common deposit insurance guarantee schemes. However, this will be a more lengthy process, not least because some countries in the EU are not particularly keen on European action in the banking field.

There are also wider considerations about what might have to happen in the financial sector. The Liikanen report looked at how the financial sector needs to be reformed to ensure that the kind of crisis that we have seen does not happen again, which basically involves functional separation of the core banking business and the more speculative investment banking side. That has not yet been endorsed but I expect that we will see more action in that area.

We have a growth pact in place. The recognition has arrived at the European level that this crisis will not be solved without growth. That received further impetus from the election of President Hollande who, in the election campaign, strongly advocated growth. The growth pact that we have at the moment is useful but does not go far enough. It has some limited measures on how we can spend unspent structural funds and measures in respect of the European Investment Bank, but it is a relatively small growth impulse, and we are already lagging behind in implementation—it is not happening fast enough.

I will finish on the issue of the long-term trajectory. My belief is that the union has already changed significantly but not enough. We will have to go much further in the integration process, certainly in respect of fiscal union and how we collateralise debt at the European level. We are already collateralising debt: if the European Central Bank buys up debt from the crisis countries, that is a form of collateralisation because we then all carry the risk. However, there are possibly much better, more structured ways of doing it, which also have political legitimacy associated with them.

We will continue to have to deal with crises. It is clear that banking systems are still fragile. We will still have problems in a number of countries—Cyprus is a recent case. The problems will continue. We will have to have more growth-enhancing measures, otherwise the current reforms will not be politically feasible in the long run. The countries that have to implement the reforms will not vote for them for ever if they have 25 per cent unemployment.

The big thing that is still on the table is political union and what we need to change to legitimise all of the measures that we have put in place and the additional measures that will come. That is still a big open question. We will have a report from the presidency in December, which will start to discuss some of those issues, but at the moment it is not clear what direction it will go in. Some people are trying to limit that a lot—they want very limited or no treaty change; others are talking about a much broader discussion about where the European Union will go.

It is clear that we have already had more integration and that there will be more integration. That creates some challenges for particular countries. In my view, it is not feasible to have a multispeed Europe, in which countries pick and choose which parts of the European Union they can participate in. To take one example, the banking union is clearly an important part of the economic governance package, but it will affect the single market. There is no way that the free movement of capital cannot be affected by those kinds of rules. In my view, separating out the single market from economic and monetary union is an impossible exercise.

For countries, there will be a choice that will have to be made. To put it very starkly, that choice is whether they want to be in this new European Union, which will look very different from how it looks at the moment, or do not want to be in it.

09:15

The Convener: Thank you very much. At this point, I welcome Chic Brodie, who has a particular interest in our discussion. If he wants to ask a question, he can give me a nod.

I will open the questioning. The impetus for our committee inquiry was David Cameron's use of the veto last December over the fiscal compact and everything that it contained. One of the impacts of that on Scotland was a hardening of attitudes in Brussels towards the United Kingdom and the growth of a very Eurosceptic attitude in the UK towards Brussels. That has an impact on Scotland because, obviously, Europe is a huge market for Scotland in many ways—not just in trade but in culture too. Can you give any insight into how that whole exercise played out and into the impact that it had on Scotland?

Dr Zuleeg: What we are seeing at the moment is a change in the UK's relationship with the EU. That change is not a sudden change but has been going on for a long time. Certainly, the UK has for a long time been the most Eurosceptic country. From opinion polls and the background information that is available, it is clear that the UK

has some particular issues with the way that the integration process is going.

We are now seeing a hardening of some of those attitudes, as you said. For the first time, we have seen discussion in Brussels of the possible exit of the UK, which has always been taboo. The agreement has always been that the UK should be part of the European Union, and it has never been mentioned that the UK might not be part of the European Union. Now we are talking about that and there is a realistic chance of that.

The key issue is the way in which the European Union works. With 27 countries—soon to be 28—there have to be compromises, no matter how strong a country might be or how determined it might be to defend its national interests. The European Union cannot function without compromises. Germany has already had to accept a lot of things in the euro crisis, despite the fact that Germany is clearly the most important country for the resolution of that crisis. For example, a lot of things that the European Central Bank is doing now cause deep levels of unease in Germany. Germany is very unhappy about some of the things that are happening, but it still has to compromise and come to the table.

If we are getting to a situation in which a country is choosing no longer to be constructive and to use the veto a priori—without even having the discussions—we have a problem. There is great concern that in negotiations on the budget and the multi-annual financial framework, we will see another veto from the UK, and that the same will happen in relation to the banking union. If that is becoming the main UK tool for European policy, the relationship will have to change over time.

The Convener: That is a worrying development. Scotland's attitude has always been much more that of a Europhile than a Eurosceptic. If a veto is used on the multi-annual financial framework, what will the impact be on the relative and fragile stability that has developed in the past few months? Will the situation be tipped back into crisis?

Dr Zuleeg: There is a question of timing. It might well be that at next week's summit in Brussels there will be no formal veto but negotiations will not be concluded. That raises a lot of questions for the European Union, because the general consensus is that we need the decision this year if we are to be able to start programmes from 2014. If the decision goes into next year, delays in the start of the new programmes will become a virtual certainty.

There is a problem, because it is unlikely that we can go from the November summit to the December one and get a resolution in the meantime. There is a very short time between the

November and December summits. More important, what would materially change? What would be on the table that would be acceptable, if the UK carried out its threat to accept only very significant cuts to the proposed budget?

There is also the question of the extent to which the issue will become entangled with the discussions about economic governance. That is the last thing that other countries want; they want the December summit to focus on and get resolution on the economic governance question. However, if that happens, we will not be able to discuss the multi-annual financial framework until some time in the new year, most probably February, and the question is what new proposals would be on the table at that point.

We are in a situation that is different from the situation in relation to previous multi-annual financial frameworks. The Lisbon treaty changed the game, because there are now provisions for what happens if there is no budget agreement. However, the situation is still very open and there are a lot of uncertainties, because the provisions have never been used. There is a big question about what they actually mean in practice.

The Convener: Could the UK's actions during the next few months determine whether there is further uncertainty—or stability, should it compromise?

Dr Zuleeg: Yes, absolutely. I work in a think tank and I always have a bit of a problem when we talk about the multi-annual financial framework, because it is not what we should be spending our money on at European level. However, for a variety of reasons, it is very difficult to change things. Currently, the most important thing at European level is to get an agreement. We cannot have a situation in which we continue the negotiations indefinitely; we have enough problems and do not need to add another. The best thing for stability and certainty would be an agreement, but that looks unlikely.

The Convener: Thank you. I could go on asking questions for a while, but I am hogging the floor, so I will bring in other members.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): What part is national debt playing in the current crisis in Europe? It is surely no surprise that countries have had significant national debt over many years. The UK's national debt is about a trillion pounds—that is not a direct criticism of the current UK Government, because predecessor UK Governments left office with huge amounts of national debt. Is national debt becoming more significant because of the banking crisis? We have had national debt and recessions for a long time. What is different this time round that has caused the crisis that we are in?

Dr Zuleeg: A number of things have changed. The banking crisis certainly had a big influence. To put it simply, we had very cheap and easy money in the period running up to the crisis. When the crisis hit, banks had to be far more selective about how they were lending their money. That meant that they re-evaluated the portfolios that they held, which included national sovereign debt.

However, there are other issues. One concerns the question of long-term growth prospects. A country can have a significant national debt if the markets believe that, in the long run, its economy will grow very healthily. That has often been the case for developing countries, in particular. In essence, if the country's growth rate is relatively healthy, it is difficult to get into trouble. When the economic crisis hit, there was an effect on growth, which aggravated the situation.

There is also the question of how the national debt is structured and who holds it. In a number of the crisis countries, a lot of the debt was held outside the country. Generally speaking, if the debt is held by citizens, and as long as those citizens are still willing to lend to their Government, a country can have very high debt levels and sustain them for a long time. Japan is a classic example of that. It has a very high debt level, but because the debt is held predominantly by Japanese citizens, the country does not really have any problems financing it.

It was not just the level of debt that changed, but the cost of having that debt. With very low interest rates beforehand and no spreads, which are in essence what markets price risk at, it was very cheap to hold even large levels of debt. Greece, for example, paid the same interest rate as Germany for the whole period of the economic and monetary union that created the euro.

For 10 years, debt was very cheap for a country such as Greece. When the markets realised that there was a risk, and when that risk was then aggravated because there were discussions about Greece possibly dropping out of the eurozone, those spreads went through the roof. We are still in a situation in which a country such as Greece finds it impossible to finance itself on the open market because the costs are so high that it would pay a punitive interest rate that it could not possibly pay. We have to keep supplying Greece with new tranches of money because it cannot finance itself on the open market.

The long-term question for Greece, which is a special case, is whether it will ever be able to repay that level of debt. When we look at its growth rate and the structure of its economy, nobody believes any more that it will. Greece will have to have some form of debt forgiveness at some point in time. We can do that in an organised, structured way, or in a chaotic way if

Greece defaults, but it is clear that Greece will never pay back that amount of debt.

Willie Coffey: I was going to ask about Greece, but you have introduced it. Greece is by no means the biggest economy in Europe; it is a fairly small economy. Why is it having such a major impact on the European situation? Is it because of the reason that you have given—that it just cannot afford to service its own debt? Why is it such a significant problem when it is such a small economy in comparison with Europe as a whole?

Dr Zuleeg: That is a very interesting question, because it demonstrates clearly how interdependent the European economies have become, that a small economy with 3 per cent of the eurozone GDP can threaten the whole economic and monetary union.

09:30

We simply did not have systems to deal with what happened in Greece. When the crisis started we were faced with the situation that Greece was, in essence, threatening to go bankrupt. If Greece had gone bankrupt then, I firmly believe that the situation would have been a lot worse than it is now. The problem with Greece was that, for example, all the major large banks—especially those in continental Europe—held large amounts of Greek debt. For a long time, that was seen as a very safe way to lend; Greece could borrow whatever it wanted on the open market. You have to remember that we already had a banking crisis at the time, so if we had added a Greek default to that there would have been a meltdown of the financial system. Even countries outside the eurozone that had never been that concerned with a country such as Greece were concerned. We had warnings from the US, for example, which said that we could not risk that kind of meltdown at that point.

With that kind of contagion, the problems in a country such as Greece very quickly multiply through the eurozone and beyond. It is a clear demonstration of interdependence. We are at the point where we have to find mechanisms through which we can have the right governance for all the countries in the monetary union, otherwise it will not work in the long run.

Hanzala Malik (Glasgow) (Lab): Thank you for your presentation. You alluded to a number of issues, primarily about the UK's current attitude to Europe. It is an interesting theory, because the UK itself is going through a difficult time concerning its geographic boundaries and what may or may not happen in 2014 regarding Scottish independence, which would also add complications. This issue will be fluttering around for a period of time. If the UK decided to pull out of the European Union I

think that there would be a meltdown of the EU, because the UK's industry is far bigger than Greece's industry and it has a bigger share of involvement in Europe. There would be very serious implications and it is unlikely that Britain would be allowed to pull out of Europe unilaterally. There would be a lot at stake.

There is another complication. We have a theory that anyone who lives in Europe has the right to join the EU and Turkey is knocking at the door to join the EU as a European nation. Although its first attempt to join was unsuccessful, its second attempt may well be successful. Turkey would bring a huge economic benefit to Europe because it has developed far more rapidly than most of our European counterparts and it would probably be an asset.

What are your thoughts on the UK's EU membership and how that could affect Scotland, and what are your thoughts on Turkey's continuing application to join the EU?

Dr Zuleeg: I hope that I did not create the wrong impression about the impact of the UK leaving. I think that it would be a negative thing for both the UK and the rest of Europe. The UK should be in the EU and the UK has a lot to offer. The other side of the coin is that the UK is highly dependent economically and politically on the EU. I believe that the UK should be in the EU, but that is in question because of how constructive the UK is being and how willing it is to take part in what is happening.

The legal situation is that, since the Lisbon treaty, a country can leave the European Union. Beforehand, we did not have that provision, but there is now an exit clause. Therefore, if there were a move in the UK to leave the EU, it could simply announce that it was leaving and nothing could be done. That makes the UK different from Greece, for example. There is no exit clause from the economic and monetary union—membership of the euro. It is not possible to leave the euro, but it is possible to leave the EU. There are big differences.

If the UK left the EU, it would have a negative effect on the EU but it would have an even bigger negative effect on the UK. When economies are struggling across the board, the last thing that we need is economic disintegration—it makes no sense whatsoever. However, the political reality is that, if it happened, the EU would have to accept it.

The question about Turkey is difficult. Turkey has been a candidate for a long time now. Not much progress is being made because there is still strong opposition in some countries to Turkey joining the European Union on cultural, political and economic grounds. The attitude in Turkey is

also changing: it is becoming much more of a regional power, much more confident in itself and much clearer about its important strategic role in its region.

It is a real pity that we are not making progress. Turkey would be a useful addition to the European Union with conditions attached—certain rules need to be followed—but the willingness must exist. We should set a realistic target date for Turkey's accession and set out clearly what it needs to do to achieve that. However, at the moment, we are, in essence, postponing the accession process indefinitely because of the opposition of individual member states. That is not a good message. It also means that the European Union as a whole loses influence in the region.

Helen Eadie (Cowdenbeath) (Lab): Good morning and thank you for coming.

We hear much about austerity throughout Europe. We are familiar with that word under David Cameron's prime ministership in the UK. It has led to the huge strikes that took place in Europe yesterday. We even watched officials of the EU walk out on strike, too. There has been a belief that the austerity measures and the cutbacks in public expenditure would allow a return to a degree of acceptable performance, but that was predicated on a belief that the private sector would help growth in the countries that took that approach. Certainly in the UK, the private sector is simply not delivering. We are not getting the level of growth that we need and I think that that is true throughout the rest of Europe, as well. Our eyes are also on what will happen in the USA with President Obama's re-election and the tax cuts that might take place if he cannot get the right measures agreed to by January.

A perfect storm is brewing. It is not only about what is happening in Europe, but what is happening in China and the USA. Do you really believe that austerity measures are the answer? The private sector is simply not delivering, and each depends on the other.

Dr Zuleeg: That is difficult to answer, because a lot of measures are grouped under the term "austerity measures". There certainly was and is a need for public finance consolidation in a number of countries, if not all countries, given the long-term trajectory. Public finance consolidation is not necessarily the same as austerity measures. For example, there has been a lot of emphasis on cutting spending and much less emphasis on increasing taxes, so there is a big question about how exactly the public finances are consolidated.

There are also a number of structural reform measures, which have been called austerity measures, although many of them are not austerity measures. Many of them are about

changing the labour market, for example, by trying to tackle protected professions, which are still a big issue in a number of countries, and by trying to open up markets in some areas.

There are many different measures, but if we are talking about the crude cutting of public expenditure, that has not worked. It has not worked for the crisis countries, because they have gone in a downward spiral. In essence, the current situation means lower growth; lower growth means lower revenues; and lower revenues mean bigger deficits. Therefore, the deficits in a number of the crisis countries have actually been increasing, not decreasing, because those countries cannot get out of that spiral by themselves.

The question is how we best address that. As I emphasised in my opening statement, we do not have growth measures. We need to provide positive measures and impulses to those economies, particularly as the international environment is even more worrying and it is unlikely that a lot of positive growth impulses will come from the international economy. Therefore, we need to do more to help those countries.

From the start, we have advocated that we need to maintain some form of medium and long-term positive perspective. It is clear that there will be a lot of economic suffering in those countries. Quite often, the media in northern Europe gloss over the fact that life is incredibly hard for people in Greece, Portugal and Spain who do not have jobs and can no longer pay their rent. There are social indicators, such as the number of young people who are moving back into their parents' houses because they can simply no longer afford an apartment. That kind of thing is happening all over the place. We need to give those countries some hope for the future. Maybe there needs to be pain in the short term, but if we start to cut all the things that are important for long-term growth, such as investment in education, infrastructure and innovation, we will have a long-term problem as well.

Helen Eadie: I suppose that there are implications for democracy. In some of those countries, technocrats rather than democrats are in position. Will you comment on that issue?

Arising from the treaties, we are seeing that new member states must join the euro. Latvia and Romania must join the euro by 2014. Are those countries on track and will that go ahead, given what is happening in other parts of Europe? I believe that Bulgaria must join, too, but it does not as yet have a date set.

09:45

Dr Zuleeg: The issue of euro membership is a little bit confusing. Any EU member that does not

have an opt-out is committed to joining the euro at some point and at the moment only Denmark and the UK have a formal opt-out. However, in order to join the euro, you have to fulfil a number of conditions—if you do not do so, you cannot join—and countries are assessed on whether they are ready. Of course, if you do not want to join, you can fail the assessment. Indeed, it is very easy to fail, because the criteria include being a member of the exchange rate mechanism, which is entirely voluntary—no country can be forced to join—and having a stable currency in the mechanism for at least two years. Sweden, for example, is not part of the exchange rate mechanism and therefore cannot be forced to introduce the euro. No country in the European Union can be forced to introduce the euro.

Despite its problems, however, the euro is still quite an attractive proposition to a number of countries, and they still want to introduce it. The question for them is whether they will be able to fulfil the various conditions by the date that has been set. Frankly, I think that it will be very difficult for any country to fulfil what are quite strict conditions, so I do not expect to see any enlargement of the eurozone in the near future. Of course, we shall see. There is still time for some of the criteria to be met, but at the moment it is a very big ask. The only country that has been able to get in recently has been Estonia, which is in a very special economic position; however, in some areas it, too, was quite close in terms of the levels that were set by the criteria. As a result, I think it unlikely that other countries will fulfil the criteria—certainly not Romania and Bulgaria for the foreseeable future.

Helen Eadie: How does that sit with the requirements of the treaty, which makes it clear that any new EU countries must join the euro? It seems that we have one rule pointing in one direction and other rules pointing in other directions.

Dr Zuleeg: The treaty says that countries must commit to joining the euro when they fulfil the conditions. If they do not fulfil the conditions, they cannot join the euro.

The Convener: If I have time at the end, I will let Helen Eadie back in, but three other members want to ask questions and we are running out of time.

Clare Adamson (Central Scotland) (SNP): I have two very quick questions. During the summer, I attended the Scotland Europa conference at which you were a panel member, and we talked at length about the UK's relationship with the EU after the use of the veto. What impact will the recent vote at Westminster not to increase the European budget have on the MAFF negotiations and the setting of the budget?

How is the UK being viewed as a result of that decision at Westminster?

Secondly, when you talked about the collateralisation of the debt, you said that we are all exposed to the risk. How does the UK sit within your definition of “we”?

Dr Zuleeg: The House of Commons vote on MAFF has made the situation even more complicated. Although the vote itself is non-binding, it clearly sets the tone for what the UK Government is asking for in Brussels.

An undoubted political consideration for a number of countries is that it is quite good for the UK to ask for the cuts, because they, too, want them and it is much easier for them to say, “It’s the UK that wants the cuts, not us. We are simply going along with it.” Of course, it is all part of the normal negotiation process. However, if the vote means that the UK is no longer willing to compromise, we will have a problem. Indeed, that is what we are facing at the moment. The worrying sign is that it is no longer clear whether the UK Government is able to get a compromise through the House of Commons. If that is the case, we will be back to the veto stage.

I am sorry—what was your other question?

Clare Adamson: It was about the risk to the UK from the collateralisation of debt.

Dr Zuleeg: Although there is certainly a direct risk to the countries that are part of the economic and monetary union through the European Central Bank, the fact is that our financial system is fragile and any major problems in the banking system will quickly spread from that union to the rest of Europe and, indeed, will trigger a global crisis. Those risks are still very real.

There are also risks from taking on these responsibilities. The biggest concern of countries such as Germany is that collateralising debt without any political or economic integration will create moral hazard, and there is a fear that countries will continue to borrow unsustainably in the knowledge that someone at a European level will step in. That is why debt cannot be collateralised without having political and economic integration at the same time.

Roderick Campbell (North East Fife) (SNP): Good morning. Could you put more flesh on your comment that it is not feasible to have a multispeed Europe and, in particular, on your point about banking union affecting the single market? Does that not pose particular difficulties for the UK Government, given its current views? Will the UK ever embrace a one-speed Europe?

Dr Zuleeg: I should make it clear that I am not saying that a multispeed Europe is an impossibility; indeed, in a number of areas, we

already have different arrangements and things moving at different speeds. For example, some countries are part of the Schengen agreement and others are not. I do not think that we would have a problem in such areas.

When we come to economic integration, however, and look at what full economic union means, we find that it is clearly linked to the single market, which covers taxation, public spending, banking regulation and supervision, mobility of capital, mobility of people and so on. All of those things will be affected by the integration process. We have maintained what I would call a fiction at the European level in that, whenever we put these things in place, we always say in the first paragraph that they should not affect the single market. In the long run, that position cannot be maintained. Of course the single market will be affected if the banks that are in the eurozone have a different supervisor from banks that are outside the eurozone. That must affect the single market.

What that means for the UK is the big long-term question. Is the UK willing to be part of that? I do not know. However, I certainly do not think that we can pick and choose. The fact is being emphasised that the UK would retain a veto on all financial sector regulation but, in the long run, that cannot be maintained. We must be able to make rules effectively at the European level to govern banks. That cannot happen if we give one country a veto on everything.

Roderick Campbell: What is your best guess about where Europe and the crisis will be in 12 months' time?

Dr Zuleeg: We will be pretty much where we are now. The immediate crisis will not go away, but we will not get as close to the wire as we have in the past couple of years. We will do what one of my colleagues has called muddling through—we will continue to muddle through. The big question is whether we are on the right trajectory for the longer-term resolution.

What political integration steps will come next is another big question. We do not know exactly where we will go, but something ambitious must be on the table. We must see at least what the goal is. It will take quite some time to put all that in place and not everything will happen at the same time.

Significant additional integration steps will take years to implement. There is no question but that the European system has moved quickly in the crisis, but fundamental issues such as political union need treaty change and a convention at the European level and they take a number of years. The situation will not be resolved quickly, but we should at least be able to see the trajectory.

Roderick Campbell: From the point of view of Scotland, which has a referendum coming up in 2014, there will be a little more clarity, but not much more.

Dr Zuleeg: Probably—yes.

The Convener: I call Chic Brodie.

Chic Brodie (South Scotland) (SNP): Convener, thank you for allowing me to participate.

Dr Zuleeg talked about the conditions and the need to enforce public finance discipline. The conditions for the ERM put limits on budget deficits and said that debt should be no greater than 60 per cent of GDP. Many holes have been shot in that—for example, Greece's level is at 200 per cent, and some countries, such as Italy, were allowed to join the ERM without achieving the targets.

You might have answered part of my question in your previous answer. In effect, Germany—and not just Germany—is buying back its own debt in Greece. Whether it likes it or not, the UK is strapped, because the French banks have a large share in Greek debt, and the Royal Bank of Scotland is a 40 per cent creditor to the French banks. Whether we like it or not, the UK faces that situation.

Creditor nations such as China are unhappy about writing off debts. Germany and other European countries need the market, although it is small, to be sustained for their goods. How will the political union that will be required to effect the fiscal union be achieved?

10:00

Dr Zuleeg: A lot has already changed. It is true that, in the past, we had the stability and growth pact, which was supposed to guarantee public finance discipline, but that has obviously not been the case. One reason why the stability and growth pact did not work was simply that Germany and France ignored it when it did not suit them and changed the political game afterwards. To ask countries such as Greece to respect something that Germany and France clearly do not respect was politically impossible.

However, there have been a lot of changes and I would not underestimate the impact that they are having. I always say to reporters that there may be a problem with moral hazard, but who would want to be the Greek Government at the moment? Who would want to be at the point at which they can no longer make independent decisions, they struggle to get a coalition together to just go from week to week and they are fundamentally unpopular with their own electorate? Who would want to be

Greece? Who would want to be the Government in other countries, either?

Things have changed and countries no longer get away with things. Countries are under far greater scrutiny than they ever were at European level. A country that does not fulfil its public finance obligations will be publicly discussed and will have to justify itself in front of its peers. That is a big change; we are interfering quite a lot at European level in what happens with national public finances.

Chic Brodie: We are not just talking about Greece, are we? We are talking about Spain, Portugal and Italy. Presumably, at the end of the day, the question comes down to who will drive the political union.

If I may, I will ask one other question. Scotland is using capital investment to try to secure economic growth—rightly, according to senior international economists. Would it not be better to have something like the Marshall plan that was invoked by the Americans to support the European economy after the second world war? Would it not be better to have something like that to generate capital investment and to come up with some agreement with the individual countries that a programme of investing in capital and infrastructure would be better than simply putting money into countries through debt?

Dr Zuleeg: I emphasised Greece because it is a particular case, but we can look at changes in other countries. Berlusconi lost his job because, in essence, he could no longer credibly interact with the European Parliament. The Italian system did not kick him out; it was the European system. Politically, a lot has changed already.

Should we have a Marshall plan? We called it a new deal, but it is the same idea. We need something whereby we invest particularly in the crisis countries to help them to grow—be that in infrastructure, education, or the creation of the cross-border networks that we need for the single market to work properly. There are some moves in that direction, but what there is at the moment is far too small. There is a lot of discussion about the idea of a fiscal capacity, which would in essence be a eurozone budget. We do not know, but perhaps part of the idea behind that is to go in that direction.

If we do not do something decisive now to help those countries to grow, we will very quickly get to the point at which the whole process will become politically unfeasible.

The Convener: We are right on time. I thank Dr Zuleeg for his evidence to the committee, which we found to be extremely helpful and informative. I hope that we will welcome you back to the committee at a future meeting.

Dr Zuleeg: Thank you very much.

10:05

Meeting suspended.

10:10

On resuming—

“Brussels Bulletin”

The Convener: Welcome back. Item 3 is our “Brussels Bulletin”, which has been very ably put together by Dr Ian Duncan. We will take comments from members after Ian’s presentation.

Ian Duncan (Clerk and European Officer): I want to touch on three broad areas this morning. You will notice that all the substantive points in the bulletin this time are about economics, finance and the eurozone situation. As Dr Zuleeg said just a few moments ago, you have to read the papers almost every day to keep abreast of these things, but there are a couple of things to note.

The Greek Parliament has now passed its austerity budget. I draw your attention to the bullet points in the note, which let you see what the people of Greece are up against. That budget includes quite a severe suite of conditions: a change to the retirement age; pension cuts; salary cuts across the board; cuts in the minimum wage; holiday benefit cuts; severance pay cuts—and it goes on. Despite that having been passed, eurozone ministers have not yet been able to unlock the next tranche of money. That should happen at next week’s European Council meeting, but it has not happened yet. That is a reminder of what is being asked of and expected from the people of Greece right now.

On the multi-annual financial framework, it is quite telling that last Friday’s discussions on the annual budget for next year broke down in acrimony. In that discussion on 12 months’ worth of funding, the Parliament and the Council were unable to reach agreement over a €9 billion shortfall. That is how much is missing between the commitments that the EU has made and what the budget would actually pay for. The talks collapsed over €9 billion. If that continues, the budget will be rolled over month by month—I know that Clare Adamson and I talked about that after a previous meeting—but that is another reminder of what the member states and the European Parliament are up against in the discussions on the multi-annual financial framework, where considerably more than €9 billion will be at issue. That is something to note.

The bulletin includes some comments on where things are on that budget. The Cypriots’ ambition is to bring some sort of conclusion to the early stage over the figures, but they have not been successful in that thus far. They are looking for a rise in the budget of around 4.8 per cent, but you will know from reading the papers and following the news that many others would like that to be higher.

The European Parliament, which has a much stronger role in the budget this time around, is very unwilling to sacrifice anything. In many ways, the elected members inside the European Parliament are stating very clearly, “You in the Council have made these commitments and you have said that this is what you wish to do. You cannot make these commitments unless you are going to fund them. Otherwise, it seems a bit silly.” The members of the European Parliament are being the custodians of propriety, if you like, whereas the member states, as you will see from other comments in the bulletin, are seeking to cut and trim wherever they can.

For example, I know that our predecessor convener, Irene Oldfather, was very much excited by the globalisation adjustment fund, but some of the contributing member states now wish to eliminate that entirely. At the time, that fund was seen as one of the most important measures to support countries going through job losses as a result of globalisation, but member states are seriously considering eliminating it—not just trimming or cutting it but getting rid of it. Again, that should be a reminder of what the budget talks will be about. They will no longer be about cutting little bits around the edges; they will be about big, hard issues, which will have to be examined.

Finally, on the gender equality issue that we touched on last week, one interesting development is that the Spanish have blocked the appointment of a member of the European Central Bank’s board because he is a man. They have said that there should be gender equality on this issue, supporting the Parliament’s view, which has already been expressed. It remains to be seen whether that will stand because member states acting in Council can push it through. However, it is a reminder that, on certain matters, interesting things can still happen.

The Convener: Do members have any comments on the “Brussels Bulletin”?

10:15

Helen Eadie: I was especially interested in the section about the Commission’s tourism initiative at the end of the bulletin and its reference to

“consultations and communication activities with the travel trade and consumers”.

Will Scotland be consulted on that and have a chance to comment?

Ian Duncan: I certainly would have thought so. There is a recognition that Europe can sell itself as a tourist destination—after all, it has a lot to sell—and the Commission is trying to encourage member states and regions to contribute to this activity in order to establish what exactly it is trying to sell and how best to sell it. Scotland will

absolutely have the chance to contribute to that work.

Clare Adamson: Following on from Helen Eadie's question, I note that, with the Schengen agreement, the promotion of countries will have visa implications; indeed, it means increased costs for the UK. How will that issue be handled if the whole of Europe is going to be promoted?

Ian Duncan: I am almost tempted to say that no one has thought of that. I do not mean that badly, but the fact is that the people who put forward ideas on tourism are not the same people who deal with the Schengen agreement. That sounds like a terrible answer, but the real answer might well be as simple as that. Clearly, there are visa implications and I do not doubt that they and other issues around passports will have to be addressed if an EU-wide offering is to be provided. You are certainly right to highlight the issue.

Willie Coffey: Coming back to Greece, I think that we really have to be sympathetic to the plight of the ordinary Greek people and the measures that they are having to face. After all, none of this is their fault or of their doing. I think that a fair summary of what Dr Zuleeg said just a moment ago is that there has to be a dual approach; on the one hand, national debt has to be reduced but, on the other, these countries must be allowed to make some investment so that they can recover. On the face of it, the measures that are being imposed in Greece seem to be putting the country in even more difficulty and making it more difficult for it to recover. Is there any flip-side to what is happening in Greece that is allowing the Greeks to do what Dr Zuleeg suggested is needed in these countries and giving them an opportunity to recover and make investment, particularly capital investment? Is that happening in Greece or is it all just a matter of cuts?

Ian Duncan: The only thing that has happened is a broad agreement to postpone the dates of the fiscal targets by two years, which, if you like, gives Greece longer to meet them. However, it is a bit like being told that you are going to lose a leg and then discovering that you are only going to lose it from the knee down. I am not sure that the offer is so great, but it provides a small respite from the payment situation.

The issue that is coming to the fore is forgiveness. At what point will the debts be forgiven? Indeed, what would such forgiveness look like? Without forgiveness, there will be nothing but austerity, and it is not all that obvious where the funding for anything else will come from. Although the EU will attempt to use various funds in the next financial round for investing in Greece, many of those funds can be unlocked only with matching funds and conditions will have to be adjusted to allow Greece to get, for example,

structural and cohesion funds, a lot of which are about co-financing. The question is how you co-finance if you do not have any money. The EU can do more to address some of these issues if the appetite exists but, at the moment, everything is focused on getting Greece to sign up to its commitments and there is very little appetite to give it a great deal of slack in that respect.

Roderick Campbell: I want to ask about something that is not in this particular bulletin but which we might want to flag up in a future bulletin. What effect will the budget have on the Erasmus student exchange programme?

Ian Duncan: You are right to raise the issue. The €9 billion that is being asked for is primarily made up of funding for the Erasmus programme. Without that money, it cannot go ahead in its present form. Indeed, given its nature, it is hard to see how it can go forward in any form. You cannot take a little bit of Erasmus and still expect it to work; it must be supported with funds.

A future bulletin could indeed report on the issue and its implications. Were the issue to roll forward on a month-by-month basis, the programme would continue to receive the moneys as it does at the moment, but that is not exactly the best way of taking forward something that supports exchange. It might be best for me to report in the future with more information.

Helen Eadie: Poor Dr Duncan is having to get used to our asking questions about things that are not in the bulletin. My own question follows on from the issue that I raised last month about regional selective assistance. Has there been any update on that matter?

Ian Duncan: I am visiting Brussels next week and have set up a couple of meetings to inquire into the matter. I will report back at the committee's 29 November meeting on what I have found out.

The Convener: I have a couple of other questions. First, what are your thoughts on the suggestion that the impact on the Erasmus programme might also be felt on horizon 2020?

Secondly, with regard to last week's vote on the EU budget at Westminster, the UK Government's proposal was to freeze the overall budget but reduce the common agricultural policy budget. For a future meeting, could you have a look at the impact of such a move on Scotland's farmers, because I think that it will have a greater impact on them than it will in the UK more widely?

Ian Duncan: It might be best for me to put together a paper covering all aspects of the multi-annual financial framework. At the moment, the UK is seeking a reduction in the CAP budget, but other countries are seeking reductions in other

major sources of funding. For example, as we have already discussed, the French are looking for a significant reduction in cohesion funding. Every country seems to be trying to reduce the pots of money that it does not get much from, but you are quite right to highlight the fact that Scotland qualifies under a number of other areas within the overarching CAP, particularly less favoured area status, which brings a significant amount of money to Scotland and Wales but less to England. Instead of giving you some piecemeal answer, however, I will put together a short paper to outline different countries' key negotiating positions.

Of course, those positions will soon become very clear. A wee note in the "Brussels Bulletin" refers to what are called "confessionals", which is a slightly unusual term for the President of the Council asking heads of member states about their red lines in the forthcoming negotiations. When we get that information, we will know very clearly exactly who wants to protect what and at what level. There will be no doubt about that.

As for horizon 2020, we are still in the last tranche of the predecessor—the seventh framework programme or FP7. There will be implications for that, because there is still some money left to be spent. It remains to be seen how exactly the issue will be resolved, given that the Parliament is unwilling to negotiate at all around the matter. It wants the money to be paid and sees the £9 billion as the minimum that it will accept in this particular round. It is difficult to see how a compromise will emerge in the short term, particularly with the MAFF talks due to begin. Things will be much clearer by the end of the year.

The Convener: I think that our colleagues on the Rural Affairs, Climate Change and Environment Committee will welcome being kept up to date with CAP developments and I am sure that we will be happy to share with that committee anything that the clerk produces for us.

If members have no more questions, we will move on.

European Union Directives (Transposition)

10:23

The Convener: Item 4 is consideration of a report on the Scottish Government's transposition of EU directives, which is an issue of keen interest to the committee. This is the latest of a series of regular reports providing members with the latest information.

I ask Ian Duncan to introduce the report.

Ian Duncan: I will be very brief. As members will recall, we look at this issue every six months; I know that Hanzala Malik has asked whether we can take a more frequent look at the issue, and we will explore that possibility after the next report.

At the moment, there are no major issues such as the missing of deadlines to highlight to the committee. As it is traditional for the committee to refer the report to subject committees for them to raise, if they so wish, any issues with the relevant minister, I recommend that the committee simply refers the report, if members are content to do so.

The Convener: As members will see, the paper recommends that we note the Government's transposition report and refer it to the relevant subject committees. Are members agreed?

Willie Coffey: As a relatively new member of the committee, I have a question. My attention was drawn to the table in the report, which mentions the Glasgow Commonwealth Games Act 2008 (Ticket Touting Offence) (Exemptions for Use of Internet etc) (Scotland) Regulations 2012. What is that all about and do we have an interest in the issue?

Buying tickets for any event can be a precarious experience, particularly when ticket agencies and companies seem to grab the lion's share for all sorts of events. I hope that that will not be the case for the Commonwealth games. Sometimes, people who are trying to buy tickets for events online at 9 o'clock on a Friday morning cannot get near them because ticket agencies have all the tickets. To me, that is a form of online ticket touting. Is that within the scope of our consideration here? Is there anything that we can do or say about that?

The Convener: I will take advice from Ian Duncan on that.

Ian Duncan: First, you are right to highlight that point, which I suspect is covered here. Having had a look at the provision, I suggest that we ask the appropriate committee to which the matter is passed to be particularly cognisant of that aspect, so that it can inquire further. This committee is of

course welcome to inquire into any aspect of the transpositions, but perhaps the lead committee should be the first port of call. I will ask the lead committee that, in taking the matter forward, it keep both this committee and Willie Coffey in the loop on its findings.

Willie Coffey: Which committee will be the lead committee?

Ian Duncan: I think that two committees will look at it. The Economy, Energy and Tourism Committee will be the lead committee, but the Health and Sport Committee will be copied in, given the nature of the issue.

The Convener: If there are no further questions, are we happy to pass on the report to the subject committees?

Members *indicated agreement.*

Work Programme

10:26

The Convener: Item 5 is to consider correspondence from Patricia Ferguson MP—sorry, I am giving you a different title, Patricia. I welcome Patricia Ferguson MSP to the committee.

It is worth noting that the committee has already agreed to revisit the issue of Scotland's relations with the EU on publication of the Scottish Government's white paper on the constitutional arrangements. With that in mind, it would be useful if members focused only on Patricia Ferguson's proposal that the committee should undertake an inquiry into the Scottish Government's handling of the issue of legal advice on Scotland's relations with the EU post the referendum.

I will ask Patricia Ferguson to speak to the request in her letter, which was circulated to members in their committee papers. Thereafter, I will take soundings from every committee member, to ensure that everyone has an opportunity to comment.

Patricia Ferguson (Glasgow Maryhill and Springburn) (Lab): Convener, thank you very much and do not worry—I have been called a lot worse.

I am grateful for the opportunity to come along to talk about an important issue that has arisen. I recognise the keen interest that the committee has in all matters European, and I watch its proceedings with some interest, having been a relatively long-serving member of the committee in the past—I say that because I joined the committee in June, was off for the months of September and October through ill health and came back in early November to find myself the longest-serving member of the committee. Things can change very quickly, as we know.

On the substance of the letter that I sent, I understand that the committee has decided that it will look again at EU membership once the white paper is published, but one of the points of my letter was to ask the committee to revisit that decision and to consider looking into that issue now. A great deal of debate is raging in Scotland about the issue. The fact that the Scottish Government will come to a conclusion in a year's time means that a very short timetable will be available to the Parliament for scrutinising the many matters that the white paper will raise. We need only look at the parliamentary timetable to see how tight it will be, given that the white paper will be published a year before the referendum takes place.

I encourage the committee to consider the issue earlier, because many of the matters relating to whether Scotland would be an automatic member of the EU—and, if so, what conditions would apply—are the kinds of things that will influence people's decisions when they come to the ballot box in 2014. If I may say so, it is incumbent on the committee to help by trying to provide some clarity, if not on what the final position would be—there are many views on that—then at least to help to frame the debate. I hope that the committee will reconsider the timing part of its decision.

10:30

With regard to the first part of my letter, on how the discussion has been handled in the Parliament so far, I am acutely conscious that the Parliament currently has no mechanism for considering such matters, which might arise from time to time—although I hope not often or indeed at all. I thought long and hard about the issue before I brought it to the committee. Conflicting statements have been made and, given that the conflict is firmly embedded in the whole issue of Scotland's membership of the EU, it seems to me that this committee, which is the committee with the most interest in the area, is the right place for an inquiry into the facts of the matter.

I realise that the First Minister has referred himself for consideration under the Scottish ministerial code. However, nowhere in the structure of things does the Parliament have an opportunity to consider the matter. As a point of principle, responsibility for such consideration should rest firmly with the Parliament, and in this instance with this committee.

The Convener: I am looking at your letter and I do not see a request to the committee to revisit the decision to consider the issue in the context of the white paper.

Patricia Ferguson: I did not use the words “revisit the decision”, but I made the point that there is a great deal of uncertainty about the EU issue and I asked the committee to undertake an inquiry. That is the point that I am making.

The Convener: I will let all members air their thoughts.

Roderick Campbell: I have a few comments to make. First, it is inappropriate to summarise Mr Salmond's response in three words, when that is clearly not the response that he gave. That is a distortion.

I found it difficult to follow the letter, because it jumped around two issues and therefore did not make a lot of sense.

On the timetable, I would be grateful for guidance from the convener and the clerk on how much time has been allocated for consideration; it is essential that we allocate appropriate time.

We will be in difficult waters if we stray into standards, which are a matter for another committee.

I am concerned about bringing the Lord Advocate into the political arena. The Lord Advocate has not been a member of the Scottish Cabinet since 2007, and we have moved towards keeping the Lord Advocate out of politics, whatever the Advocate General for Scotland at Westminster is doing. To vary that position would be to take a retrograde step.

Helen Eadie: I support Patricia Ferguson in her request, and my reason for doing so is clear. Throughout Scotland, one of the most vital issues that we face is the need to know the answers to key questions to do with whether we would automatically continue to be a member of the EU. The First Minister has not been able to give a categorical assurance on that. As far as I know, he has not even had discussions or correspondence with the European Commission on the matter.

An inquiry would help to bring that out. Before introducing his bill, the First Minister would then know with certainty what the position is with regard to other EU member states. We have seen opinion and speculation throughout the media about how other member states would regard Scotland's position should it choose to become independent.

Would the people of Scotland want to join the EU? Would there be a referendum on EU membership? Many questions need to be asked, which is why it is important that the inquiry does not look at only issues of blame or where the blame lies for what has happened.

The road ahead is much more important. My children and grandchildren need to be certain of their futures. We need to know what the position on pensions, jobs and the legal systems will be. Would we be tied into the European concept? I am very pro-Europe and I would campaign for a yes vote should there be a referendum on EU membership.

The First Minister has mentioned Greenland in the past. Greenland had a referendum on whether it would join the EU. Does the First Minister want to take us down that road?

On timescales, the white paper may not be published until the middle of next year. As far as I am aware, we do not yet have a precise date for when it will be published, although others may know differently; my supposition is that it will be published in autumn next year. That means that the committee would have relatively little time to

inform the wider public. We would become informed as a committee as the bill went through the Parliament, but cascading out to the wider public what the questions and answers were would be a problem. That is why I believe that the sooner we undertake the work, which would be a major piece of work, the better.

On the committee being the relevant committee to do the work, if the committee does not agree that it has the time to do it, we should make time, as the work is so important. If the committee says that we will not make the time—which would be against my will—the work should be referred, through a motion from me, to the Parliamentary Bureau, which would need to look at all the aspects that are covered by all the other committees that are relevant to the work. The Economy, Energy and Tourism Committee, the Finance Committee and the committee that deals with transport would all have interests. All those committees have a relevant stake in what will happen and whether we would automatically have European Union membership.

If the committee does not agree to undertake the work, I formally propose that the matter be referred to the Parliamentary Bureau, and I hope that I get a seconder.

Clare Adamson: I would like to consider two points. In the first paragraph of the second page of her letter, Patricia Ferguson discusses EU issues and raises questions about the euro and the Schengen agreement. I agree that all those areas are likely to be discussed under the work programme, as agreed, when the white paper is published. I believe that that is the right paper for that.

I am a bit confused about Helen Eadie's inquiry. The following paragraph of the letter mentions an

"inquiry into this whole sorry debacle to find out the truth about who knew what and when."

That is not about European issues; it is about standards issues and what happened. The letter seems to hang on the position of the First Minister. Ms Ferguson took that position in 2003 in answering a parliamentary question by saying:

"By long-standing convention, the general policy of the Scottish Executive is that it does not disclose legal advice or whether it has taken legal advice."—[*Official Report, Written Answers*, 21 January 2003; S1W-32797.]

Time has moved on since the letter was written. In answer to questions, the Lord Advocate said last week:

"It was possible that the court would rule that this Parliament did not have the power to hold a referendum, in which case the issue would be academic. Following the signing of the Edinburgh agreement, there will be a lawful referendum, so that uncertainty has been removed."—[*Official Report*, 7 November 2012; c 13131.]

With the signing of the Edinburgh agreement and the coming publication of the white paper, the timing for considering the issues is absolutely fine. Therefore, I do not support the request for a move in the timescale for looking at the European issues, and I certainly do not believe that the committee should consider the other areas.

Willie Coffey: Good morning, Ms Ferguson, and thanks for coming to the committee. Having looked at the content of your letter, I would say that it is a pity that you were not here earlier for our evidence session with Fabian Zuleeg from the European Policy Centre, who was asked by your colleague about Scotland's position in relation to the euro.

One of the questions that you pose in your letter is:

"Would a separate Scotland be forced to join the Euro currency?"

Fabian Zuleeg's response to the question was clearly that Scotland would not be forced to join the euro because no country can be forced to join it. In fact, a country is expected to meet certain convergence criteria and so on, and there are examples of countries that are not part of the euro, one of which is the UK. I think that it was Gordon Brown who put in place the four convergence criteria so that the UK could avoid joining the euro. Fabian Zuleeg did not see the issue as a huge one, and he certainly dismissed the notion that a country could be forced to do something that it did not want to do.

The question that you pose in your letter has been answered, even in the session that we had a few minutes ago with Dr Zuleeg. Like my colleagues, I do not see the need for an inquiry before the Scottish Government publishes its proposals. That point, when we are a bit clearer about the Scottish Government's position, will be the opportunity for the committee to engage with the issues.

Hanzala Malik: I welcome Patricia Ferguson to the meeting and thank her for joining us. The best way in which I can describe her correspondence is to say that it is an impression of opinion that she has put in front of us. Previously, I agreed with Helen Eadie that we should look into the issue and I have not changed my mind. I still agree with her that we should carry out a study or an inquiry into how our membership of the EU would be affected. I do not think that that is unreasonable.

I take on board the points that have been made about timing. Our inquiries might even help with the white paper by establishing facts. That would probably be useful, rather than unhelpful. I do not have a problem with the call for a study or an inquiry and I am more than happy to second Helen Eadie's recommendation that, if we cannot agree

today on what to do, we ask the Parliamentary Bureau to have a look at our timetable and see whether it can help and come up with a solution for us.

The Convener: I thank members for those frank comments. I fear that there is no consensus in the committee, so I will go straight to a question. The question is, that the committee should undertake an inquiry into the Scottish Government's handling of the issue of EU legal advice.

Roderick Campbell: Convener, before we vote, as I am a relatively new member of the committee, can you clarify for me how much time will be allocated, under the existing proposal, to deal with the inquiry?

The Convener: Certainly. We do not usually set the work programme so far in advance but, when we had the initial discussions about putting the inquiry into the work programme, we decided as a committee to make that commitment. There is little scheduled around that, to allow us the maximum amount of time to take in all aspects of Scotland's future place in Europe.

Roderick Campbell: So we will be able to deal with the issue in significant detail and depth at that time.

The Convener: I plan to give us the maximum possible amount of time. Helen Eadie's and Patricia Ferguson's points that we need to look at the issue are well made. I just believe that we need to do that when we get the white paper and we see the proposals.

Helen Eadie: Will you clarify when we are likely to get the white paper? Also, does Patricia Ferguson have any right of reply to the points that have been made this morning?

The Convener: We will go straight to the vote. I have given everybody airtime on the issue.

On the timescale, I do not know much more than you do, but I believe that the plan is to publish it in the spring, so we will see it then, which will give us an opportunity to prepare for our inquiry and set its length. I think that the final recommendations will go to the Parliament in the autumn next year.

Helen Eadie: Are you saying that we would start our inquiry the moment that the white paper is published or that we would not start it until September or October next year, barely five months before the referendum takes place?

10:45

James Johnston (Clerk): It might be helpful if I provide some procedural advice for the committee. The committee has agreed to undertake the inquiry. When the white paper is published, the

clerks will produce an approach paper setting out possible timescales, witnesses and so on for the committee to consider.

Helen Eadie: Can you clarify what those timescales will be? Will the inquiry examine only the bill or will it examine questions of European Union membership? Will it also consider the euro currency issues and the referendum issues that the people of Scotland might have regarding Scotland's membership of the European Union—or our non-membership, as was the case with Greenland?

James Johnston: The publication of the white paper is a matter for the Government and it would not be appropriate for me to comment on that. The content of the approach will be a matter for the committee to decide once the white paper is published. The committee will have to make those decisions.

Helen Eadie: With respect, you are still not answering my question. If the white paper is published in the spring, will our inquiry start in the spring?

The Convener: An approach paper will be produced for the committee and it will be up to us to decide that then.

Clare Adamson: I ask for clarification. I understand that time has been set aside in the work programme for scrutiny of the proposals in the white paper, but did we use the word "inquiry" in our work programme? I would like to have that clarified as it is an important point. We have not agreed to an inquiry; we have agreed to scrutiny of the white paper.

James Johnston: That is correct. Whether the approach would be an inquiry is for the committee to decide.

Helen Eadie: I query that. My memory is that it was about relationships with the EU, which is not the same as looking at the bill or an inquiry. The title of the work was "relationships with the EU", which is nowhere near the issues that have been raised by Patricia Ferguson this morning.

The Convener: Maybe circulation of the *Official Report* of what was agreed will answer those questions for us.

James Johnston: Yes, the clerks will circulate after the meeting the wording that was agreed. We are happy to do that.

Helen Eadie: I am just saying that the title on the document was "relationships with the EU". That was the precise wording of the title in the work programme.

The Convener: There was detailed discussion on that. I want to get as much information as possible on that to clear up any vagueness.

Helen Eadie: Do we have a commitment from you, convener, that the committee will look at this the very moment that the white paper is published?

The Convener: The committee has agreed that, as soon as the white paper is published, we will receive an approach paper from the clerks. We will be able to decide where we want to go with it from there.

James Johnston: It might be helpful if I read out the wording that has been agreed. It is:

"Upon publication of the Scottish Government's White Paper on independence ... consider approach to exploration of an independent Scotland's relations with the EU."

That is the wording that has been agreed.

Helen Eadie: It is "relations with the EU", so I was right in what I said.

The Convener: Yes, you were absolutely right.

Helen Eadie: It still does not cover the issues that have been raised by Patricia Ferguson's letter.

The Convener: Okay. Let us move straight to the question. Should the committee undertake an inquiry into the—

Patricia Ferguson: If it is possible, convener, I would not mind responding to some of the points that have been made.

The Convener: Okay.

Patricia Ferguson: I will address them in reverse order. I apologise to Willie Coffey that I could not be here for the entire meeting, but I am also on the Referendum (Scotland) Bill Committee, which is meeting at the same time. I have had to crave the indulgence of the convener of that committee in order to pop out.

In some way, Willie Coffey made my point. The gentleman who spoke with expertise at the committee this morning obviously had a point of view, but a different point of view has been expressed by many other eminent people—both politicians and officials—who work in the area. The point that I am making is that we do not know. In my view, the more discussion and debate that we hear around the issue, the more helpful that will be.

Clare Adamson also made my point to an extent, because we do not know what will be in the white paper. We do not know what it will say about relationships with the European Union or, for that matter, with any other organisation. That might not be covered in the white paper, because it will be about the law surrounding the issue rather than about further negotiations. That is important.

I apologise to Roderick Campbell if my letter did not make sense. I sometimes find to my chagrin—particularly when I read back what I have said, rather than what I have written—that enthusiasm can get in the way of good structure and even good grammar.

The position of the Lord Advocate is slightly more complicated than Roderick suggested, because the Lord Advocate frequently comes to the Parliament and to committee to answer questions. Not that long ago, the Lord Advocate came to a committee to explain what the Offensive Behaviour at Football and Threatening Communications (Scotland) Bill meant. The Lord Advocate is in a hybrid position—in part, it is a political appointment. We want to safeguard the Lord Advocate's independence, but he has commented on the issue. I do not think that his comment clarified anything; I think that he added confusion to the situation, which is one reason why I mentioned him in my letter.

It is, of course, for the committee to decide how to structure any inquiry and from whom it should take evidence. It is worth making the point that we do not know what the white paper will say on the European issues, but I am grateful for what I think was clarification of when the white paper will emerge; I now understand that it will be in the spring next year. I have to say that that is a surprise, because it is not what is being said elsewhere.

The Convener: Okay. I ask committee members whether the committee should undertake an inquiry into the Scottish Government's handling of the issue of EU legal advice.

Helen Eadie: I am sorry—could you put the question again, convener?

The Convener: The question is, that the committee should undertake an inquiry into the Scottish Government's handling of the issue of EU legal advice. Are we agreed?

Members: No.

The Convener: There will be a division.

For

Eadie, Helen (Cowdenbeath) (Lab)
Malik, Hanzala (Glasgow) (Lab)

Against

Adamson, Clare (Central Scotland) (SNP)
Campbell, Roderick (North East Fife) (SNP)
Coffey, Willie (Kilmarnock and Irvine Valley) (SNP)
McKelvie, Christina (Hamilton, Larkhall and Stonehouse) (SNP)

The Convener: The result of the division is: For 2, Against 4, Abstentions 0. Therefore, the recommendation has been defeated.

I have taken a wee bit of advice from Jim Johnston on Helen Eadie's proposal concerning a motion to refer the matter to the Parliamentary Bureau. He will give us all some advice on that.

James Johnston: In the preceding discussion, the committee noted its previous decision to consider its approach once the white paper has been published. The issue is whether the committee wants to review that decision in the light of what Helen Eadie has said.

Hanzala Malik: That does not mean anything to me.

Helen Eadie: Technically, I am correct. It says quite clearly in standing orders—I checked last night—that any member of any committee may request that any inquiry or piece of work that requires to be done be referred to the Parliamentary Bureau. Given the nature of the issues that have been raised, which relate to the future of the EU, it would be entirely appropriate for the bureau to consider whether a number of other committees should undertake strands of work, in the same way that the Standards, Procedures and Public Appointments Committee worked in collaboration with the Presiding Officer on reform of the Scottish Parliament. Different parliamentary committees could undertake scrutiny of forthcoming issues. The matter should be referred to the bureau for its consideration to clarify which other committees may have an interest and which of them should be asked to undertake strands of that work.

James Johnston: That is fair enough. If the committee wanted to do that, that would be a matter for the committee to decide.

Clare Adamson: I do not agree with Helen Eadie's position on the issue. Every committee has a European reporter. I would expect that the structure that is in place would result in the European reporters bringing any areas of concern to their committees' attention, and that they would make a decision about what their work programmes should be.

The Convener: Thanks, Clare. We have obviously not reached consensus on the matter. I could retake the vote, but it is pretty clear where we are.

James Johnston: No—the vote that the committee has just had was clearly on Patricia Ferguson's specific request for an inquiry into the Scottish Government's handling of the issue. The committee will have to decide on Helen Eadie's request to refer the wider issue to the Parliamentary Bureau.

Helen Eadie: If I may say so, convener, I said formally that I wanted to move a motion. It was seconded by Hanzala Malik. If the committee does

not agree to the request, Scotland will perceive that a Parliament that is controlled by your party does not want the issues to be raised—

The Convener: Right, I will go straight to a vote, Helen.

Helen Eadie: —or to be discussed—

The Convener: Helen, would you not speak over the chair, please?

Helen Eadie: It is another—

The Convener: Would you desist from speaking over the chair?

Helen Eadie: It is another example of you, Christina, in the chair, trying to gag me on the issue.

The Convener: Helen, I have given you a fair hearing again this morning.

Helen Eadie: You have gagged me again, Christina.

The Convener: Helen—

James Johnston: It might be helpful if I offer some procedural advice. Rule 11.8.1 of standing orders states:

"the convener ... shall determine the time at which members shall take a decision on any item of business."

It is for the convener to determine when to take the vote.

The Convener: Okay, so I will go straight to the vote and ask members whether they are content—

Hanzala Malik: On a point of order, convener. I am looking for clarity. I am not aware of the rule about taking a matter to the Parliamentary Bureau. Does it need to go via a committee or can it go via a member?

Helen Eadie: The standing orders say that a member may refer an item to the Parliamentary Bureau. I studied them last night.

Hanzala Malik: In that case, we do not really need to go to a vote. Am I right? Please, somebody, guide me.

James Johnston: Perhaps that is my job. If an individual member wishes to raise something with the bureau, they can do that via their business manager. The issue is whether the committee wants to refer the matter to the bureau. My understanding is that that is what the member was asking for.

Helen Eadie: Yes. I was asking for the public to have the right to have the information that they require to make their decisions. If you do not want the public to have that right, that is fine.

Hanzala Malik: I am just trying to get to grips with the matter. It is clear to me that there are two

possibilities: either, as we have raised the matter at committee, the committee could refer it to the bureau or, if the committee decides not to do that, Helen Eadie will have the right to do it as an individual. Am I right about that?

Helen Eadie: Yes.

The Convener: If that is the case and it is not for the committee to take a position on the motion, we do not need a vote, and it will be up to the individual member to take forward her proposal.

Helen Eadie: Oh, no. I have moved a motion and I would like that motion to be voted on.

The Convener: Okay. The question is, that the committee refer the request for an inquiry to the Parliamentary Bureau. Are we agreed?

Members: No.

The Convener: There will be a division.

For

Eadie, Helen (Cowdenbeath) (Lab)
Malik, Hanzala (Glasgow) (Lab)

Against

Adamson, Clare (Central Scotland) (SNP)
Campbell, Roderick (North East Fife) (SNP)
Coffey, Willie (Kilmarnock and Irvine Valley) (SNP)
McKelvie, Christina (Hamilton, Larkhall and Stonehouse) (SNP)

The Convener: The result of the division is: For 2, Against 4, Abstentions 0. The motion is therefore defeated.

I will quickly move on, because we are running out of time. I thank Patricia Ferguson for coming to the committee. I say to her sincerely that, when we come to consider the matter, we will benefit from her experience and input to the process.

We agreed to take item 6 in private, so I ask for the public gallery to be cleared. I thank people for coming along today.

10:58

Meeting continued in private until 11:08.

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