



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Thursday 29 November 2012

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE
16th 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:

Ian Hudghton MEP

CLERK TO THE COMMITTEE

Ian Duncan

LOCATION

Committee Room 2

Scottish Parliament

European and External Relations Committee

Thursday 29 November 2012

[The Convener *opened the meeting at 09:51*]

Decision on Taking Business in Private

The Convener (Christina McKelvie): Welcome to the 16th meeting in 2012 of the European and External Relations Committee. I make the usual request for all mobile phones and electrical equipment to be switched off, as they interfere with broadcasting.

Under agenda item 1, I ask the committee to agree to take agenda item 6 in private. Do members agree?

Members *indicated agreement.*

European Commission Work Programme 2013

09:51

The Convener: Agenda item 2 is evidence on the European Commission work programme for 2013 from Ian Hudghton MEP. I should say that all our MEPs were invited but, for legitimate reasons, could not all attend, although George Lyon has sent us a written briefing. We hope that, by opening up our committee to MEPs, they will take the opportunity to come along to our meetings.

Ian Hudghton has a brief opening statement.

Ian Hudghton MEP: I will be very brief, in order to leave more time to deal with questions.

As members are aware, the Commission's work programme contains details of the work that it proposes to undertake over the next calendar year. It is set against the backdrop of the Commission President's "state of the union"—the European Union—address, which took place in September and in which he said that the direction of the EU is

"towards a democratic federation of nation states, a political dimension to frame the emerging European structures for stronger economic and social integration."

That statement went down fairly well with the majority of members in the European Parliament, but is not without its controversial aspects in terms of how the European Union is to develop in the coming years.

There is a fair amount in this programme and in the immediate challenges that we all face that has led to significant debate at Europe level about the extent to which what is needed to address the economic challenges is, as some would put it, "more Europe" as opposed to a framework in which member states can—as they do—take a relatively independent approach to their economic and fiscal decisions. The threads that run through the Commission's work programme are set against that backdrop.

This morning, in the European Parliament's Economic and Monetary Affairs Committee, there was a vote on the proposal to move towards enhanced co-operation to allow a number of member states that wish to establish a financial transaction tax to do so. Unsurprisingly, it has not been possible so far to get unanimity among member states on giving up one of their key remaining powers, which is the power over taxation. However, there is a move to give the power to impose a European financial transaction tax to member states that want it. That committee approved that idea this morning but—of course—

that is only the committee stage; there is still a lot of debate to be had on that and other proposals.

Committee members have a fairly comprehensive run-down of the detail of the Commission's work programme for 2013; I do not propose to read it out. However, I would welcome questions—to the extent that I can answer them—although I must say that I did not expect to be the only MEP here. If there are questions that could be dealt with by my colleagues, I am sure that they will be happy to do so after this meeting, if I cannot answer or members do not like my opinions and want alternatives.

The Convener: Thank you very much. Fear not: we do not expect you to be the all-knowing oracle. I know that Europe picks up lots of different strands of interest and responsibility, and that your strands are very much in the rural sector. I am sure that a number of my colleagues will have questions on that.

As an opener, perhaps we can hear your feelings from Brussels about the negotiations on the multi-annual financial framework, and how you see that panning out over the next few weeks. Obviously, there was worry last week when no agreement was reached for countries that are perhaps more fragile. The situation has changed slightly this week; there might be more certainty in that regard. Can you give us your on-site insight into what is happening in that regard?

Ian Hudghton: It is certainly a difficult situation. You are right: it is obviously important that we get clarity about the extent of the global EU budget and the budgets of the individual strands in which we are interested. For fairly obvious reasons, it is not easy to get 27 member states and the European Parliament to agree either on the headline figures or on the more complicated breakdowns.

There have been significant differences among member states. For example, the UK has caused surprise by calling for phasing out or scrapping direct farm payments at various stages in the run-up to where we are now. Member states will get back together on the next plan in—I think—February; I have no doubt that a lot of work will be done between now and then. I think that everyone hopes that a deal can be done so that the details can be developed.

The committee will be aware—I think George Lyon points this out in his brief—that reform of the common agricultural policy is more than a little dependent on financing of initiatives that are contained in it. That is not, of course, the only policy area that is in such a position, but it is a very big policy area for Scotland financially and in terms of its overall importance for the rural economy. Indeed, many significant population

centres around Scotland also feel the benefits of a healthy agricultural sector.

There is a huge number of issues and it is difficult for me or anyone else to predict exactly what the outcomes will be. However, my guess is that despite all the difficulties and apparently intractable positions, as is fairly usual in such matters some sort of compromise—or “fudge”, if members prefer—will emerge and we will manage to get on with CAP reform, common fisheries policy reform and the financial aspects of many other key areas that we still need to argue about.

10:00

Hanzala Malik (Glasgow) (Lab): Good morning and welcome. When you go back, you can tell your colleagues that it was a beautiful sunny morning in Edinburgh.

I have two questions, on which I hope you will be able to shed some light. First, is there the possibility of our having a common immigration policy in Europe? At the moment, we have the farce of people on the borders of France and other parts of Europe trying to enter the United Kingdom. We need a common policy for the whole European Union on that. At what level or stage is that being discussed? Does the European Union have the stomach to deal with the issue?

Secondly, an even more important subject for us here in Scotland is fuel prices. Our fuel prices are higher than they are for most of our European Union counterparts, and most of the price is due to tax. Will there be a European Union directive under which only a certain amount of tax could be levied against citizens in any EU country, so that we have a uniform tax system for fuel and so that people in rural parts do not pay the high prices that they currently pay? We are already disadvantaged in the sense that service providers have long routes to travel, and the fact that we are penalised by additional taxation is unhelpful.

Ian Hudghton: Both those issues are highly contentious in some respects.

I will take the second issue first. Hanzala Malik is right to say that a substantial proportion of what we pay on road-vehicle fuel goes in tax. As I briefly indicated in my introduction, that is an area of member-state competence. For understandable reasons, most member states wish to retain power over setting taxation rates, which is also my view. I am not particularly persuaded by the idea that the European Union should have taxation powers either to establish new taxes or to direct member states' taxation levels. At member-state level, local flexibility is often required in order to use taxation as an instrument not just to raise money but to stimulate economic activity. Clearly, the fuel-tax situation does not help to stimulate economic

activity. That is particularly badly felt in Scotland, where fuel tax is—at least in the member-state sense—a domestic political issue.

I see no indication that the Commission is thinking bravely enough to try to intervene in the matter and I think that the majority of member states would not be particularly enthused by the idea of being told what to do. That said, individual schemes are already in existence that allow member states to vary tax in, for example, very rural areas and islands. It is being tried, or has been tried, in various parts of the EU.

On a common immigration policy, a lot of discussion is going on about that among member states that have immigration hotspots. For example, in the countries around the Mediterranean, people who are in fairly desperate circumstances have been trying to escape from various countries and have been crossing difficult waters by boat to get into the European Union. Many tragic individual circumstances arise from such things.

For the longer term, a lot of work is going on to try to address some of the problems that people feel they need to escape from, but Hanzala Malik is right that the more general issue of immigration highlights the need for member states to discuss how they can at least take a co-ordinated approach. However, again, there are some fairly strong views among member states about their right to have the final say on immigration from outwith the European Union.

Hanzala Malik: I appreciate that there will be such sentiments in some states, but the issue that concerns us in the United Kingdom in the first instance is immigration within Europe. There are migrants already in Europe who are trying to enter the United Kingdom, and our European allies are not supporting us in the fight. It makes a mockery of the whole system that European state colleagues are not supporting adherence to the laws. We should either have one policy or they should support us with what we have. We cannot have the status quo, which is very unsatisfactory.

Ian Hudghton: The situation is certainly a little disjointed, but some member states have been resistant to allowing the supposed full right of free movement to which we are all entitled, as European Union citizens. Existing member states made specific allowance for a phased approach to opening fully the rights to, for example, travel and seek work of citizens of new countries that have, under enlargement, come in relatively recently. That was agreed among member states. Hanzala Malik is right. That and other things have caused a lack of clarity on whether the full freedoms that are supposedly conferred on us as European citizens have been conferred. That is not the only issue, but it is gradually being addressed, and the

assorted delays and opt-outs are gradually disappearing. I think that we will get there not as quickly as you or I would like, but gradually.

Helen Eadie (Cowdenbeath) (Lab): When Dr John Reid was Home Secretary and under Theresa May as Home Secretary now, a continuation of restraint on Bulgaria and Romania on being fully fledged members of the European Union in respect of freedom of movement of their citizens has been proposed. What is your view of that? Is it time that we moved away from the “rich men’s club” concept? Should there be totally free movement throughout the whole EU along the lines that my colleague Hanzala Malik has clearly stated? He is absolutely right that we have to move away from the scenario that was mentioned. What is the sense among other member states across Europe? Is their approach similar?

Ian Hudghton: My sense is that there are similar approaches, reservations or whatever in some countries, but I think that a majority want to be able to deliver what the small print says—which is that European citizens shall have the right to free movement to seek work and so on. Anything that prevents that right from being applied genuinely equally is not in the spirit of what every member country of the European Union has signed up to. That said, there have perhaps—let us put it no more strongly than that—been understandable reasons why individual member states want to buy a little time to plan for addressing expected or potential practical issues arising from mass free movement, although I do not think that that fear has shown itself to be particularly valid in many circumstances. Member states have expressed reservations, but we should be nearing the point at which there is genuinely the right of free movement.

We should bear it in mind that movement goes in both directions; a considerable number of people from Scotland and the rest of the UK have taken up, or have ambitions to take up, that right to travel, work or study. We should think of the issue not only as being about the alleged problems that might be caused by people choosing to come here, but from the point of view of people who are here and genuinely want to go elsewhere. It is a two-way thing.

My experience, from travelling around Scotland and visiting business and so on, is that to a large extent people who have come here from other parts of the European Union are valued highly in workplaces. I have been to some extremely rural workplaces and to island workplaces and those businesses have told me that they could not operate were it not for their core staff from other parts of the European Union. Such staff make a contribution in areas that employers perceive as being difficult from the point of view of finding and

retaining staff. There is a benefit there that we need to weigh up when we are dealing with these matters.

Helen Eadie: I do not know what the most up-to-date figures are, but in 2008, 30,000 British people had formed companies in countries such as Bulgaria. All of them make use of the facilities and public services in those countries. You are absolutely right to highlight the fact that it is a two-way process, and I am pleased to hear that your view about that is similar to mine. Thank you.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I am interested in the digital economy, and in broadband, mobile and broadcasting services and so on. Before the meeting, the committee heard from Graham Blythe of the European Commission in Scotland about the single market, which has now been in place for 20 years, and I wonder whether any work is being done on assisting consumers throughout the European Union to purchase digital services from wherever in the EU they choose?

I will give you a couple of examples of why I think that that is an issue. If you are in Scotland and you want to buy broadband services, you are pretty much restricted to local suppliers in the UK. If you want to buy media, television and broadcasting services, the same applies. You cannot pick and choose services and suppliers from neighbouring European Union states. I cannot watch RTE in Scotland, but in Ireland I can watch the BBC. If I drive from Scotland to Donegal, the tariff rates immediately change and I pay higher rates.

I see that in the broadband work programme that is coming up there is some work on infrastructure and capital investment. Is anyone considering attempting to harmonise customer choice throughout the European Union in order to provide a commonality of service and therefore a commonality of pricing structure for those important services in the future?

Ian Hudghton: You are right—those are important services in the present, never mind in the future. There are some parts of Scotland where there is no choice of broadband—or even no broadband unless it is satellite operated. I know that assorted battles are going on in some parts of Scotland among consumers who wish to subscribe through BT exchanges and who cannot, for practical or investment reasons. That is an extremely complex issue and a wee European directive slipped into next year's programme certainly could not sort out all that needs to be sorted out, although there is a lot of discussion about digital networking and so on.

As I understand it, some of the television and broadcasting issues that you referred to are partly

to do with licensing arrangements, because although the satellite signal for some channels is receivable here or in Brussels, where I watch telly sometimes, it is not legally permissible to tune into that signal because company A does not have a licence to broadcast in that country. There are some issues in that area that could be examined at the European level.

10:15

Every time it is asked whether the European Union should be able to do something new, the question arises to what extent we think that it is a good idea for something to be decided on in Brussels, as opposed to a local decision being made about the nature, control and licensing of the issue, whether it is broadcasting, broadband, mobile networks and so on. There are issues to do with the extent to which the EU should have powers, but I think that electronic communication is an area in which the EU is well placed to deal with what are, to an increasing extent, cross-border issues. Those of us who travel a bit know perfectly well that a range of issues, such as mobile phone data roaming, have been tackled—to some extent, at least—by the EU, with a view to making it possible for consumers to get a better deal, if not always a better technical service, which is another matter altogether.

I will stop rambling and simply say that that is a good set of issues, of which I will take careful note. If there are any particular issues that relate to the proposals that are in the pipeline, I will get back to the committee. Otherwise, I note that those areas are well worth pursuing so that, as consumers, we can have more choice in television or broadband.

Willie Coffey: I certainly appreciate that, and I would be much obliged to Mr Hudghton if those issues could be raised in whatever forum is appropriate. We are talking about consumer choice, which the single market is meant to help to deliver. In my view, that does not really apply in the case of broadband and media services. Consumer choice is still pretty much restricted to local member state level. As with fuel, perhaps it is a competence issue. Such services are ripe for being opened up to consumer choice throughout Europe, and I hope that there will be discussion on progress towards that in the future.

Jamie McGrigor (Highlands and Islands) (Con): I echo what Willie Coffey has just said about broadband. There are many areas in the Highlands and Islands that suffer great inequality because they do not receive broadband. Even when contracts have been put in place, sometimes the service does not work when it is raining. All sorts of things go wrong. I would be grateful for anything that you can do on that front. I gather that the EU gives €28 billion to the member states to

deal with broadband, and it might be worth holding an inquiry to find out how that is working, especially in the more peripheral areas.

I have a second question, if that is all right, which is on the common agricultural policy. Scotland is highly dependent on the CAP, about which there is great uncertainty. I am getting correspondence from constituents and advisory bodies such as the Scottish Agricultural College—they simply do not know what will happen to people who benefit from Scotland rural development programme schemes that are due to run out. If there is to be delay and we still do not know what the budget figure will be, how will they know what the priorities are for getting new schemes going?

In the meantime, is there any hope that the present schemes can be kept going for an extra period to ensure that farmers do not lose substantial amounts of income? Although the budget has not yet been declared, I presume that it will allow for those schemes and that the money for them will be there. Do you see what I mean? If the schemes are not in place, the money will simply not be used and, because of the lack of planning, the people who should be getting it will be suffering.

Ian Hudghton: Unfortunately our agriculture experts on the committee are not with me today. As I said at the outset, we are all feeling a bit frustrated about the uncertainty over the budget. In fact, the last time I looked, I noticed that we do not even have a finally agreed budget for next year, never mind for the multi-annual financial framework. I think—and hope—that the MAFF budget will be fixed and agreed well before the detail of common agricultural policy reform is finally agreed. At the moment, it is at a similar stage to CFP reform, by which I mean there has been no committee vote on the detail in the European Parliament. After we have the committee vote, there has to be a plenary vote, and the resulting position has to go to the member states to see how much of it can be agreed. Irrespective of budget issues, we have some months to go with regard to CAP and CFP reform before we know what the broad framework will be.

I of course understand and accept that CAP funding is crucial to Scotland. Although there are some budgeting issues to be dealt with at the European level and certain technical decisions to be made about the new CAP, one might contend that in a number of respects Scotland is receiving less than our fair share—or at least our equitable share—of CAP funding. For example, the average payment in Scotland is €130 per hectare, whereas it is €229 in the UK and €268 across the EU. As a result, we need to be alive to certain internal

issues as well as looking at the big European picture, however it might fall.

I think that it is unlikely but, if by any chance we end up not agreeing an EU budget, the existing budget would simply roll over in what I believe are called provisional twelfths until the budget is agreed and in place. If there were no agreement, the budget period would not simply end, with nothing after it; at worst, the financial situation that I have just outlined would come to pass. As I said, however, my guess—it cannot be a prediction—is that a deal will somehow be found, even though that might look extremely difficult just now.

Jamie McGrigor: Do I have time to ask a final question, convener?

The Convener: Yes.

Jamie McGrigor: With regard to the CFP, a recent report suggested that 83 per cent of the serious infringements of fishery rules reported by EU member states were carried out by four member states, three of which were Spain, Italy and Portugal. I cannot remember which the fourth one was, but it certainly was not the UK. The Scottish fleet has done an enormous amount on conservation measures and has tried to stay in line with the rules for the cod recovery plan and everything else, but the fact that the fines for that enormous number of infringements seem to be negligible and that nothing that is being done has any teeth or harms the people who have made the infringements is making our fishermen say, “Why are we bothering?” When are you—I am sorry; I mean the commissioners—going to tighten up on the infringements made by the four nations who are responsible for 83 per cent of them?

Ian Hudghton: On the face of it, I could be surprised that you are calling for more centralisation of these matters when the talk is of decentralisation in the new common fisheries policy. I do not mean to be impertinent in saying that; it is just an observation.

There is a perceived issue about the extent to which there is standardisation of penalty in such matters. It is difficult to say that, just because there are a great number of infringements, there should be high penalties. As with any other infringement of any other regulation, the punishment should fit the nature of the infringement. This country will be aware that, on the odd occasion when we have found infringements, some pretty hefty penalties have been imposed—and quite rightly. That is one of the many, many frustrations with the common fisheries policy.

The perception—which I think is correct—is that we, in Scotland, are making massive efforts to improve the situation and are sometimes having to argue against the restrictions or the centralised nature of common fisheries policy regulation in

order to have, for example, the catch composition scheme, the North Sea land-all scheme and the resulting reduction in discards, which is very worth while. Arguing on the other side of the argument in order to be able to offer relatively minor encouragements to vessels to come into that was not an easy battle to win at either Commission or EU level under the current common fisheries policy. On the one hand, the CFP is terribly restrictive, centralised and regulated, but you are right that, on the other hand, there is no accompanying strict, tight and standardised method of dealing with infringement when it occurs.

If I may, I will make a brief, general comment about the form of the common fisheries policy. Right now, the timetable is slipping significantly. As your bulletin says, we had planned to have a committee vote this week, but that has slipped to 18 December and there are some who are doubtful that we will even manage to have the vote on that date. If it does take place on that date, the plenary vote will be in February or March. The Parliament's position will then have to be put against the Council's position to see where there are areas of agreement or otherwise.

There are some months still to go in that process but we have at least, in the limited amount of agreement that we have been able to reach among representatives of the political groupings in the European Parliament, a greater recognition, in some ways, of the need for decentralisation. That is important in the context of your question, because if we have true decentralised decision making and member states or the fishing nations being empowered to work together in logical sea areas, knowing that they will benefit in the long term from any management decisions or conservation measures that must be put in place, there is a greater likelihood that we will have a climate in which infringements are reduced because people will want to comply for their own benefit. For the first time, there will also be a greater likelihood that a central objective of the CFP or any fisheries management policy might be realised, which is that fish stocks might be conserved while preserving the economic and social benefits to communities and the healthy food chain for consumers.

A host of exceedingly complicated things are happening, but a little glimmer now and again makes me hope that we might get as much true reform as I would like to see. That would partly encompass the infringement and control issues that you raise in your question.

Jamie McGrigor: Can I just ask—

The Convener: Quickly, because we are running out of time and I want to bring in other members.

10:30

Jamie McGrigor: What will happen if the committee does not vote?

Ian Hudghton: If our committee does not vote in December the vote will have to be in January, February or whenever and another month would be added to the timetable. We are already significantly behind the original timetable, as we should ideally have been done and dusted by the end of this year. The end of next year would be the last possible deadline to allow a smooth transition. Most people are trying to get to a position where a new CFP and CAP could be agreed during the Irish presidency in the first six months of next year. Boy, will they have their hands full. They are keen for that to happen, too.

The CFP, in particular, has to date been unsatisfactory, highly centralised and unsuccessful partly because it is a highly controversial policy that has tried to deal centrally and in a standardised fashion with something that is extremely varied among sea areas. If we now have a genuine move towards more local decision making, it would be a massive step. However, there is still some significant resistance to that principle, not least from the European Commission's lawyers, but also from some member states. How far we can go remains to be seen.

I hope that we will have the vote on 18 December, which will mean a plenary vote in March. Then we will need to see just how quickly the European Parliament and the Council of Ministers can agree to a compromise.

Roderick Campbell (North East Fife) (SNP): A lot of the issues have been covered by your response to Jamie McGrigor. Briefly, what are the major faultlines in the discussions about reform of the CAP? Granted, you are not a CAP expert, unlike other MEPs who are not here.

Ian Hudghton: The CAP has to cover a massive diversity of food production systems and a number of different key areas of local—in a European sense—priority. One of the problems is trying to get a common policy that can sensibly cover a multitude of things.

The main issue will be the level of direct payments and it comes back to the amount available in the budget for those payments. Once we have the MAFF—the future years budget—we will get down to knowing how much will be available for agriculture. There is still a bit of debate about to what extent direct payments should continue and under what conditions, and to what extent money should be moved from direct payments for active farming to general environment schemes that are not necessarily specifically related to farm production but—for lots

of good reasons—concern environmental protection.

For us, those are the key parts. A substantial amount—80-something per cent—of Scotland's agricultural land is less-favoured area, which means that we must have a good deal to protect and develop activity here under a new CAP. That issue is specific to Scotland. The less-favoured areas are one of Scotland's environmental strengths, because they are by and large permanent grazing or rough grazing, so they are a natural food supply for livestock, as opposed to factory farming. We should—and could, with the right framework—capitalise on that natural fact, which is well-enough supported, to promote our healthy and naturally produced foodstuffs.

Clare Adamson (Central Scotland) (SNP): I have two quick questions. The first is to do with the MAFF negotiations. Previously, we had the use of the veto by the UK Government, and recently we had the vote at Westminster about the budget proposals. We took some evidence last week from Dr Fabian Zuleeg, who said that there is genuinely talk about the possibility of the UK leaving the EU. What impact, if any, is that having on the UK negotiating position?

My second question is about cigarette smuggling. I believe that the Commission's proposal is about legitimate cigarettes and not the counterfeit variety. Last week, the Scottish Government announced the ambition for Scotland to be a smoking-free country, given our high rate of smoking-related deaths. How do you see the tackling of cigarette smuggling being taken forward?

Ian Hudghton: Two quick questions, did you say? [*Laughter.*]

On the budget and the negotiations, David Cameron wanted to be portrayed here as having used his veto, but what he actually did was to say, "If you, my European partners, go in a certain direction, I will use the veto." He did not actually get to the stage of using the veto. That was a significant tactical error in the negotiations, because the result was that the other 26 member states went on with the discussion and David Cameron, who was there on our behalf, was left out.

There is a role for a veto. It is important that countries can have a veto over areas in which unanimity is required, but it is far better to be in the room until a final proposal comes out and to decide at that time whether it is a vetoable proposal, rather than to say, "I don't want to play," in which case the rest will say, "We need to do something about various aspects of economic matters. We're not going to sit and do nothing just because you say you're going to use a veto on

something we haven't even drafted yet." That is where we were at the veto-using stage.

It is clear that national priorities need to be defended by national Governments—no one would argue with that principle—but it is a question of attitude. Our national priorities should be defended and promoted in a method of constructive engagement that recognises that there has to be a certain amount of give and take, and ultimately, if a veto is available and it has to be used, that is fine. However, the attitude that is taken when we go into negotiations has a lot to do with how we expect to achieve objectives within the negotiations.

Successive UK Governments—I do not single out one in particular—have wanted to portray themselves as being out to sort out people who are allegedly thinking up mischievous things to annoy us, rather than constructively engaging in a process in which we should be partners.

On smoking and cigarettes, ironically, part of the problem and one of the drivers for the smuggling of cigarettes is the taxation on cigarettes. Sometimes, the difference in taxation between EU member states leads to a bit of trade, if you like, across borders—not illegal trade, but mass purchase. It also leads to theft of cigarettes and the smuggling thereof, and some smuggling of cigarettes into the EU from outside. That is included in the Commission's proposals as something that needs to be tackled. It reminds me of another fundamental discussion that we have had—not recently, but certainly in my time as an MEP—which is about whether the EU should seek to have the power to ban smoking across the European Union, as opposed to leaving that as a member state competence. That is still a live issue, although such matters obviously remain a member state competence at the moment. It is easy to see the success that some member states and devolved entities have had in tackling the problem, so it is tempting to want to hurry things up by enabling European action to be taken.

Some years ago, I would have said that we should not be legislating at European level on those sorts of member state issues, but I have softened in my attitude a bit. Given the massive public health consequences and the potential public finance cost savings, I am now not so sure whether the member states should not discuss at least co-ordinating, if not empowering EU action, on that sort of thing.

The Convener: We have completely run out of time, although we could probably explore a number of questions further. I hope that the next time that we have an MEP panel, we will actually have a panel and that Ian Hudghton will not need to hold the fort all on his own.

I thank you for your evidence and your candid answers to some quite difficult questions. We look forward to working with you again.

Agenda item 3 is further consideration of the European Commission work programme. We also explored it in our informal session before the meeting, so members should now be quite well informed about it. Ian Duncan will give us a brief summary of the clerk's paper 1, and we can then ask questions.

Ian Duncan (Clerk and European Officer): I have looked at the European Commission's work programme proposals and filleted out all those that are of devolved competence. They are listed in the annex to the paper, where they are broken down by relevant Scottish Parliament committee. If members agree, the report will be forwarded to the subject committees, which will discuss the issues and agree their actions, which they will then report back to this committee. At that point, this committee will look at each of the responses and determine its own priorities in the work programme, some of which may be referrals from the subject committees if the subject committees do not have the time to take them forward.

I will not go into great detail on the contents of the work programme, but it is perhaps worth noting a couple of things. Again, there are quite a lot of energy and climate change issues, which is perhaps not unexpected. There is a controversial proposal for a European public prosecutor, which might be a concern for the Justice Committee—I look towards Roderick Campbell on that one. In the maritime area, the "blue belt" for maritime transport may be of interest. Another issue that might come up is the free movement of controlled professions, which relates to the restrictions that member states impose on lawyers and doctors.

It is also worth bearing in mind that a number of issues will roll forward from the previous year, some of which we have heard about today. Those on-going issues include: the common fisheries policy; the common agricultural policy; horizon 2020, which is the economic development strategy; and the macro negotiations on the budget.

I am happy to take any questions on the paper.

Willie Coffey: I notice that none of the proposals will be referred to the Scottish Parliament's Public Audit Committee. How does the European Union's system of accountability and scrutiny work? Is there any merit in comparing what we do with what happens in Europe? How is value for money assessed across the European Union? Does Europe have a public audit committee as well? Would it be of interest to us to find out more about scrutinising the work of the European Union in terms of value for money?

Ian Duncan: You have picked probably the most controversial area for the European Union. For various reasons, the private contractor that audits the books each year has continually been unable to sign off on the audit. I think that the European Union would like to be better at that, but at the moment it is a fuzzy area that has not been taken forward in the way that would happen here. If things were done in the same way as happens here, the EU might look very different.

There probably are lessons that would provide a read-across, but at the moment it is a controversial area. However, I do not mean to sound like something bad is happening; primarily, the issue is a combination of the complexity arising from differences among member states and a lack of appetite to explore too far into the issue rather than anything else.

10:45

Willie Coffey: There must at least be systems of scrutiny, accountability and so on. I know that I am relatively new to the committee, but I just wonder whether we ever get sight of the work that goes on in the European Union on scrutiny, accountability and value for the public pound or euro. At some stage in the future, I would be interested in looking at how the European Union assesses its own performance.

Ian Duncan: There are two parts to consider. First, each of the directorates-general tries to assess what added value its work delivers. However, that is not so much a financial assessment as an output or outcome assessment. All the directorates-general do that as part of their requirements. Secondly, the actual finances are assessed by external auditors, who look at the whole sweep of costs and spend.

We could look at the issue in the future. Perhaps it might be useful to provide a short note on how it works, just as a starter for 10. If the committee has more ambitions to look at the issue in more detail, a note can certainly be arranged.

Willie Coffey: That would be helpful.

Helen Eadie: To be helpful to Willie Coffey, I suggest that it might be worth exploring which MEPs from the UK are members of the sorts of committees that Willie Coffey is talking about. We could perhaps engage with those MEPs and discuss and share information with them in order to tease out some of the questions and see what would be appropriate for us to dig into further. That is just a thought.

Ian Duncan: I can put together a note for the committee and we can look at that in the future.

Clare Adamson: Like my colleague Willie Coffey, I immediately went to the other committee

of which I am a member, which for me is the Education and Culture Committee. The note refers to the internationalisation of higher education, but it seems to be talking about that in a global context. Does that mean internationalisation outside of Europe or internationalisation within Europe, or both?

Ian Duncan: It is probably a bit of both. There is an attempt to benchmark the European Union's higher education system against global competitors to ensure that what is being offered is attractive and is drawing in students at the right level. The proposal is non-legislative because education is broadly a reserved competence of the member states, but the ambition is to encourage member states across the EU to institute reforms that make their higher education offerings more attractive.

The Convener: I do not want to step on the toes of my colleague Roderick Campbell, but I have a keen interest in the special safeguards in criminal procedures for suspected or accused persons who are vulnerable. Given that the Scottish Government is bringing forward a victims and witnesses bill, the proposed directive may have an impact, although I believe that the proposal has been delayed on a number of occasions now. Can you give us more details on that?

Ian Duncan: The European proposal should have been introduced earlier this year, but that did not happen because, I think, the issue is rather complicated. The UK and Scotland are broadly in the vanguard on the issue as they have already taken things forward; elsewhere, safeguards for vulnerable suspected or accused persons are considerably less advanced.

It is likely that the Commission will launch a draft directive in February or March of next year—although I think that I said something similar last year and I was wrong then, so it is quite possible that I could be wrong again. I have not read the Scottish Government's proposals, but I think that they may go beyond what will be achieved at the European level, although I am not able to confirm that yet.

Roderick Campbell: The victims and witnesses bill is due to come to the Justice Committee fairly early in the new year. I think that Ian Duncan is right that the bill is likely to go beyond what will be required at European level.

The Convener: Thank you. If there are no more questions on this topic, are members happy to make sure that all subject committees get a copy of the report?

Members *indicated agreement.*

“Brussels Bulletin”

10:50

The Convener: We move on to the “Brussels Bulletin”, which Ian Duncan prepared. He spent last week in Brussels so the bulletin will be bang up to date.

Ian Duncan: It is as bang up to date as I could make it at the time. I will touch on two issues. As members will appreciate, the big discussion at last week's meeting was the multi-annual financial framework. The heads of state and Government met on Thursday and Friday last week. They did not reach agreement, which might not surprise you because there was a lot of press reporting about the reasons for that.

In talking with officials and various participants, I have found a number of interesting issues to note. The first is that the main player is now the permanent President of the European Council, Herman Van Rompuy, who is seeking to broker a compromise. His work on the day to encourage support from the various member states was very interesting.

A couple of the major budget lines were adjusted significantly on the day to encourage support. The first were the major cuts that might disturb Willie Coffey. For example, the connecting Europe facility would receive a fairly significant cut, which would affect broadband. The infrastructure for energy, transport and telecommunications budgets would be cut to achieve increases in other budget heads, notably farming.

The French were insistent that the farming budget should not be touched; they demanded that it retain parity, so it has been raised by €8.3 billion, of which €8 billion will go to direct payments for farmers. Cohesion funding has also been increased by €11 billion, which is a not insubstantial amount, primarily at the behest of the eastern European member states.

It is always very interesting to look at the bottom of the papers, where we get something called minor adjustments. They are the most amusing part of it all because they are the buy-offs for different member states. For example, Hungary got €1.2 billion for one particular region as a way of ensuring that it is more supportive, Malta got €200 million and Cyprus got €150 million. That money is to encourage support and keep things moving smoothly.

It is also worth noting that there was a lot of discussion about the UK position and threatened veto. In the end, the UK was not the troublesome member at the table. It appears that the UK Prime

Minister would have been willing to accept the German compromise, which would have been a €100 billion cut to the overall budget, taking it below the €1 trillion mark. The people who were the most difficult at the meeting were the French because of farming and the eastern European member states, notably Romania, who felt that they were losing out in this particular round of negotiations.

At the previous committee meeting, I promised to bring the committee a paper on the situation. Things have moved on but I should be able to do that for the next meeting. I am giving you just a quick update now.

There are a couple of small things to mention about the eurozone. First, Cyprus has just received a major bank recapitalisation of around €15 billion. Secondly, France has just lost its AAA status; Moody's has downgraded it by one notch. That is important because it means that two credit rating agencies have downgraded France and certain pension funds will only invest in countries that have three AAA ratings, so France will experience significant difficulties on the bond market, which will be uncomfortable for it.

We touched on gender equality and gender quotas. Commissioner Reding has made a watered-down proposal that has been signed off by the college of commissioners. It is more or less about self-regulation, which is exactly what she promised would not happen.

Members might remember that, at our previous meeting, I mentioned that Spain had vetoed the appointment of a male member of the governing body of the European Central Bank. That veto was overturned by the Council of Ministers and the Luxembourgish member was appointed.

I am happy to take questions on anything else.

Clare Adamson: On the gender quotas, the bulletin says that sanctions would not be taken against a company if it could demonstrate that it has made every reasonable effort to appoint a woman. What are the sanctions that can be taken if the company cannot prove that?

Ian Duncan: You have touched upon a good point. I think that the sanctions are mostly fines but the chances of them ever being applied are almost nil because, I would have thought, it would be easy for a company to assert its ability to demonstrate that it did all that it can but failed in the effort. That is why the measure has not been applauded by the various groups that it was meant to address.

Helen Eadie: I was looking at the Cypriot bank recapitalisation and I noticed that the size of the potential bailout is speculated to be between €11 billion and €16 billion—that is half of Scotland's

whole budget. We have a population of about 5 million, and Ian Duncan tells me that the Cypriot population is about 500,000.

Ian Duncan: I have just looked that up—the Cypriot population is 1,116,354.

Helen Eadie: It is still an issue.

Ian Duncan: Absolutely.

Helen Eadie: Thank you for looking that figure up for me—you must have known that I was going to request that.

Ian Duncan: I had a feeling.

Helen Eadie: That puts into perspective what we are talking about with some bailouts—half of Scotland's national budget is being given to the banks in Cyprus. That makes me think.

I have a concern about the trans-European transport network. I see that the regulations are to be revised. One of the amendments that have been tabled to the proposal is to

“strengthen the concept of green corridors”.

That strikes me as an opportunity for Scotland to get our sea passenger routes designated, as they are much more environmentally friendly than road routes. Would it be in order for us, as a committee, to write to make the point that we would want to have that designation incorporated? I am passionate about Rosyth port having been removed as a passenger terminal that interconnects with mainland Europe. I know that it is not the Government's fault; it is the fault of commercial operations. If it was designated as a green corridor, that might help with our other arguments when we come to look at state aid rules.

The Convener: Perhaps we could get a wee bit of research on that for the next meeting so that everybody is briefed about what exactly that means.

Ian Duncan: I have a little more information. The Infrastructure and Capital Investment Committee has been agitated by this particular proposal, too, so it will be worth while checking where it is on its particular issues. I will bring back an update on that and how we can progress the issue at the December meeting.

Willie Coffey: I want to pick Ian Duncan's brains about the credit rating agencies, which is something that I may have mentioned at a previous meeting.

The rating agencies seem to have the potential to impact on national economies, and I sometimes wonder just who exactly they are. Standard & Poor's, Moody's and Fitch Ratings have been around for a while, but to whom are they accountable? Who appoints them? How do

countries or member states in the European Union know that they have been treated fairly by those agencies? To whom would you contest the assessments that they come to?

Ian Duncan has just mentioned the impact that downgrading a country such as France from AAA to AA1 status—whatever that means—could have. I have had a quick look at Moody's rating criteria. There does not seem to be an awful lot of difference between the AAA and AA1 statuses to me, but the impact that that can have on countries is severe. Who are they, who appoints them, how are they regulated and how do we get control and prevent them from making unfair, biased and bad assessments about our countries' fitness?

Ian Duncan: That is a good question. They are in fact private companies and so the oversight is very limited. You will be aware that the financial collapse of a few years ago was because the AAA status bonds were anything but and they collapsed. The ratings agencies' track record is not particularly strong in some areas.

There was an attempt in the European Union to have greater competition by creating new agencies, but that was frustrated by the power of the existing agencies. It was a difficult thing to achieve because, for different reasons, member states must ensure that they, as best they can, secure the AAA rated status or the highest status that they can. The agencies have power not to control but certainly to frighten member states into doing certain things. The European proposal was more or less dead in the water the minute that it was announced. It did not go anywhere; it is still sitting there gently bobbing, but it is not being progressed at any great pace.

11:00

There is no doubt now that the impact of the ratings agencies on the eurozone countries and on certain members in particular is significant. You will recall that France has been downgraded by one notch, while Greece retains junk status. You could not invest in Greece now even if you wanted to, because no investment fund would touch it with a barge pole. The agencies' power is very strong indeed.

Retaining AAA status gives a country a huge cachet and makes a big difference in the other direction, so countries do a great deal to retain that status. That empowers ratings agencies far more than almost anybody else to control and drive policy. The ratings agencies are one of the motivations behind austerity, as they believe that the cuts are more important than investment.

Willie Coffey: That was very helpful. Are the three ratings agencies that are always mentioned American companies?

Ian Duncan: Two are American and one is French.

Willie Coffey: Which one is French?

Ian Duncan: I knew that you were going to ask me that.

Willie Coffey: It is not Moody's.

Ian Duncan: No, it is not Moody's.

Willie Coffey: They all have different criteria. I cannot imagine that the French agency would downgrade France from AAA status, although we might well ask why not.

Those three companies seem to have a huge influence and impact on the world economy, and yet they are not accountable to anybody. We do not know whether the criteria that they apply are fair, reasonable or otherwise, and there is nothing that we can do about it.

Ian Duncan: There is a great fear of politicisation. You will recall that, at certain points, the downgrades have been used in such a way as to pre-empt certain things. During the Greek crisis, for example, it was the downgrades from the ratings agencies that pushed things faster towards the need for a broader resolution. Their power is great, and as far as I am aware there is no prospect of that being reformed any time soon.

Roderick Campbell: I have a couple of points. First, I am not sure where we are going with the timetable for the banking supervision regime. Perhaps you can take that a wee bit further. What will the next move be?

Ian Duncan: There is a big debate between the countries within the eurozone that would be subject to the broad banking supervision rules, and those outwith the eurozone. There is now a broader recognition that such a situation would be unstable, and more time is therefore being spent on trying to reconcile those two elements. Too many member states are now saying that such a regime will just not work, as one cannot regulate only part of Europe's banking houses.

Although the regime is scheduled to be implemented in January 2014, there will be all to play for in the early part of next year. I would have thought that there would be serious meetings—in fact, there is a meeting scheduled for the second week of January in which finance ministers will try to wrestle the issue to the ground. After that, things will become a bit clearer with regard to whether the timetable will be met.

Roderick Campbell: Secondly, I was trying to work out the significance of the EurActiv website's list of 40 people, a considerable number of whom I have never heard of.

Ian Duncan: I put that list in as an “and finally” point, just to show that the EurActiv website is quite important in the European Union, as it breaks a lot of stories and leaks. I had a strong suspicion that the committee would probably not have heard of the top 10 people, and I thought that it would be useful for you to be aware that the most powerful people in the European Union are rarely the people whom you would think are important.

You will see, for example, that the British Prime Minister and the Secretary of State for Foreign and Commonwealth Affairs are quite a long way down the list in terms of their impact, whereas the number 1 person is a Liberal Democrat MEP called Sharon Bowles, who is considered to be most influential in her chairmanship of the Economic and Monetary Affairs Committee. Malcolm Harbour is a Conservative who chairs the Internal Market and Consumer Protection Committee.

Roderick Campbell: Did the website make some kind of attempt to justify the order?

Ian Duncan: It did—it carried out a broad consultation. This is the first time that it has produced such a list; I put it in primarily to show that influence in Europe is not held by those whom you might expect to hold it, but rather by people whom you will never have heard of. You could pick up the phone now and those people would happily chat to you in a way that the Prime Minister probably would not.

Various committees of the Scottish Parliament have quite regularly met and chatted with a number of people on the list, from Jonathan Faull of the directorate-general for internal market and services to Malcolm Harbour and Sharon Bowles. Members might remember that Richard Corbett is a former MEP. He lost his seat in the north of England and is now the chief adviser to the permanent President of the Council. Andrew Duff has given evidence to the committee in a previous incarnation. The list is a surprising reminder that power is not always held by the people we expect.

Helen Eadie: I refer to the section under the heading “Council President’s proposal”. About halfway down that page, there is a reference to

“a new system under which the country would pay partly for its own refund.”

That is about common agricultural policy funding. The proposal was rejected by Sweden and Germany, I think. Was the proposal ultimately thrown out altogether or is it still on the table? If a country is going to get a rebate but will pay for its own refund, that knocks a bit of a dent or hole in some of the arguments at the national level that we are hearing.

Ian Duncan: The rebates are among the most controversial components of the budget primarily because they are seen as serving only one member state. The UK gets the largest rebate, of course, because it failed to get a significant share of the CAP funding during initial negotiations, but even Germany, for example, will get a rebate, although admittedly a smaller one.

The current proposal is that Britain self-finances part of its refund. That proposal is still on the table, although I suspect that, as members can appreciate, the UK Government is not awash with support for it. All of those things will remain on the table until everything is finally brought together in the wee small hours of a day many months from now. We will know only then whether the rebate will remain at its current award level.

Helen Eadie: Will you keep us informed about what happens?

Ian Duncan: Yes.

Helen Eadie: That is fine, as it could be important.

The Convener: We are really pushing up against our timescale, so Jamie McGrigor should be quick.

Jamie McGrigor: What will be on the table in February 2013? Who will have organised what is on the table for agreement?

Ian Duncan: I suspect that Herman Van Rompuy will bring forward another proposal. At that point, the Irish will have taken over the rotating presidency of the European Council, and they, too, will be involved in the discussion. However, it is horse trading.

Jamie McGrigor: Ireland is a good place for that.

Ian Duncan: It will be a challenge to bring about a resolution in the short term, but approaching deadlines tend to clear minds. I do not think that a resolution will be brought about in February. Work will continue, but Herman Van Rompuy will be the person to watch.

The Convener: Are members content to send the “Brussels Bulletin” to the relevant committees?

Members indicated agreement.

Roderick Campbell: Will the small amendment that we talked about before the meeting be made?

Ian Duncan: Yes. We can make the very small amendment that was suggested. That will not be a problem.

European Union Structural Funds

11:08

The Convener: Agenda item 5 is on EU structural funds. Members will remember that the Scottish Government gave a commitment to provide us with a six-monthly update on where it is at with structural funds. Members have paper 3, which is an update that has been signed by the new Cabinet Secretary for Infrastructure, Investment and Cities, Nicola Sturgeon. Do members have any comments or questions?

Hanzala Malik: I welcome the report.

The Convener: There are a number of things in it that we should keep a close eye on. The report is not long, but it is pretty detailed and to the point. The committee welcomes that. Are members happy to note the report, keep an eye on the main points, and look forward to the next one?

Members *indicated agreement*

The Convener: We agreed earlier to take agenda item 6 in private. I thank everyone in our extensive public gallery for coming to the meeting.

11:09

Meeting continued in private until 11:29.

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