



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

EUROPEAN AND EXTERNAL RELATIONS COMMITTEE

Thursday 2 May 2013

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EUROPEAN AND EXTERNAL RELATIONS COMMITTEE
8th Meeting 2013, 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:

James Anderson (Baillie Gifford)

Giles Blackburne (China-Britain Business Council)

James Brodie (China-Britain Business Council)

Neil Findlay (Lothian) (Lab) (Committee Substitute)

Owen Kelly (Scottish Financial Enterprise)

Ed Payne (Scottish Development International)

Denis Taylor (Hidden Office Ltd)

Julian Taylor (Scottish Enterprise)

Angus Tulloch (First State Investments)

CLERK TO THE COMMITTEE

Katy Orr

LOCATION

Committee Room 6

Scottish Parliament

European and External Relations Committee

Thursday 2 May 2013

[The Convener *opened the meeting at 09:02*]

Decision on Taking Business in Private

The Convener (Christina McKelvie): Good morning and welcome to the eighth meeting in 2013 of the European and External Relations Committee. I make the usual request that mobile devices be switched off, as they interfere with our broadcasting equipment. We have received apologies from Helen Eadie MSP, who is attending another event today, but Neil Findlay is here as her substitute.

I put on record the committee's thanks to Dr Ian Duncan, who previously produced the "Brussels Bulletin" and was the European officer and senior clerk to the committee. He has gone to pursue other dreams outside the Parliament and we wish him well.

I welcome Katy Orr, who has taken over from Dr Duncan. She has many years' experience at the European Commission, so I think that we have landed very lucky with her. I welcome her to the committee and wish her good luck.

I ask Neil Findlay whether he has any relevant interests to declare.

Neil Findlay (Lothian) (Lab): I refer the convener to my entry in the register of members' interests.

The Convener: Thank you very much.

Under agenda item 1, I ask members to agree to take in private item 7, and also to take in private consideration of evidence heard at future meetings and consideration of a draft report on our inquiry. Does the committee agree?

Members *indicated agreement.*

Scottish Government Country Plan for China and International Framework

09:03

The Convener: Agenda item 2 is our inquiry into the Scottish Government country plan for China and its international framework. The inquiry, which we have been conducting over the past few months, is focused on the strategy for economic engagement between Scotland and China, as set out in the China plan, and the perceived benefits that come from the policy. The inquiry will also consider the potential for further strengthening of the plan and subsequent trade relations with China.

In the inquiry so far, the committee has visited a number of businesses in Scotland that engage with or receive investment from the Chinese market. That has allowed committee members to gain a very relevant first-hand understanding of our trade agreement.

We look forward to our first oral evidence from Scottish Development International. I welcome our witnesses: Ed Payne is head of strategy with Scottish Development International; and Julian Taylor is executive director, strategy and economics, for Scottish Enterprise. I thank you both for coming along today. We will go straight to questions, unless our witnesses want to make a brief statement.

Julian Taylor (Scottish Enterprise): I am happy to go straight to questions.

The Convener: Okay. The first question is from Jamie McGrigor.

Jamie McGrigor (Highlands and Islands) (Con): According to the Scottish Government, its strategy for engagement with China

"sets out the Scottish Government's ambitions in developing Scotland's relationship with China over the next five years. The strategy is intended for all Scotland and has been developed after extensive engagement with key stakeholders. It provides a framework for any Scottish organisation that wishes to work with China."

Is that correct?

Julian Taylor: The short answer is yes.

Jamie McGrigor: How does the Government's strategy for engagement guide your work in China?

Julian Taylor: The overall strategy is a clear statement of intent but it is also a framework. It is a relatively short document but it sets out a clear set of priorities and ambitions for Scottish Development International, which is the trade and

investment arm of Scottish Enterprise, Highlands and Islands Enterprise and the Scottish Government. It guides our actions. On the back of that, we have undertaken to provide direct support to help companies invest in China and, indeed, to help Chinese companies invest in Scotland.

As a statement of intent, the strategy is very useful for our desperately important relationships in China with the Chinese Government and its various arms, as we can demonstrate in the market that we have the commitment of the Scottish Government behind us. That in itself is an incredibly important asset.

I am not sure that I am getting to the nub of your question.

Jamie McGrigor: I am coming to that. How do your funding levels compare with those of other national offices located in the region? What are you able to deliver with your current funding levels?

Julian Taylor: It can be a little bit misleading to think of our funding as the precise investment made in the market in China. We have an important staff footprint. We have been able to increase from nine staff to 12 and we have moved from two offices to three, so the resources in the market are relatively strong. In addition, we work alongside a whole range of partners. Without wishing to give away our trade secrets, I think that we are better than our peers and our competitors in terms of our relationships with, for example, the China-Britain Business Council, which is an excellent organisation with a fantastic footprint across China. We can also tap into a great network of senior Scots overseas through global Scots.

The important part of the iceberg is the investment that is made in Scotland. Scottish Development International's presence in China is driven by our huge presence in Scotland as a result of the companies that we work with in Scotland and our relationships with universities and other investors. That is where the real resources are committed. It is one thing to have in the market a relatively modest staff footprint, which is on a par with that of some of our competitors—although without a shadow of a doubt, some have a bigger footprint and some have a smaller footprint—but we can also draw on the huge resource that is based back in Scotland.

Jamie McGrigor: What range of support does SDI provide to assist businesses that are looking to access the Chinese market? Are there any specific examples of businesses that have received recent support? We visited two salmon farms, which both export to China, to take evidence. One already had its own office in China and was doing a lot of exporting, but the other did

not and did not seem to be achieving very much in that regard. Can you give examples of businesses that you have helped recently?

Julian Taylor: I will ask Ed Payne to give some specific examples. We recently took a trade mission to a major food event in China. For the first time we brought together ministerial representation, the trade bodies for the food industry, including Seafood Scotland and Scotland Food & Drink, and a whole series of producers to meet potential buyers, see their product in situ in supermarkets and engage with celebrity chefs. The power of social media is incredibly important in China, so if Scotland can become better known as a premium brand, especially for food, that is more power to its elbow.

The specific support that we provide ranges from the softer social media side of engagement right the way through to, for example, practical help to help companies prepare market research so that they understand the precise requirements for product design and the protection of intellectual property. We can provide such expertise or procure it for companies by working with partners. We can give practical examples.

You mentioned salmon production, which is an area where there are big challenges. We need to ensure that salmon producers are not only aware of the opportunities in China but engaging with the authorities here to increase productive capability in Scotland and their own processing capability.

It is part of an overall package. Ed Payne can give more specifics.

Ed Payne (Scottish Development International): To go back to the original question, we were involved with Scottish Government colleagues in the development of the China plan, particularly the trade and investment elements, so it is a joined-up document. We also worked closely with stakeholders on it—we particularly used the experience of our field staff in China.

The support that we give companies must be seen in the context of overall growth support. We work closely with Scottish Enterprise and Highlands and Islands Enterprise. Our support is targeted at an industry and individual company level. We consider companies' growth aspirations and then ask how we can support them. If support is needed on market development and exporting, SDI can provide trade and investment expertise. If China is a market of interest to a company, we will work with the company on entering that market.

Much of the work that we do and that companies value concerns preparedness. We ask whether the company has a plan and a strategy and whether it understands the market. Working with our partners—for example, UK Trade &

Investment has a good market intelligence service—we provide a lot of market intelligence.

When a company is prepared and understands its market, we will help it to enter the market. We will run missions to China and help it to develop its networks in China. That is where our overseas staff can add a lot of value. Much of that work is about understanding the business culture and the regulatory regime.

In our written submission, we articulated quite a few different examples of individual companies that we have helped. In the food and drink sector, that includes work that we have done not only with the salmon industry but with the bakery sector. China is interested in provenance, and Scotland has a unique and world-class provenance. The way that we sell whisky into the market along with bakery products is critical.

Much of our work is also concerned with the more technical side. We work with a lot of renewables companies.

Jamie McGrigor: Which ones?

Ed Payne: We are helping SgurrEnergy Ltd, for example, to access the market and establish a presence.

Jamie McGrigor: According to the Scottish Government, you provide a framework for any Scottish organisation that wishes to work with China. If a new food producer, say, from somewhere in the Highlands and Islands wants to engage with that framework, what is his first step?

Ed Payne: Stag Bakeries, which is based in Stornoway, is an example of a Highlands and Islands company that we have helped into China. If the company was new to exporting, we would have to examine its growth aspiration and how it wanted to expand its markets.

Jamie McGrigor: But what does it do? Does it lift the telephone to you?

Ed Payne: It can do that, but normally it would be referred to us by Highlands and Islands Enterprise, Scottish Enterprise or the business gateway.

At SDI, we supply specific trade and investment expertise; overall business growth support is provided by Scottish Enterprise, Highlands and Islands Enterprise and the business gateway. Companies can contact all those bodies via the web or telephone. If they are growth businesses, many of them will be account managed through those organisations.

I hope that it is relatively easy for a company to access our services. I would certainly like some feedback if that is not the experience.

Julian Taylor: We test the ease of doing business with us. However, we need to make it clear that it is not enough for a company just to pick up the phone and say, “I want to export to China.” We need to ensure that it has really thought through the decision.

We can have a one-to-one relationship and actively try to engage with companies—we can work in seminars and workshops—but a company must have the capability to export and, in all honesty, it probably needs to export to somewhere else before it thinks about the China market.

We would never advise a company not to engage in a particular market, but we would make sure that it had really thought through the decision. Sometimes, in the cold light of day, the decision not to export to a particularly challenging market is the right one.

09:15

Jamie McGrigor: That is the point that I am making. How do companies get in touch with you? A framework is meant to be provided for any organisation that wishes to work in China. Companies must come to you. You might decide that it is wrong for them to engage in the China market, but it is no good saying that firms must go through HIE or Scottish Enterprise. If you are providing that framework, companies must be able to get in touch with you.

Julian Taylor: Yes. The relationship between partners is utterly seamless. As I said earlier, SDI is the trade and investment arm of the various partners. Our staff work side by side, and we are all part of the same team.

Clare Adamson (Central Scotland) (SNP): You mentioned ministerial visits, celebrity endorsement and social media, and the fact that China is vitally important. Trade missions have a long-standing history. Is there something particular about the culture or the market in China that makes the ministerial and celebrity aspects more important there?

Julian Taylor: Absolutely. I would separate the two. Government relationships are generally much more important in China than in most other markets across the world. To have a personal relationship at any level in Government is very important. Beneath that, a deep understanding of the way through the regulatory environment is desperately important. It would be very hard to do the job without strong Government relationships.

As regards the celebrity chef example, the way in which business is done is different in most markets compared with how it is done in Scotland and the rest of the United Kingdom. In China, it is particularly different. Social media plays an

incredibly powerful role—I used the word “provenance” in that regard. We can definitely punch above our weight if we are able to communicate to a mass market using modern techniques, including social media.

Without wanting to get too anecdotal, I was at a dinner with a major Chinese importer and, while we were having dinner, he was tweeting. When I asked him, he told me that he was tweeting about having dinner with me and about the great Scottish food that we were eating. He also told me that he had 400,000 followers. Instantly hitting a market in that way is so much more powerful than advertisements and brochures. That is an example of a respected influencer being able to access a very high proportion of people—and the man was buying and selling Scottish produce. That is much more powerful than traditional forms of marketing.

The Convener: We will have a brief supplementary from Hanzala Malik—who has just commented to me that 400,000 falls a wee bit short of the number of people following him on Twitter.

Hanzala Malik (Glasgow) (Lab): I want to follow up on support for new companies in particular. We have a growing dairy products industry—we seem to be specialising in high-quality cheese. Have any of the companies in that sector approached you? More important, have you approached them about the possibility of engaging in overseas markets?

Julian Taylor: I stand by my statement that we need to ensure that the company has the capability. We would never decide whether a company was right for the market, but we would strongly challenge it to ensure that it had the capability to approach the market.

More and more companies are approaching us. Traditionally, those companies have been in the whisky sector, but we are now being contacted by food producers, including dairy producers. The Chinese market is demanding more western products, especially dairy products, for a variety of reasons, including food safety challenges there, and we view that as a great market opportunity. To widen our net, we are proactively trying to prospect for companies that are interested in marketing, through our smart exporter programme.

The trade mission with ministerial involvement that I mentioned was a chance to bring together aspiring exporters to work alongside existing exporters, with much more peer-to-peer learning. A dairy manufacturer who is new to the market can learn alongside an experienced biscuit manufacturer, for example.

Hanzala Malik: Can you give an example of a company that you have assisted either to

participate or, more important, to get up to a level where you felt that it was able to participate?

Ed Payne: We have been working closely with Scotland Food & Drink, which has been a key partner in getting engagement from the whole industry. As part of that, it published the Asia food and drink plan. Graham's Dairies has looked at supplying value-added milk products to the Chinese market, and it is extremely positive about the opportunities that exist there.

At the beginning of January, a member of our local staff in China came to Scotland for six weeks. She toured the country and talked to food and drink businesses in particular—she did so at a big event in Inverness, for example. She explained the reality of what it is like to do business in China. As a native of China, she can give a sense of that and answer questions about it. That exercise was about bringing China to Scotland, particularly for smaller businesses that probably do not have the resources to travel to China regularly. It enabled people to get a better understanding of whether that market is a good fit for them. Part of that process involved getting people to consider going to the HOFEX food and drink exhibition in Hong Kong.

Julian Taylor: Other examples would be Baxter's and Mackays. There is a whole list of companies, the names of some of which we would be more than happy to share. We need to bear in mind commercial confidentiality—some companies are just approaching the market.

The Convener: Thanks very much.

You have said quite a lot about the food and drink industry. Your four priority areas are food and drink; energy; financial services; and information and communication technology, creative industries and life sciences, which are all lumped together. Can you give us an insight into why those four priority areas were chosen?

Julian Taylor: Yes. Market opportunity is one of the main drivers. We are seeing a change in the structure of the Chinese economy. There is an emergent middle class and a significant proportion of the population has more disposable income—hence the focus on food and drink. With the change in the structure of the economy, China will consume a significant proportion of the world's global energy production. We have a competitive advantage in energy, as Scotland is genuinely among the best countries in the world in that field. That market opportunity is growing very rapidly, and we are helping to bridge the gap.

We have specialist, niche and world-class companies in life sciences, so we can play into the growing market opportunities that exist, which will be highly significant. As has happened in the rest of the world, the disease profile of the Chinese

population will change. Diabetes is important in that regard, as Scotland has expertise in understanding and treating it. There is a win-win opportunity there. Another issue is care for an increasingly elderly population in China, which—because of the one-child policy—does not have a population to support it. Such issues, which are faced in the west and in China, present opportunities for Scotland to exploit.

The principle is to exploit market opportunities in areas in which we have a competitive advantage. We have distilled our approach. We cannot be all things to all people, so we have adopted a niche approach.

Ed Payne: I will provide a bit more detail. The 12th five-year plan in China shows that the priority areas that it wants to focus on are energy, biotechnology and new information technology, which are the very areas in which Scotland has competitive strength. It is a case of matching the demand from China with the opportunities that exist in Scotland.

We work very closely with the industry leadership groups in Scotland, which have prioritised China as a future market. In the company surveys on global connections, China has been ranked the number 1 new market for the past two years. The growing demand that we are seeing from industry in Scotland matches the opportunities that China affords.

The Convener: Willie Coffey will explore that further in his question.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): Thanks very much, convener.

Mr Payne has partially dealt with the question that I had in mind. Nevertheless, it is an extremely important one. How do we match Scotland's strengths in the sectors that you have highlighted with the needs and requirements of the Chinese? You have given us some indication of that. Scotland can certainly offer world-class products and services to the Chinese market, but I have seen no mention of the leisure and tourism industry. Most of the industries that you have mentioned will give goods and services to the Chinese market, but what are we doing to encourage our Chinese friends to come to Scotland? I notice that some of the paperwork mentions that no direct air routes from Scotland to China exist at the moment. Is any thought being given to offering the Chinese market some access to Scotland's world-class leisure and tourism facilities? How would we achieve that?

Julian Taylor: VisitScotland, the Government's agency for tourism promotion, has developed its thoughts on a world-market scale. Its evidence is that there is a market of nearer neighbours and of people with a much stronger affinity for Scotland in

the Commonwealth and North America. VisitScotland is aware of the importance of emerging markets and recognises the opportunity. The issue also ties in with the premium offering that I was referring to, so Scotland can stand not only for high-quality food products but for textile products and the golf product. People can come to Scotland and try a range of experiences connected to those areas.

On direct air routes, we are working actively with Transport Scotland, VisitScotland and the Scottish Government to pursue the prize of a direct air route from Scotland to mainland China. For the first time ever, we and Scottish airports had a Scotland stand at a sort of speed-dating exercise that takes place once a year in the airline industry. At that event, which was in the middle east last year, we approached the airlines that fly directly to China and did some background work with them. We are absolutely on the case, but I do not underestimate how competitive the market is.

Scotland is reasonably well connected to China—you can get there with only one change via Heathrow, Schiphol or Copenhagen, for example. There are 400 weekly flights to China, and there is the Emirates flight from Glasgow, with only one change, too. The situation is not ideal—we make no bones about the fact that we would like a direct connection—but the connectivity is reasonable.

Willie Coffey: What about Scotland the brand? Is our leisure and cultural identity recognised and valued in China, or do we have a job of work to do to raise awareness of Scotland's potential as a destination for the Chinese market?

Ed Payne: The overall promotion of Scotland is critical. The alignment of the China plan is critical in terms of showing how everything is integrated in the overall promotion of Scotland. Our missions to China very much focus on the cultural aspects as well.

The further you get from Scotland, the less well-known Scotland is. There must be a continual process of promotion. We are not as visible in the Chinese market as we are in the American market, so there is a significant promotional job to do.

Niche markets are important. Most green-keepers in China are trained through Elmwood College, so our golfing identity is well known in China. We must think about the niche opportunities that Scotland has to offer Chinese visitors.

Similarly, Chinese students who come here to study have an affinity for Scotland, and we need to think about how to ensure that they keep that affinity when they return to China. We work closely with the universities in relation to their alumni

activities, and help to put a business edge on some of the events that they run.

Julian Taylor: We can certainly do more. However, I think that it would be fair to say that we punch above our weight. We can get world-renowned academics into the Chinese market, and can ensure that they are accompanied by, for example, embryonic life sciences companies.

We should take seriously the symbolism of the pandas being at Edinburgh zoo. That is a sign of the strength of the relationship and of the fact that Scotland is being taken seriously. Not every country would be granted that privilege.

Willie Coffey: Is there going to be a Scottish panda?

Julian Taylor: Hopefully.

Neil Findlay: You mentioned food, whisky and so on. What other products and services are being exported?

Julian Taylor: As you will no doubt hear when you receive evidence from Scottish Financial Enterprise, some financial services companies, such as Aberdeen Asset Management and Martin Currie, are well established in China. That gives Scottish expertise another niche opportunity to respond to the changing dynamic of China's growing, wealthy population.

I have not touched on the engineering sector. Companies such as Weir Group, Clyde Group and Aggreko can take advantage of niche, specialist opportunities.

The need to focus on certain markets is important, but a number of other companies have been able to take the bull by the horns. The Scottish leather group, Bridge of Weir Leather in Renfrewshire, has the sophistication of a wholly-owned enterprise in China. The group employs 600 people in Scotland, but it is also able to produce leather products that are fitted to Volvo cars and others as part of the new production facilities in China.

There are one or two other examples of great Scottish companies that have stolen a march on the competition and are operating in the market. That is quite a sophisticated thing to do; hats off to such companies.

09:30

Ed Payne: There are two market segments that we play into. One relates to satisfying the growing consumer demand and the middle class in China. That is very much to do with the Scottish provenance—the examples of food and drink, especially whisky, demonstrate that.

The other segment relates to providing technology and new products, particularly in the oil and gas, renewable energy, life sciences and advanced engineering sectors. If we look at the breakdown by industry in the global connections survey, the types of exports to China are pretty widespread and a lot of them relate to technology. The research excellence in life sciences in Scotland and how that can be accessed by China are key to that.

Neil Findlay: I am cautious in asking this question—are our banks involved in China?

Julian Taylor: There is a relationship between the Bank of China and Barclays—that is China and the UK. I am not aware of the specific relationships.

Neil Findlay: I imagine that we would be cautious about the involvement of our banks, given recent history.

Ed Payne: Asset management is a key area—how we use Scottish expertise to help China to manage its assets.

Neil Findlay: We have figures that show that the European average share of exports to China has increased over recent years, but Scotland's share has decreased. Will you comment on that?

Ed Payne: I would need to understand those figures a bit better.

Neil Findlay: The figures concern Scotland's share of exports to China in relation to the European Organisation for Economic Co-operation and Development average. In 2009, the European average was 7.5 per cent, and it went up to 8.9 per cent in 2010. Scotland's share was 2.1 per cent in 2009; it went down to 1.3 per cent in 2010 and has returned to 1.7 per cent.

Ed Payne: I am not quite sure about the OECD average. However, in the global connections survey, we have seen a bit of variability in the data. If we look at the general trend of the data year on year over the past 10 years, exports have gone up from about £200 million a year to £400 million a year, so we have doubled our exports into the Chinese market.

We need to look at our competitors, understand what they are doing in comparison with us and consider what industries the Chinese are demanding. We need to look further at that area of relative performance.

Neil Findlay: If we go back enough, we will of course see an increase—we would be pretty duff if we did not. However, in the past four or five years, we have seen a decrease—is that not the problem?

Ed Payne: The most recent data on tradeable goods from Her Majesty's Revenue and Customs

are the 2012 statistics, which show that Scotland's exports overall have been fairly flat. That is due mainly to a decline in Europe. Exports increased by about 5 per cent to the rest of the world and by 20 per cent to China. China had the biggest value increase, of £88 million, so exports to China are increasing. It is a long-term game. If we are going into that market, we have to establish a presence and then grow it.

Neil Findlay: I have another question—it is not directly related but it is important. In the past couple of weeks, we have seen the catastrophe in Bangladesh. In the light of what happened there, are companies raising concerns about the conditions of working people who produce goods that are imported from China to Scotland, or is it just the financial element—the bottom line—that is a priority for companies?

Julian Taylor: That is not something that we have necessarily seen. Companies that are trading in Scotland and with which I have worked certainly care as much about working conditions in overseas plants as they do about conditions here. I am not seeing evidence of a rising concern.

Neil Findlay: I am sure that many companies—including those that were involved in production at the Bangladesh facility—say exactly the same thing. I wonder how robust some companies are in ensuring that goods are produced in an ethical manner.

Julian Taylor: I have no evidence on which to draw to respond to that.

Roderick Campbell (North East Fife) (SNP): Good morning, gentlemen. I was pleased to hear the reference to Elmwood College, which is in my constituency, and to the good work that it is doing in training green-keepers.

To move on slightly from what Neil Findlay said, is the relatively limited number of firms exporting to China an indication of a lack of interest on the part of Scottish businesses?

Julian Taylor: Across the business base, Scotland would benefit from more companies in more sectors exporting to more markets. We need to export more. When we talk to companies, we are finding that China is rising up the list of countries in which they would be interested. We are getting much more awareness of China as a market. We need more, but at least the trend is in the right direction.

Roderick Campbell: How do we work to increase the pool? We received a submission from a technology company, Elimpus, which suggested that, although it was pleased with its financial assistance from Scottish Enterprise, the intelligence that it obtained was its own. The help that it would really like is

“specific guidance or ... a list of ‘reputable’ representatives/agents/distributors that would commercially enable”

it in the early stages. That possibly goes beyond what you currently do.

Ed Payne: We try to provide such guidance. We can only use our best sources, but we try to provide as much support as possible. Due diligence is always for the company to assess, whatever market it is entering.

China is an incredibly competitive market and a business must be incredibly competitive to go there. Apart from the world-class companies in Scotland that are already competitive, exporting to China is mainly for companies that are relatively experienced, in that they are already exporting to Europe—China is the next step for them. The question is one of overall competitiveness, not just export experience.

On export experience, one challenge is that China is culturally very different, so more support is needed and companies experience more market failures. We need to provide that support. We also need to provide the peer-to-peer support that has been mentioned by using, for example, the *globalscot* network so that people share experience; using our staff returning to Scotland to talk to companies about the experience in China; and using the help of organisations such as CBBC.

We can also use business organisations. On Tuesday, I was at a Confederation of British Industry business meeting, where Gavin Hewitt from the Scotch Whisky Association talked about experiences in emerging markets and shared with the wider business community the particular challenges of those markets. There is a lot of peer-to-peer learning that can help.

Roderick Campbell: Elimpus suggests that it does not believe that China is a single unified market. Do you agree?

Ed Payne: Yes. Frank Boyland, Scottish Development International's director in Asia, said in January's *Holyrood* magazine that he had been in Beijing, where the temperature was -2°C, then he flew for five hours to Shenzhen, where it was 28°C. The products that are sold in China will be different because of that, for example.

Clare Adamson: I will ask whether you have done any benchmarking against the work that other countries are doing to deliver support to companies. The committee was very taken by the evidence from the Scottish Salmon Company, which said that it had got most of its information from a New Zealand website. Have you done any benchmarking and are you looking at other ways of delivering support?

Julian Taylor: We have done that, but probably not enough. If I had made opening remarks, I might well have said that, although I am responsible for Scottish Enterprise's strategy and economic works now, I will in the summer take over responsibility for our Asia-Pacific team and will be based in Shanghai. Alongside our great operational experience in the field, I want to bring more of a strategy perspective, in which benchmarking against peers will be critical. We will learn ruthlessly from our competitors.

Willie Coffey: I will ask about the Scottish experience of tariff barriers. Are they a particular problem? Do we and our European Union partners face the same issues in that respect or does Scotland in particular suffer? What are we doing to break down those barriers?

Ed Payne: The clerk highlighted a particular challenge in one company that you visited, but I note that trade policy on trade barriers is governed through the UK Government, in negotiation with Europe. The key thing is to understand the challenge. As the issue is very technical, we have gone back to UK Trade & Investment, which has gone to the Department for Business, Innovation and Skills, which is going to Beijing to figure out that particular matter.

We certainly need to be aware of the area and influence things early to ensure that, if we know of particular trade barriers, we can work with industry associations on them. I think that the Scotch Whisky Association is particularly good at finding such things out early. Moreover, China is part of the World Trade Organization, and we need to use the organisations that are available to us and like-minded countries to influence such matters.

Willie Coffey: Are we particularly disadvantaged in this respect?

Ed Payne: No. It is a general issue.

The Convener: The final question in this session is from Jamie McGrigor.

Jamie McGrigor: Evidence from Philip Morgan, the first secretary for Scottish affairs in the British embassy in Beijing between January 2010 and October 2012, states:

"The impact of a political visit to China and the personal relationships that are developed at political level cannot be underestimated. But is enough thought being given to how each visit will further the delivery of the China Plan in the content and itinerary of a Ministerial visit or its timing and cost?"

What is the role of the SDI offices in China in planning and running a Scottish Government ministerial visit to China?

Julian Taylor: First, we actively work with Government colleagues on a programme of ministerial visits that genuinely support trade and

investment opportunities alongside cultural opportunities. We highlighted Richard Lochhead's accompanying of the food and drink trade mission to Shanghai at the end of last year as an example of how we have aligned that kind of ministerial visit with business interests.

SDI staff in the field ensure that their ministerial visit supports on-going discussions and negotiations with, for example, potential inward investors and that a political connection can be made to help Scottish companies gain access at the highest possible level. It is also a chance to raise particular issues, opportunities and concerns, such as seeking guidance in recruiting local staff. There is very close co-operation in the planning and day-to-day delivery of such visits.

Jamie McGrigor: So you are happy that ministerial visits are, on the whole, value for money.

Julian Taylor: Absolutely.

Ed Payne: In China, in particular, ministers can open doors that our staff cannot.

The Convener: That completes our questions. You said that you would provide a list of distributors and companies, and I wonder whether you can also write to the committee to give us a wee insight into how accessible that list is to those companies. I realise that there are confidentiality issues, but that kind of up-to-date information would be interesting for the committee.

I thank both witnesses for their evidence. It was more of a sprint than a marathon, but I think that we managed to glean a lot of decent information. If we need anything else, we will get back to you.

I suspend the meeting briefly to allow us to get into our places for the round-table evidence session.

09:44

Meeting suspended.

09:46

On resuming—

The Convener: Welcome back to the meeting. Our next agenda item is a round-table evidence session. Given the amount of expertise and the number of interests around the table, I hope that we will have quite a free-flowing discussion. Channelling your comments through the chair will give things a bit of structure but, as I have said, I want things to flow freely and hope that members will come back on comments, ask questions and pick up on points as we go along.

I invite everyone around the table to introduce themselves. I am the committee convener.

Hanzala Malik: I am the deputy convener.

Owen Kelly (Scottish Financial Enterprise): I am chief executive of Scottish Financial Enterprise, the representative body for Scotland's financial services industry.

Roderick Campbell: I am the MSP for North East Fife.

Angus Tulloch (First State Investments): I am a fund manager based in Edinburgh.

Willie Coffey: I am the MSP for Kilmarnock and Irvine Valley.

Denis Taylor (Hidden Office Ltd): I run a consultancy called the Hidden Office.

Clare Adamson: I am a Central Scotland MSP.

James Anderson (Baillie Gifford): I am a partner at the fund manager Baillie Gifford.

James Brodie (China-Britain Business Council): I am the Scotland manager of the China-Britain Business Council.

Jamie McGrigor: I am a Highlands and Islands MSP.

Giles Blackburne (China-Britain Business Council): I am a director at the China-Britain Business Council.

Neil Findlay: I am a Lothian MSP and am substituting for Helen Eadie.

The Convener: Finally, we have the official report staff and our clerks.

I want to ask all the stakeholders around the table about their engagement with the China plan, whether it works and how it assists—or not—in your engagement with China.

Owen Kelly: Perhaps I will go first, convener, given that I am closest to you.

As I have said, Scottish Financial Enterprise represents the financial services industry and, for us, the Scottish Government's China plan is a component of a larger picture. Having listened to the previous evidence, I know that the China-Britain Business Council, UKTI, the embassy in Beijing and the various consuls general in China have already been mentioned. A range of Government activities are being carried out not only at UK and Scottish levels but at EU level—the EU Chamber of Commerce in China is very well respected—and we think that the China plan makes a useful and practical contribution to what is in many ways a broader-based effort.

As for our particular interest in China, we have in recent years been seeking to promote Scottish asset managers into the China market. The concept behind that can be easily expressed. Although there are people here who are far more

expert than I am on how that works, the essential idea is that China has an awful lot of money and wealth, particularly in the sovereign wealth funds, but also in life insurance companies and elsewhere. In Scotland we have internationally recognised expertise in investing worldwide and in managing such funds. That is the proposition in a nutshell; that is the core story that we promote in China, and all our efforts and collaborations with SDI and others in recent years have been pretty much focused on that. We are supported in making that proposition not only by Scottish ministers but by the lord mayor of London and various other actors on the scene.

Standard Life is the front runner in Scotland-based companies in what might be called a retail-facing financial service. It has a joint venture—Heng An Standard Life—based in Tianjin in China that has been running for a number of years. It has been through changes, but it is doing quite well. The Royal Bank of Scotland has a joint venture in securities, too.

My key point is that our focus is on promoting our asset management capabilities, which we see as our strongest international suit not only in China but more widely.

Angus Tulloch: We had no direct input into the plan. We manage about \$20 billion in mainland China, Hong Kong and Taiwan through our offices in Edinburgh, Hong Kong and Singapore. That is mainly invested in Taiwan and Hong Kong rather than China, but most of the companies that we invest in there will be heavily involved in China. We have our own networks in China and, although I personally find the plan very interesting, its relevance to what we do is limited.

Denis Taylor: The part of my background most relevant to the committee is that I am a former director of Scottish Development International. I have extensive private and public sector experience—over too many years, unfortunately. Most recently, I set up my own business consultancy, the Hidden Office, which specialises in helping companies to improve their business and export performance in particular.

My interest in the plan relates to a concern that I have about it. There has been a lot of talk about China. In fact, successive Governments seem to have had a love affair with China; it seems to be a very fashionable place to go to. I have heard a lot of eloquent discussions this morning about the opportunities in China—which are all correct—but, at the end of the day, when we look at the results, our performance in China over the past few years has been abysmal. It concerns me that there is not enough discussion about why performance is deteriorating. If currency levels and the exchange rate between the pound and the yen are taken into account, exports to China are collapsing.

I have an opinion about what the reasons for that are, but I am concerned that the resources that Scotland is putting into China could be better directed at other markets where we would get a better return on the investment, such as those closer to home where it is much easier and lower risk for our businesses to trade. Every way that you look at it, China is extremely high risk.

China is absolutely an opportunity and Scotland absolutely has to figure China highly when developing relationships, but that should be at a high level. What we do with our small and medium-sized enterprises in particular is a different kettle of fish.

My concern, above all others, is performance. It is going nowhere and it surprises me that that is the elephant in the room that we are not talking about. I produced some data that demonstrates that—it is not my data; it is Scottish Government and HMRC data—which I hope that you have had a chance to look at.

James Anderson: According to the vagaries of the market, which are very much vagaries, as everyone will know, we manage about \$150 billion overall, about 10 per cent of which will be invested directly in China, in one way or another. It is quite a substantial investment from that direction.

Equally, we see a lot of how different companies in different parts of the world approach the Chinese market and we see who does well and the like—I say this in response to some of the critiques that we have heard. It is very obvious to us that the progress that, say, a group of German companies has made in China completely outweighs anything that has been accomplished outside. It may be that there is something specific to the industries involved that feeds into what is going on. More and more, we are hearing from industrialists throughout the world that, in a sense, China will do most of this itself and if you are not in China for the next 20 to 25 years making yourself part of the system, it will be difficult from then on to make yourself part of the system unless you have special attributes—we can all cite examples of that, from salmon to fund management.

We have an office in Shanghai, which is very much part of a long-running belief that we must establish connections. We have been investing in America for more than 100 years and, as we all know, there are connections there. We understand what is going on and know what the Americans like. In that sense, we probably have a degree of competitive advantage relative to British or overseas institutions that are not Scottish, and we want to establish the same in China.

A feeling of comfortableness with Scotland is important in that. I suspect that that is an informal part of your plans, but it is nonetheless important.

The notion that, as fund managers, we are longer term than most people in London or New York makes a difference. That is not to say that some of China's investing institutions are not extremely impatient. However, once they become confident in us and have great relations with us, that eventually feeds through into respect from those institutions.

Structurally, we spend an awful lot of time thinking about the plan, so I would be on a different side from Denis Taylor. We think, 15 years ahead, that China is likely to be an important and large market for us and we are just starting to penetrate it. We are being patient about it but, to us, this is every bit as much of an opportunity as America was 20 or 30 years ago. It is very high up our priority list.

James Brodie: I joined the CBBC last year, after having spent the previous six years based in country, in Beijing. There is a lot of dynamism out there. There is a lot of real opportunity and a need, as Mr Anderson has just suggested, to establish the relationships earlier on in the process. The plan can play a role in that by showing that Scottish companies have the backing of their Government. Reference has been made to the importance of Government relations in China and, albeit a framework, it plays a certain role. However, slightly more could perhaps be done on how we go about implementing some of the ideas and priorities that it lays down, and that is where I hope that the CBBC is able to add some value in conjunction with SDI both in market and at this end. There is also more awareness raising to be done in Scotland about the difficulties to which Mr Taylor has referred, as China is perhaps not the market for everyone. There is a lack of awareness. Everyone sees the opportunity and talks about that, but not everyone sees the difficulties.

Giles Blackburne: It might be useful if I add a bit about where the China-Britain Business Council is coming from on this. We are a trade promotion and support organisation with a footprint here in the UK, including our Scotland offices in Glasgow and Edinburgh. Our head office is in London and we have 13 offices in China. We have a broad network, particularly in China, that can add to the footprint that SDI has developed out there, which can be leveraged and used.

I opened the CBBC's office in Glasgow in 1994 and worked with it throughout the 1990s before working at the University of Abertay Dundee. I delivered a Chinese studies programme there for a number of years before locating to England. Nowadays, I have a supervisory role over my colleagues in Scotland.

10:00

I will make a general point about the plan. We welcome the opportunity to take a collective breath on what we are doing with China, as it keeps on making step changes. Its priorities and challenges are changing, and we have had to change our priorities at the CBBC to look at the Chinese consumer, outbound investment, how the Chinese are making their cities more liveable in, and the ageing population, for example. It is important to take a collective breath and reorientate ourselves.

Nobody disputes the opportunities for Scottish companies, but the nitty-gritty is in how to get more companies in. I cannot disagree with others who say that there are perhaps not enough Scottish companies getting into the market. As James Brodie said, our point at the CBBC is about the hows. In other words, how can we make Scottish companies more prepared for the challenges that they will face when they enter the market, and how can we feed our footprint in China—the SDI and CBBC offices—with a better quality of company that has a better chance of succeeding? In our view, a bit more work has to be done on the ground here to bring up the level of expectations or at least to manage expectations and to up the knowledge of Scottish companies before they set foot in China and use the growing network that we collectively have.

Hanzala Malik: Does the strategy have the necessary funding to deliver the objectives? If it does and additional opportunities made themselves available, how would we cope with the funding for that?

Owen Kelly: As I said, for us the plan is a component in a wider picture. I have spent a lot of time with colleagues in SDI in China and, in an earlier life, I was involved in setting up the Scottish Government's representation in China. To be honest, I think that the strategy is probably as resourced as it needs to be. I say that because a lot of effort goes into this stuff, and it is important to see how the plan fits into the wider effort at the EU level and the UK level. In our industry, the lord mayor of the City of London is a valuable door opener, just as the First Minister or Mr Swinney, if he is in China, is valuable.

I am interested in what Denis Taylor said. China's business environment is difficult and risky, so it is probably sensible to keep a clear view of where the China plan and the work of the Scottish Government and Scottish authorities fit into the wider picture. The CBBC is a very good example in that respect. My experience of CBBC people who work in China is that they are amazingly knowledgeable and experienced, and that resource is there and ready, just waiting to be drawn on. I am not talking about financial services

specifically but about companies looking at other kinds of businesses.

To answer Hanzala Malik's direct question about whether the resources are sufficient, they probably are, as long as we keep a clear view of where the numerous other resources are, as well.

The Convener: I see both Giles Blackburne and James Brodie nodding their heads. Do they want to contribute?

Giles Blackburne: I would like to answer that question.

I am not knowledgeable about the breadth of resources that are available, but I know that there are other things out there to leverage collectively with the CBBC office network. Apart from being in the well-populated centres of Beijing, Shanghai and Chongqing, we have an office network in the interior of China and some provincial capitals. We are very keen to have that network leveraged to provide more opportunities for Scottish companies.

Angus Tulloch: As has been emphasised a number of times, the personal relationships are terribly important. Government relationships are important, too. Rather than trying to cover the whole of China, it might be a good thing to get a few, very high-quality people, who are well connected, running three or four offices, with one in the west. The internet works like that, and the globalscot network and so on.

Owen Kelly: I will reinforce what Angus Tulloch has said. An individual who is a great example of what Angus is talking about—I hope that it is okay to mention him, because he is the UK's financial champion for financial services in China—is a chap called Sir David Brewer, who is a former lord mayor. He is incredibly well connected to the new Chinese leadership as well as the previous one. He is a valuable source of contacts and of guidance on how to navigate the Chinese market. As has already been said, China is a market in which it is very important to be able to tap into Government and party. I agree with Angus—it is those kind of relationships that are really valuable.

James Anderson: I am a bit wary of the notion—at least in financial services—that China is as different and as high risk as people make out. To be honest, when we talk—as we increasingly do—to the major Chinese sovereign wealth or related funds, they ask us exactly the same questions as their equivalents elsewhere in the world, particularly in North America. That is not accidental. By and large, they have modelled themselves on those people, which is good and bad.

You should therefore ask the question of all of us whether we can compete at this. Are we good

enough? We welcome and respect the support that you can give us and the notion that Scotland is taking China seriously. However, our efforts will stand or fail principally on our ability to meet the top international standards in this, which will increasingly apply in investment management and the like in China, just as they apply elsewhere in the world.

Hanzala Malik: That brings me nicely to my next question. Do agencies such as SDI make available the support necessary to assist businesses in their efforts to trade in China? Could you give some examples?

The Convener: Did you want to comment on the previous point, Denis?

Denis Taylor: About the financial support?

The Convener: Yes.

Denis Taylor: I have made clear my overall views about the focus in China. Given that we have to be in China and we have to invest, the important issue is not how much we invest but how we invest. To pick up on Owen Kelly's and Angus Tulloch's point, are we focused enough? If we spread whatever amount of money that we are investing in China too far, we will not get anywhere. It is important to be focused.

I am slightly concerned that the plan is getting both the credit and the blame for the financial performance. That is rather peculiar—as if Scottish business has nothing to do with it. The view that is taken is that if we put more money into the plan and exports grow, that was us. However, the majority of businesses that are trading in China are getting on with it on their own. We must be careful about making a direct connection between Government investment and exports, whether they go up or down. Admittedly, I am critical that they are not going up, but that is not necessarily the fault of the Government's plan.

I have a problem with the question, if that makes sense. We have to be cautious, because there is not necessarily a direct relationship. We should give businesses much more credit. If we just give businesses the freedom to get on with it, they will do it themselves, wherever that is in the world.

Hanzala Malik: I think that the aspiration that we and the Scottish Parliament have is to assist that process. How do we do that? You and I are aware that, in that part of the world, politics has a big role, as do assurance and trust.

Denis Taylor: Absolutely.

Hanzala Malik: It is therefore important that we are in a position to support businesses, which is why your advice and comments are helpful. They mean that we can sharpen and focus our energies in the right direction.

Angus Tulloch: I have a bee in my bonnet about air links. A direct air link from Beijing to Glasgow or Edinburgh would make a huge difference in China's perception of Scotland as a base. If I was looking for real focus, I would wonder whether we could home in on becoming the European headquarters of major Chinese corporations. That is not my idea; I think that it was Ben Thomson who suggested that there should be posters with "Welcome to Scotland" in Chinese characters as well so that people from China who arrive in Scottish airports feel really welcome.

Jamie McGrigor: Mr Brodie said that we must be more aware of the pitfalls of doing business with China. I also notice that Mr Tulloch is on record as advising caution in his approach to engaging with the Chinese market. Could you elaborate on the pitfalls?

Angus Tulloch: If anyone wants to see it, I have a chart of the Chinese stock market that shows that a good economy is not necessarily a good stock market. For various reasons, the Chinese stock market has been the worst stock market in which to invest in Asia during the past 20 years. Investors are much better investing in Hong Kong and Taiwanese companies that have interests in China than in China itself.

The reason for that is that China is not the most transparent of places. Most businesses are fairly recent and the way in which some people garnered their original assets is still questionable. Corporate governance and supervision are improving all the time, but they have a long way to go. It is a difficult stock market, but that does mean that there are greater opportunities. If a business can find the right partner in China and transfer skills to that partner so that it can be a real joint venture, it can do terribly well in China. We have found that it can be a profitable place in which to invest.

James Brodie: Managing relationships with business partners in China perhaps requires a different format from what is done in the UK. People need to be more aware of the requirement to go to market regularly and to have regular contact. It is a less mature market, depending on the sector in which you are working, so there might be more uncertainties. Angus Tulloch just mentioned the lack of transparency, which can be difficult in a business environment. People might not always know what is going on, so they need to have contacts on the ground who are close to their partners to feed information in. It is about making Scottish companies more aware of the issues, but it is not that business is not possible: on the contrary. It is just that businesses need to have a network in place or get access to such networks.

The Convener: Mr Blackburne, do you want to come in on that point?

Giles Blackburne: Yes, please. I can follow those remarks and answer the question about the challenge for trade support where we could be adding value. One of my recent observations is that the main challenge for Scottish and other British companies going to China is visibility. There are many newcomers going to China, the domestic competition is strong and the companies that are already there are also strong, so any newcomer to China has to take a considerable time to build up visibility and credibility in front of Chinese customers.

10:15

We need to think about how we can assist companies with increasing their visibility. From some of the previous evidence, it is clear that some companies that have offices in China are doing more business than those companies that do not. When you think about it, that is obvious. How can we move a company from not having an office to learning about the market and getting an office? What sort of mechanisms can be used to build up its confidence about the market so that it will set something up?

There are schemes that could be considered. There are forms of business incubation and soft landing—the China-Britain Business Council itself has one such scheme—that can let the company take a breath, learn about the market, increase its visibility and prove the market internally to its board before it steps out and makes its own footprint.

My main point is that we must rise to the challenge of making our companies more visible and giving them greater prospects. The mixture of SDI's and the CBBC's networks and the links to Government can all help in that but, sometimes, a company needs practical help. It needs visibility in the market.

Hanzala Malik: That is exactly the point that I was trying to make and I was hoping that someone would offer an example. One of the best opportunities that we could possibly have is our own branding. If we are competing in mainland China, branding will be an important element. How successful have we been in doing that?

Owen Kelly: In that context, it is worth remembering that, when one of the most senior members of the Chinese Government was in London last year, they made quite trenchant comments about how the UK was falling behind France and Italy in branding and perception. They were talking about consumer products—brand names that we could all think of—and encouraging the UK to get better at promoting the brand.

I declare a certain interest. I first spent time in China a long time ago. There is a much greater awareness of the UK than of Scotland. It is built into the language and, I hope, it is not a controversial thing to say. That should not be a surprise because, seen from China, Scotland is a part of Europe.

There are interesting niche opportunities, as SDI has already elaborated, to promote a Scottish brand. Whisky is clearly the most obvious opportunity there; I would like to think that fund management is one as well. Beyond that, one might ask how difficult it would be to create a brand for a country from the situation that we are in at the moment. That is a very large challenge. Within the market, we should take advantage of the shoulders we can stand on. In many cases, seen from China, that means Europe. That is what people think of.

Roderick Campbell: I will pick up on Mr Brodie's point about the need to make people in Scotland aware of the importance of managing relations. How does that fit into the plan? Is managing relations not a long-term and difficult thing to assess?

James Brodie: Many aspects of working in China are long term. It is part and parcel of building relationships in China that they tend to be long term.

The plan should not be confused with what organisations such as SDI do on the ground. It has come out of Government and is a framework for what SDI and other organisations implement on the ground. Managing relations should be part and parcel of the market awareness work that SDI and the CBBC carry out. It is just another aspect of learning how to do business in China.

Roderick Campbell: The plan has short-term targets in relative terms—that is the difficulty.

James Brodie: I suppose that how well equipped a company is to know how to manage relationships in China is not very measurable—that is true.

Jamie McGrigor: In the previous parliamentary session, the European and External Relations Committee undertook an inquiry into the Scottish Government's China plan. The inquiry report noted:

"criticisms have been made of the ability of business support agencies, particularly Scottish Development International, to support Scottish businesses in China."

Has the level of support provided by the enterprise agencies increased in the years since the publication of that report and are those agencies providing the support that is necessary to assist businesses in their efforts to trade with China?

Owen Kelly: I can speak only from our experience. In the past five years or so, we have felt that there has been a strong, persistent and reliable focus on the promotion of asset management. That fits with our feeling about what we should be emphasising from the financial services perspective, so I would say that the answer is yes, there has been an increase in activity and we have had good support from the devolved Government—from ministers and indeed from SDI. We have certainly found that we have had a shared focus on that particular sector and there has been a good series of events and interactions.

Denis Taylor: I cannot speak for SDI, but I think that the resources have increased significantly in the past five years. Perhaps—again, I could be shot down in flames—resources could have doubled in China. My concern is that other markets have had to suffer as a result of that increase. Eastern Europe is a growing and emerging economy with 100 million consumers. It is close at hand and it has the only country—Poland—that did not go into recession. Resources have not increased in that area at all, so I look at a close neighbour with a fantastic market opportunity and growing infrastructure needs that has not had the same level of increased support versus China, which is logistically much further away and much more complex but which has had significant resource.

In relation to the return on investment, the line has always been that it is a long-term plan. As was just mentioned, the China plan is a short-term plan—the targets are short term and they have not been met. However, when that plan gets challenged, we keep on hearing that China is a long-term investment. I do not quarrel with that—it is absolutely true—but, in that case, we should not have a plan that says that we will get short-term results. Also, we should ask why we are not looking at eastern Europe and why we do not have a strategy for dealing with eastern Europe that is every bit as robust as the one that we have for China.

Jamie McGrigor: I take your point, but you said earlier that the Scottish performance in China has left a bit to be desired and yet you now say that support has increased. In that case, are you saying that it is the fault of the businesses that we are not doing well?

Denis Taylor: I am not assigning blame. I am just underlining the observation that performance has gone nowhere and yet the resource—the input—has gone up. You could draw a number of conclusions from that.

Jamie McGrigor: That seems a bit of a paradox to me.

Denis Taylor: One way out of that paradox is to say that the support has not been effective. That is another way of doing it. Far be it from me to draw that conclusion, but we know that the support has gone up significantly and yet we know that the export performance has gone nowhere. It is for the committee and others to answer why the support has not been effective. I have an opinion, but it is just an opinion.

Jamie McGrigor: Can we hear your opinion?

Denis Taylor: The reason is that China is such a difficult market. If you do not mind a bit of humour, I would say that what we are doing is a bit like looking around for a brick wall to bang our heads against. The China market is very difficult and it is a long-term process. I should emphasise that I completely agree that we need to be in China and we need to grow relationships with China—that is not in question. However, it must be understood why the economic performance and return on investment are so low.

Giles Blackburne: I think that that notion that China is a long-term market is a bit out of date. China could be described as a long-term market for high-involvement products such as capital equipment, turnkey plants and that type of stuff. However, there has been an acceleration in business success for companies that sell food—salmon is one example—over the past couple of years. China can work crazily slow, but it can work crazily fast for some food products or luxury products. The demand is now and the people in China want those things now, so they are not interested in negotiating for years. They want those things now because the market there exists now.

I think that there is a changing environment in China. Some products will always need a long-term relationship, but there can be a much shorter business negotiation time—and a much bigger likelihood of success—for some of the products and solutions that Scotland has now. I think that China is changing in that regard. That should make us feel that we need to be ready with teams on the ground that can help companies to access those more immediate opportunities.

Angus Tulloch: I think that there are huge opportunities, especially in the financial sector and particularly in asset management. People in China are just beginning to look out, so I would be very surprised if in five years we were not managing quite a bit of money from mainland China.

The Convener: I will let Denis Taylor respond to that before I bring in a couple of questions from members.

Denis Taylor: From an economic point of view, it is important to ask what the value added to Scotland is from those opportunities. For example,

we talk a lot about the growth in the export market for whisky, but a doubling of whisky exports does not result in a doubling of employment in that industry in Scotland—in fact, the relationship there is quite weak. We might see huge growth in the numbers, but that may not result in much economic gain.

I am not sure, but I imagine that there is a similar relationship in financial markets. There might be great apparent gains from trade in financial services with China and Asia, but how much do they result in economic gain here in Scotland? In some areas where we have been successful, I do not think that the value has come back to Scotland. That needs to be factored into the evaluation of the plans.

Hanzala Malik: Denis Taylor makes an interesting point. Is too much emphasis placed on the China market for too little return by comparison with other opportunities, perhaps in the middle east or south Asia?

Denis Taylor: Absolutely. To put the issue in perspective, the data that I presented in my written submission shows that, over the past four or five years, exports to China have been at a similar level to those to the United Arab Emirates. I do not have the data for the middle east region, but I have no doubt that the level of our exports to the middle east is significantly higher than that of our exports to China. We also have fantastic relationships there.

Regarding eastern Europe or emerging Europe, the press sometimes suggests that trading with Europe is a problem. I cannot put my finger on why we are reticent to encourage and promote trading with Europe and emerging Europe in particular.

10:30

My overriding concern with the China plan is that it diverts attention from the fantastic opportunities that we have here in Europe. There are opportunities all over the world, but the question for businesses should be where we can get the biggest return in the shortest time, while at the same time, working strategically on long-term relationships with places such as China. If the Government put £1 million, £10 million or whatever—the number is unimportant, as it is a hypothetical example—on the table, where would you put that right now to get the biggest return? My concern is that it might be invested in the China plan. However, in terms of getting the biggest return, I do not think that that would be the right answer. We need to think about where we will get the biggest return from the very small budget that we have.

Willie Coffey: You have made some interesting points. As you said earlier, Poland has not featured in the top 20 international market destinations for Scottish goods and services in any of the past 10 years. There is something in that.

While you are here, we will have to take advantage of the contribution that you are making, which is quite valuable to the committee. You said that the plan is the plan but business will happen anyway—even in the absence of a plan, we will still do business with China. What needs to be done to improve the effectiveness of how we do business with China to ensure that we get a bigger bang for our buck?

Denis Taylor: You are trapping me into giving some opinions on China when I am trying to emphasise other markets, but I will deal with the question as it is.

As I said earlier, we need to focus our investment rather than spreading it over the whole of China. We should not be trying to win on all fronts.

Willie Coffey: You mean that we should not spread it over all the various sectors.

Denis Taylor: Yes, we need to focus on the best sectors. People focus on whisky, and it is probably one of the best sectors in terms of top-level revenue numbers. However it is probably not the best sector in terms of value added to the economy. Some work needs to be done to find out what the best sectors are for that.

Strategically, there is an argument that focusing on Hong Kong would give us a greater return, because it is a great bridge into China and we have excellent relationships with Hong Kong through the ex-pat community. Perhaps putting more of our eggs in the Hong Kong basket would be a good idea.

Willie Coffey: I discussed the issue of direct air routes with the first panel, and Mr Tulloch also said that there was a great opportunity for us there. Do you agree that having direct air links from Scotland to China would assist in this process of improvement?

Denis Taylor: They would need to be direct and low-cost links. You can jump into eastern Europe for £30, so a business can spend £30 or £50 to do a business deal in eastern Europe and be home the next day, which means that the risks and logistics are relatively low. If you can reduce the risks and costs that are involved in getting to China, and reduce the time that it takes to get there, that will make it a more efficient transaction for the businesses, and you will improve the opportunities.

Roderick Campbell: We have heard a lot about the opportunities and the difficulties that are

involved in doing business in China. Other than the issue of an air link, does anyone else on the panel have any ideas about how we can deal with some of the difficulties and improve the situation?

James Brodie: I believe that my colleague Giles Blackburne mentioned business incubation as a possible means of providing a soft landing for Scottish companies. That could decrease some of the risks and enable them to pull out without wasting resources if, after serious consideration of the market potential, they find out that there is no market.

Hanzala Malik: In response to Denis Taylor's opinion of the China market, I say that it is a market that we cannot ignore because of its volume, although I agree that it is a long-term market rather than a short-term one. It is clear that the China market will be an important element for our trade. However, can an increase in the market's export value to the economy really be attributed to the China plan? If not, why not?

Denis Taylor: We have not had an increase.

Hanzala Malik: From the China plan, from the start until now, we have had exports, so we have had an increase in our trade with China.

Denis Taylor: I do not believe so.

Hanzala Malik: We were given figures that showed about £2 million of an increase.

Denis Taylor: An increase of £2 million?

Hanzala Malik: Yes. We were given that figure this morning: from £2 million to £4 million.

Denis Taylor: It bobs up and down, depending on which view you take, but it is flat overall. In the currency exchange, the pound has devalued about 40 per cent, which means that we are actually looking at Scotland as an importer. If you are standing in China today and looking at imports from Scotland, they have gone down in Chinese currency terms, so there has not been an increase in exports.

The Convener: Clare Adamson wants to come in, as do James Anderson, Angus Tulloch and Owen Kelly.

Clare Adamson: Convener, I have a different point to make. Perhaps you want to keep going with the current one.

The Convener: No. Fire away.

Clare Adamson: We have talked a lot today about different barriers, the competitiveness of the market, tariff obstacles and so on. How much does lack of knowledge of the culture, the language and such basics impact on SMEs in particular in their choice of whether to get involved in the market? If we are really serious about the China plan, have

we done enough in our education system to progress teaching Chinese, not only in teaching the language but in ensuring that our science, technology, engineering and mathematics subjects include the language and that our finance students have an understanding of it through university?

Giles Blackburne: All the surveys done on business and foreign companies doing business in China show that culture and language come up regularly as being one of the main barriers. Some of us around the table have studied Chinese, but we forget when we go to China how daunting it is for somebody to step off a plane and just be surrounded by symbols that they do not understand and by people speaking a language that they do not understand. Despite people saying that there are lots of Chinese who speak English—there are—it is likely that the person you speak to either will not speak English or will prefer not to and would rather use an interpreter, for example. Therefore, we should not underestimate the huge challenge of culture and language.

On the earlier point about making companies more prepared for what to expect when they step off the plane, it is important that, in their medium to long-term plans, or even in their short-term plans, they hire a Chinese employee to act as a bridge and help them understand the difficulties and make faster progress.

In a world in which things will gravitate towards China, I do not know whether we have got it right here, but it is vital that people coming through the school system have a greater understanding of China at various levels and in various contexts in order to remove the sense of alienness that China presents to us when we encounter it.

James Anderson: I am a bit disturbed at the tenor of some of the conversation. I would be the last person to suggest that we ignore Poland or wherever else in Europe we might be talking about—although I suspect that the cultural differences are just as great there as what we are talking about with regard to China.

We are neglecting some really important factors. From a narrow point of view, we are interested in China because, like in the classic story of the bank robber, that is where the money is. I would broaden that out. It is highly probable that China will be the leading economy of the world for most of our lifetimes—that is more important for people who are younger than most of us in this room. It is the market where, increasingly, the clearest competitive advantage is required in order to be a winner.

It would be catastrophic were Scottish business to walk away from that. It would be like walking away from America 100 years ago. For all the talk of failures and so on, this is how a company

establishes whether it is good at what it is doing: can it compete in China? It is just like how competing in America used to be. Scotland is doomed unless we can do this. That does not mean that you will not do the other things—you have more chance of doing the other things if you can do this, too.

Owen Kelly: This is more of a personal response than anything based on Scottish Financial Enterprise member views but, on the question of education and whether we should be encouraging everybody to learn Chinese, I am not the only person at this table who has spent about 30 years trying to learn Chinese, but it is important to keep in mind that it is a very difficult language. The UK and Scotland—as part of the UK at the moment, anyway—lose out because we are monoglot. In the time that it takes to learn Chinese, one could become very proficient in Spanish, French and Italian—that is true; it is the Foreign and Commonwealth Office's rule of thumb. It is an attractive idea that we should encourage everybody to learn Chinese, but my view is that we would be better educating people about the recent history of China. For the next few decades, that is what will condition the Government's approach to many things, as we can see in all sorts of aspects of how China approaches foreign relations in particular. Rather than focusing on trying to get everybody to an incredibly basic level of Chinese, my preference would be to educate people more about the recent history of China.

Angus Tulloch: Willy Brandt said:

"When you're selling and I'm buying, we speak German. But when you're buying and I'm selling, then we speak your language."

The language is important. The focus in schools on French and German, which is purely because people have been trained to teach French and German, is completely wrong. We should be teaching people to speak Spanish and Chinese more.

I agree about the cultural aspect, as well as the history. People should not go into China without understanding the damage that we did during the opium wars. Regrettably, Scots were at the forefront of that. That is an important factor. On the idea that you have in one of your reports that one should talk about human rights during business meetings, that would be extremely counterproductive.

The Convener: I think that we have exhausted our questions. If any members think that we have missed anything, please let me know now.

Hanzala Malik: I asked whether anybody had any examples of companies being supported by SDI or other organisations and then being

successful overseas. Has anybody come across any company that has received support and gone on to engage in China and be successful? Has anybody had that experience?

Owen Kelly: This is not quite the answer that you are probably looking for, and I will not mention company names, but the Scottish and UK Governments have supported companies that I have been involved with in dealing with particular regulatory issues. That has been very valuable, but it is not quite the same as arranging for somebody to enter the market for the first time.

I echo what James Anderson was saying. We can overstate it a bit regarding the Chinese market but, occasionally, given the right setting and picking the right horse for the right conditions, it can be very useful to have support from Government and its agencies.

The Convener: That is a valuable point. We visited the Scottish Salmon Company, and one of the things on which it needed support was a quality stamp. I think that SDI had helped the company to get that stamp, which meant ease and speed of access. That was important in relation to freshness and getting the product to market. Jamie McGrigor was very interested in that and asked questions along those lines.

10:45

Jamie McGrigor: I have a point of clarification to pursue. First, one reason why exports might have been down in 2012, with Scottish salmon exports to China falling hugely, was the prevalence of amoebic gill disease. China likes to take bigger fish, and all the fish had to be harvested at a lower weight. For example, Marine Harvest exported hardly anything to China—normally, it is probably the biggest salmon exporter.

Secondly, referring to what Owen Kelly said about learning the language, I know from speaking to people at Marine Harvest that it had to change the word "marine", because there is no word in Chinese that can possibly encompass what it means. I cannot remember what word the company used, but it was something completely different. Taking that sort of advice, on the cultural side, is frightfully important for people who are trying to do business.

Convener, could I ask one more question?

The Convener: Of course.

Jamie McGrigor: A report issued by Pivot Capital Management states that the Chinese Government understates its debt by almost 40 per cent. Will the strategy of the China plan be sufficiently flexible to adapt if priorities are unachievable due to market fluctuations?

James Brodie: I believe that the plan is set for an annual review, so it is quite flexible.

Owen Kelly: For what it is worth, my short answer to that is yes, for the reasons that we have discussed. The plan is proportionate, and the resources are not massive. My short answer is yes, it would be, in response to a very significant market change.

Willie Coffey: We have heard some contrasting opinions, in particular regarding the references to the data on Scotland's export values. Are there any comparative data showing us who China does business with, so that we can test some of the assertions that have been made? It would be very interesting for us to see that information, and I am sure that colleagues would be interested to know, from the Chinese perspective, who China has been doing business with over the past few years.

The Convener: I am sure that we could pursue that. The clerks are nodding.

Angus Tulloch: The plan focuses too much on trade and manufacturers, and not enough on the service sector. Baillie Gifford employs 700 people in Edinburgh, and we employ 120. That is quite significant.

The Convener: We should pick up on that point, too, for our forward work.

Thank you all. We have had a very interesting round table this morning, and the contrasting views have been extremely enlightening. Hopefully, they have led to lines of questioning that we can expand on.

When you leave the meeting, if there is anything you think that you can offer us by way of interpretation or explanation, we would greatly appreciate it. This has been a very helpful discussion, and we look forward to working with you again in the future.

10:48

Meeting suspended.

10:56

On resuming—

The Convener: Welcome back after our brief suspension. Before we move to agenda item 3, I welcome to the public gallery the Speaker of the House of Keys, the Hon Stephen Charles Rodan, and a delegation including seven members. We have Alfred Cannan, Geoffrey Corkish, Howard Quayle, Richard Ronan, Leonard Singer, Laurence Skelly, Mrs Kate Beecroft and Mrs Joann Corkish from the Tynwald Parliament in the Isle of Man. We welcome you all and we hope that you enjoy the rest of our deliberations.

Budget Strategy Phase

10:57

The Convener: Agenda item 3 is consideration of the committee's response to the Finance Committee on the budget strategy phase, which is always interesting for us. We hope that, if we manage the pennies, the pounds will look after themselves. I refer members to paper EU/S4/13/8/4, which is entitled "Response to the Finance Committee on the Budget Strategy Phase". Do members have any comments or questions on the paper?

Members: No.

The Convener: There are a couple of specific committee considerations that we should look at concerning some of the major events that are coming up. This year is the year of natural Scotland and next year is the year of homecoming. There are also the areas of international development, international strategies, international image and fresh talent to look at. We are invited to consider and agree the areas that I have just listed and to look for updates from the Scottish Government. Are committee members happy to pursue that line?

Members indicated agreement.

United Kingdom European Committee Chairs (Meeting)

10:58

The Convener: Agenda item 4 is some feedback from me on the European committee chairs meeting in Cardiff on Monday. We all take turns at chairing the meeting, and it was Wales's turn on Monday. We had an interesting conversation. One of the clerks, Jenny Goldsmith, accompanied me and took some notes of our varied and interesting conversation. I thank her for her support.

The meeting was chaired by David Melding, who is the Deputy Presiding Officer and the chair of the Constitutional and Legislative Affairs Committee. The Welsh Assembly does not have a European committee as such, but European issues sit with that committee.

We received an overview of all the committees' work from the committee chairs, and some common themes emerged across Scotland, Ireland and Wales, including on the common fisheries policies, the common agricultural policy and some of the challenges around subsidiarity and proportionality—for instance, how we are dealing with the transposition of some directives.

We had an in-depth conversation about the balance of competencies review and the UK's status in the EU. We discussed the fact that the UK has intimated that it may opt out of and withdraw from some of the key treaties, and I raised concerns about how such changes would pan out here given that Scotland has a different legal system.

There was a discussion about the UK's possible withdrawal from human rights legislation and the impact that that would have, given that human rights legislation is intrinsic to the Scotland Act 1998. That was an interesting conversation, and we will do some follow-up work on that in our committees.

The House of Lords committee in particular is very exercised about the issue and is undertaking its own inquiry. The three devolved groups that were present agreed to feed into that inquiry, so our clerks will do some work on that and we will bring it back at a later date so that our committee can feed into the process and open up that communication route as a two-way street.

That discussion led to a discussion of the UK justice and home affairs opt-out decision, which ran in parallel with the balance of competencies conversation, again with regard to the human rights opt-out and some of the challenges and concerns in that.

One of the big concerns was that UK ministers had not provided a list of opt-out proposals; it is hard to know what we are dealing with if they will not tell us. Even the House of Lords and the House of Commons committees have had real difficulty in pinning down their own ministers and Government to get that list. That is a difficult issue, but we all, as committee chairs, agreed to pursue it.

The Justice Committee of the Scottish Parliament was thanked for some of the work that it has done in helping that work along. We agreed to discuss with the committee at a later date how we would take some of the work forward. The Justice Committee has written to the House of Lords, but it is still awaiting a response from the UK Government in order to have a fuller conversation on the issue.

The House of Commons committee is currently undertaking an EU scrutiny system inquiry, so it is scrutinising the scrutiny of the scrutiny of the committee, which sounds a bit Monty Python. It is looking at the way in which the systems work and whether they are doing what they should be doing, so it will be interesting to see what we can learn from that.

We talked about subsidiarity and proportionality. In this Parliament, we have had three episodes, two of which were on proportionality and the third of which was on a subsidiarity issue on which the Infrastructure and Capital Investment Committee decided not to take further action.

We have had a robust conversation about the constitutional debate in Scotland and how it will impact on the work of the other devolved Administrations as well as on the House of Lords and House of Commons committees. We agreed to have an open conversation about that, given that this committee will scrutinise the part of the Scottish Independence Referendum Bill that suggests how Scotland should interact with the EU and with foreign affairs, home affairs and international development. An avenue of conversation has been opened up in that regard. That is a quick overview of our conversation, which was interesting.

We then, as a group, took part in the Constitutional and Legislative Affairs Committee. The conversation again quickly turned to the constitutional situation in Scotland and the on-going debate about Scotland's future. I found that committee chairs were very interested in what is happening in Scotland. I did not sense any negativity at all—just a keen interest in what is happening and a request for an understanding of what that means for the rest of the UK.

Are there any questions?

Clare Adamson: Do you intend to write to the House of Lords and the minister at Westminster to express this committee's concerns? That would add weight to the concerns that have been raised by many sectors in Scotland, and it might be valuable.

The Convener: Yes. The committee chairs from the three devolved Administrations—David Melding from Wales, Mike Nesbitt from Northern Ireland and I—all agreed to write to ask for clarification, because we felt that it would be supportive of the House of Lords inquiry to do that. We need to further our understanding, especially if issues such as opt-outs are being considered—it would be nice to find out what we are opting out of.

Jamie McGrigor: Can we see a record of the deliberations that took place?

The Convener: The informal committee meeting was not recorded, but Jenny Goldsmith produced two pages of bullet points for me. I could circulate that paper to members, as it would help them to understand the points that were discussed, but we do not have a verbatim minute.

Jamie McGrigor: So it was a private meeting.

The Convener: Yes—the European committee chairs meeting is always a private meeting. The informal committee meeting in the afternoon was not recorded, but I would be happy to share any of the information that I have and to answer any questions that members might have. I will circulate that paper.

Are there any more questions?

Hanzala Malik: That is a very good point. The chairs make such a big effort, so it would be nice to share information on their work with the various committees. It would be a good idea to do that in the future.

The Convener: The meetings take place every six months. We have hosted one here. I think that the next one will be held in the House of Commons and the one after that in the House of Lords, so the next two meetings that will take place before the referendum will be held at Westminster.

If members have any questions, or if there is anything that they would like to know about, they should please let me know.

“Brussels Bulletin”

11:06

The Convener: We move on to the “Brussels Bulletin”, which has again been provided by Scotland Europa. I invite comments and questions. We might get a wee bit of feedback from the clerk Katy Orr on the previous edition.

Willie Coffey: Two weeks ago, we expressed our worry and concern about the situation involving Serbia and Kosovo. Mercifully, a resolution has been reached that provides great encouragement for the future. It is sufficient for the European Union to decide to begin to discuss Serbia's accession to the EU, which is extremely encouraging.

Scotland has a particularly strong relationship with Serbia and Kosovo. Over the past few years, the Parliament has received delegations of people who have wanted to talk to us about issues such as those that are mentioned in the “Brussels Bulletin”, which include the promotion of “administrative capacities”. That does not sound particularly exciting, but it is fundamental to the development of those two countries.

The members of those delegations have been particularly interested in scrutiny and accountability, and how we hold our Governments and various bodies to account. Such capabilities and powers have been sadly lacking in those two countries over a number of years, for obvious reasons. It is in those areas that they need help from other member states, countries and partners that have long experience in such matters.

My experience as a member of the Public Audit Committee was that models and mechanisms of scrutiny were directly of interest to those countries, but I was never quite sure which model or mechanism it would be helpful to offer. It is extremely important for countries such as Serbia and Kosovo to be able to reach out and get such help, whether from Scotland or from other members of the European Union. I put that down as a marker. Perhaps we could take some advice on what we could do.

Looking to the future, it is positive that the European Union is now asking other member states to recognise Kosovo. Some member states do not yet recognise Kosovo. That stretches beyond member states to individual institutions. A small but important example is the fact that Kosovo is not yet permitted to take part in international football matches. FIFA does not recognise Kosovo as an independent country, so it cannot compete in football matches.

Such issues might be small, but they are extremely important to people who live in countries such as Kosovo. The Scotland team had a wonderful reception in Serbia—if a poor result—a few weeks ago. It is important that we make progress and try to support such countries on the journey on which they have embarked.

The Convener: You are absolutely right. One of the strengths of having Katy Orr as clerk to the committee is her experience of the Balkans area when she was at the Commission. In last week's discussion of our forward work programme, we proposed having an evidence session on Kosovo in the autumn. Given the interest that we all have in the developing situation, we would all find that valuable.

As I have said, Mr Coffey is absolutely right. The more interest we take in supporting our friends and neighbours, the better it will be for Scotland and Europe. A short paper will come to the committee to allow us to discuss how we take forward a mini inquiry or mini evidence session on what is happening in Kosovo and how we can facilitate some of the very reasonable things that have been highlighted. After all, this is not just about football; there are also the European athletics championships and many other cultural, educational and sporting things that we could facilitate, given our great experience at losing at football.

Jamie McGrigor: I think that the bulletin is good. However, I note an omission in the section on fisheries; there seems to be no report on the on-going row with Iceland over the mackerel and herring issue, about which there were meant to be sanctions. Given that the issue is vital to our pelagic fishermen in the north-east, I wonder whether we can get an update on the current position.

The Convener: The clerk has just whispered in my ear that she will come back with an in-depth briefing on the situation—

Jamie McGrigor: It does not have to be too in-depth.

The Convener: Indeed. For your interest, however, I can tell you that at the consular corps event I attended two weeks ago I met the UK ambassador to Iceland, who was going to Peterhead the very next day to speak to those on the trawlers and find out whether there might be any way of resolving the situation. When he asked me how he should handle the situation, I told him, "Be frank—because they will certainly be frank with you."

I have not had an update on how that worked out, but that discussion and the very fact that the ambassador had come down from Reykjavik to go to Peterhead, speak to the trawlermen and their

associations, and see whether some of the issues could be resolved gave me hope.

Jamie McGrigor: From memory, the last time we had a fisheries war with Iceland we lost.

The Convener: As with the football.

Clare Adamson: I seek some clarification and information about the air quality section of the bulletin. The press has reported that Scotland still has a significant problem in this area, with Glasgow being one of the UK's top air quality concerns, and the bulletin suggests that the Commission's attention has now turned to "sea-based pollutants".

Given our offshore industry lying off the coast of Scotland, our significant fishing fleet and the amount of imports and exports coming through Scottish airports, can we have an analysis of the impact that the extension of the national emission ceilings directive could have on Scotland and specifically its fishing fleet?

The Convener: The clerk has indicated that we can do that.

Roderick Campbell: On the EU's education targets for those aged 30 to 34, the bulletin says:

"The UK has however not set a Europe 2020 education target with the Commission."

Can we investigate whether the UK Government consulted the Scottish Government on this little education issue?

The Convener: We will write to the relevant ministers.

Hanzala Malik: I want to come back to Kosovo and other European countries that are facing difficulties, particularly with regard to democracy and the way in which the leaderships in, for example, Greece and Italy have been chosen, which has raised serious concerns. I appreciate that these are reserved matters, but I nevertheless feel that we can play a small role by putting in place friendship agreements and arranging friendly games or friendly sporting and cultural activities to show that we share interests with these countries as well as the hardship that they are going through.

Such activities might open up opportunities for those countries to do the same across Europe. I hope that that would build confidence in the European Union to take up the case sooner rather than later. It is a positive way of moving forward. We should look at our sporting agencies to see how they can support that activity.

11:15

Jamie McGrigor: On a point of clarification, I see that Croatia is finally joining the EU on 1 July. Does that mean that it will have to adopt the euro?

The Convener: No, it will not have to adopt the euro. One condition for entry into the euro is that a country has to satisfy all the criteria in the exchange rate mechanism. I do not think that Croatia has entered into that. It has intimated that, for the time being, it will not adopt the euro. Bulgaria has decided the same. Although the euro is used widely there, there will not be a formal adoption of the euro, much like in some other countries such as Denmark.

Jamie McGrigor: Would those countries not have to adopt the euro eventually in order to be part of the eurozone?

The Convener: Entry into the ERM is voluntary. A country volunteers to be in the ERM and a country that is not in the ERM cannot use the euro. Some countries, such as Montenegro, unilaterally adopted the euro but do not have it for the central bank set-up. Other countries in Europe have decided—

Jamie McGrigor: It is interesting.

The Convener: There is no mechanism within any of the treaties to force countries to use the euro as their currency.

Clare Adamson: I have a supplementary comment about Hanzala Malik's point about sporting links. He included Italy as one of the countries he is concerned about, and I want to put on the record my appreciation that the organisers of the six nations rugby tournament have decided to keep the women's competition in the same frame as it has been in the past. There was talk about having a two-tier system, which might have impacted on Italy as one of the lowest performance teams in the tournament. Rugby is an important sport for the country and I am glad to see what is happening.

The Convener: Duly noted. Are we finished with the "Brussels Bulletin"?

Hanzala Malik: I have one final point, convener. I am happy with the way in which the report has been presented to us and I hope that we continue to follow this pattern. I do not think that we need to have a special meeting to discuss it unless there is some pressing issue that you think needs to be ironed out.

The Convener: An e-mail is coming out that will explain the approach to the "Brussels Bulletin" a bit better so we can decide from there.

Is the committee content to ensure that other relevant committees receive the "Brussels Bulletin"?

Members indicated agreement.

Economic Ideas Forum 2013

11:17

The Convener: Item 6 is a paper that suggests that the committee should give the convener permission to go to the economic ideas forum, which is on 6 and 7 June in Helsinki.

A number of high-level people are being brought together there, including the Prime Minister of Latvia, the Taoiseach, the Vice-President of the European Commission, and a few others, to talk about some ideas about economic growth across Europe. Some of the ideas that are up for discussion are European structural funding, horizon 2020, and the impact of the eurozone crisis. Those topics are on the agenda. I hope that committee members will allow their convener to attend that conference.

Hanzala Malik: Can I suggest an amendment? We should agree that the convener attends the event and that your substitute can attend if you cannot go at the last minute. In that way, you would be allowed to send a substitute.

Jamie McGrigor: I second that.

The Convener: I am sure that we can find out whether that is practical. I just need the committee's approval that funding should be granted.

Willie Coffey: I support the proposal. I just want to ask whether the EU has a China plan for Europe. Do we know that? Might that be something that will come under discussion at the forum?

The Convener: The clerk is telling me that we will get something together for the papers for the next meeting.

Willie Coffey: We heard earlier that China sometimes sees Europe as the entity with which it wants to trade.

The Convener: We will get something together for our next meeting.

Are we agreed to allow the convener to attend the conference?

Members indicated agreement.

The Convener: That takes us to agenda item 7, which we agreed to take in private.

11:20

Meeting continued in private until 11:32.

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