

ENTERPRISE AND LIFELONG LEARNING COMMITTEE

Wednesday 31 January 2001
(Morning)

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ENTERPRISE AND LIFELONG LEARNING COMMITTEE

4th Meeting 2001, Session 1

CONVENER

*Alex Neil (Central Scotland) (SNP)

DEPUTY CONVENER

*Miss Annabel Goldie (West of Scotland) (Con)

COMMITTEE MEMBERS

*Bill Butler (Glasgow Anniesland) (Lab)
Mr Duncan Hamilton (Highlands and Islands) (SNP)
Nick Johnston (Mid Scotland and Fife) (Con)
Marilyn Livingstone (Kirkcaldy) (Lab)
George Lyon (Argyll and Bute) (LD)
Mr Kenny MacAskill (Lothians) (SNP)
Mr Kenneth Macintosh (Eastwood) (Lab)
Des McNulty (Clydebank and Milngavie) (Lab)
*Elaine Thomson (Aberdeen North) (Lab)

*attended

THE FOLLOWING ALSO ATTENDED :

Mr Duncan McNeil (Greenock and Inverclyde) (Lab)
David Mundell (South of Scotland) (Con)

WITNESSES

♦Roger Hoggarth (IBM)
Professor Jim Norton (Institute of Directors)

♦by video link

CLERK TO THE COMMITTEE

Simon Watkins

ASSISTANT CLERK

Linda Orton

LOCATION

IBM, Spango Valley, Greenock

Scottish Parliament

Enterprise and Lifelong Learning Committee

Wednesday 31 January 2001

(Morning)

[THE CONVENER *opened the meeting at 10:08*]

The Convener (Alex Neil): Good morning. I want to put on record our gratitude to IBM, and Charlie Morrison in particular, for hosting today's meeting. Let us hope that it is symbolic of the close relationship between the Enterprise and Lifelong Learning Committee and the business community in working for the good of all Scotland.

I welcome Duncan McNeil who, in addition to being a former member of the Enterprise and Lifelong Learning Committee, is the member for Greenock. I also welcome David Mundell MSP, who has a special interest in the new economy. David Mundell was unable to attend our meeting last week because of family circumstances, but I am glad to say that everything is getting back to normal and he has been able to join us today. I also welcome Ian Ritchie, the committee's special adviser on the new economy.

We have had apologies from several members, which the clerk will record in the minutes of the meeting.

The New Economy

The Convener: The first item on the agenda is the inquiry into the impact of the new economy. Before we start, Simon Watkins will give us some guidance on the videoconference with Roger Hoggarth.

Simon Watkins (Clerk): The videoconference link will be open from 10.45 am and we should close the evidence from our first witness by that time.

The Convener: I welcome Professor Jim Norton, from the Institute of Directors. Jim has circulated a paper and will make a brief introduction before members put their questions.

Professor Jim Norton (Institute of Directors): Thank you for the invitation to speak to the committee today. I welcome the opportunity to speak to members on behalf of the Institute of Directors.

The committee's investigation is timely. We are at a stage where the froth has been blown off e-

commerce—that is a good thing. It is worth bearing in mind that when one blows the froth off the top of a glass of beer, the beer is still there. We are getting down to the realities of e-business.

The Institute of Directors is particularly concerned with small and medium enterprises. Over the past year, I have given five presentations in Scotland—two in Edinburgh, one in Glasgow, one in Aberdeen and one in Dundee, and another is planned for May—trying to convince small business that e-business is important for them. I want to emphasise two points today. First, we must convince SMEs of the business importance of the tools of e-business. Secondly, we must ensure that the infrastructure is in place—networks, logistics, finance and skills—to ensure that entrepreneurial SMEs have an environment in which they can grow and prosper.

My primary role in the IOD relates to the business importance. I have given the clerk another submission on my views on various aspects of SMEs. I will also be working one day a week for the Scottish Executive and I hope to assist the Executive, Scottish Enterprise and Highlands and Islands Enterprise in pulling together the infrastructure agenda. My most immediate concerns lie with the telecoms infrastructure and the risk of a divide between urban and rural areas—I am thinking of the Borders as well as the Highlands and Islands.

I suggest that two pieces of given wisdom are fundamentally wrong. First, it is wrong to assume that broadband means 2Mbps or more. Secondly, it is wrong to assume that rural communications is fundamentally unprofitable. In my experience—this year, I have given 90 presentations to SMEs throughout the UK—for most SMEs, an always-on system tariff is more important than the absolute bit rate. The idea of heaven for most SMEs is a reasonably priced 384Kbps always-on tariff. We need to be clear in our understanding of what broadband means, particularly for small companies.

On rural communications, thinking tends to be locked into optical fibre and copper. Fixed wireless access—I should declare an interest as the former chief executive of the Radiocommunications Agency, which manages the UK radio spectrum—offers new freedoms and potential profit. In particular, if the deployment of fixed wireless infrastructures can be leveraged by the Executive's communications needs, it will create an interesting platform for the private sector.

The Convener: Thank you. We heard from three sets of witnesses last week and they gave contradictory evidence on the profitability of extending broadband coverage throughout rural parts of Scotland, particularly the Highlands and Islands. There is now a sense of urgency about

the infrastructure, as we must maintain our international position. What do you suggest should be the next step, and who should take it?

Professor Norton: The next step is to engage the various telecommunications operators in a sensible dialogue. In the past, not only in Scotland, but in the UK as a whole, we have underestimated the effect of public sector procurement. The plans that the Executive has published—whether for education, libraries or health—show that there is a sizeable demand for digital communications. That demand is not just in Edinburgh, Glasgow and Aberdeen, but spreads right out.

What that means for the delivery of communications services in the typical small Scottish town justifies a new approach to the infrastructure—we should not just try to sweat the old copper a little bit more—which would probably mean installing fixed wireless access. I suspect that that could be installed profitably, based on the procurement that the Executive and local government intend to make. From a private sector perspective, that would provide an excellent platform for small business to draw on the advanced infrastructure.

10:15

David Mundell (South of Scotland) (Con): What you say is music to my ears. I am a great believer in demand creation as a way forward, with government, in all its forms, as the facilitator. I was recently in the state of Virginia, in the US, where that has proved a very successful model. However, it has required the coming together of government in its widest sense, including the universities, the enterprise companies, the health services and local government.

In an earlier evidence session in which we talked to Scottish Enterprise, we were concerned about the Scottish picture. Scottish Enterprise was conscious of the network as it related to its responsibility but did not know what anybody else is doing. Given that we are operating in a stovepipe environment in which procurement is not a strategic issue that senior management deals with—it is dealt with way down at the bottom of the organisation—how can government make procurement a strategic issue?

Professor Norton: That is an important and difficult issue that I am sure the committee will want to pursue with the minister when she attends the meeting next week. My advice to the minister—and I have found receptive ears for this suggestion in all parts of the Executive and in Scottish Enterprise—is to find new ways in which to bring that procurement together. I would advise against the creation of an enormous procurement

agency, which usually leads to paralysis rather than to success.

In my first contacts with the Executive, I have experienced a great willingness for departments to come together in procurement, at least at the strategic level. For example, the Executive could approach the telcos and say, “This is the amount of capacity that is going to be purchased not only by us, but by each part of the Executive, over the next one to four years. In putting together the infrastructure, please plan on the basis of the totality, not on the input of the individual departments.” The telcos would be required to consider that procurement as a strategic issue at their board levels, which I do not think they have done before.

David Mundell: We should not underestimate the difficulties. I worked previously for BT.

Professor Norton: So did I—for 17 years.

David Mundell: Local authorities in Scotland make different procurements within their different departments. It is difficult to break those barriers down. However, to get private sector investment, a demand can be demonstrated in virtually all parts of Scotland—created by the public sector. The difficulty is in bringing it together.

Professor Norton: Not every procurement has to be placed by the same organisation. In reality, each small town will probably have only one new infrastructure provider. As long as that provider knows that a series of procurements are going to be made in relation to that town, whoever they are made by, that knowledge is the starting point.

Mr Duncan McNeil (Greenock and Inverclyde) (Lab): In this inquiry and in today's discussion, a lot of confused messages are being sent out, which make it difficult to comprehend how we can make progress. In the discussions that I have been involved in previously, we have been told the reasons why nothing can be done. Can you offer a more positive assessment? What is Scotland's potential? What are the possibilities for Scotland? Are they greater than for the rest of the UK? What are our strengths? What would be your priorities in building on those strengths?

Professor Norton: Let me speculate a little. The data on who has the highest internet penetrations and who is pushing the most transactions per head of population and so on display a curious trend. The United States is included, as one would expect, but a lot of small economies are also there, especially the Scandinavian countries—Sweden, Norway, Finland, Denmark, Iceland—which are all world class in that respect. There are also two groups: the large, English-speaking economies and the small, non-English-speaking economies. English is the language of the worldwide web, so there is

clearly a slight disadvantage to being a small, non-English-speaking economy. However, those economies are world class in many cases.

There is reason to believe that an economy of Scotland's size—around 5 million people—may have some intrinsic advantages in being quick to move and better co-ordinated than a much larger economy. That is my hypothesis, which I am spending a day a week in Glasgow trying to prove. Scotland has a lot going for it. Over the past year, I have found a much greater willingness here than down south to kick down the stovepipes and break down barriers between the public and private sectors. My agenda—to be blunt—is to introduce some competition in government. I would like Scotland to succeed dramatically and engender the maximum embarrassment in the south.

The Convener: You will have unanimous support for that in this committee.

Miss Annabel Goldie (West of Scotland) (Con): I must add a note of caution to that statement.

Mr McNeil: How can we maximise our advantages? What would your priorities be?

Professor Norton: The first would be the power of government procurement, which is in the hands of the Executive and Scottish local government. If a telco is told that the new economy will have a dramatic impact on small and medium enterprises and is given an indication of their projected growth in terms of traffic, it will say, "We will believe it when we see it." However, there is much more certainty about the traffic that will come from government. I believe that there will be an enormous private sector demand, but the right sort of infrastructure will almost certainly be leveraged from the public sector requirement.

In Scotland, that could be achieved simply through purchasing, as David Mundell said, rather than through getting involved in what I believe—predictably, as a representative of the Institute of Directors—is a fairly doubtful game of subsidy. The infrastructure could be established through purchasing much more easily here than in the south.

David Mundell: Do you also agree that government—especially local government—can be a catalyst for small business investment in digital communications, as it can provide a rationale? The Department of Trade and Industry's "International Benchmarking Study, 2000"—I suggested to the clerk that it be circulated to the committee—identifies the main reason for non-use of e-commerce, which will be familiar to most MSPs who have spoken to businesses that are not online:

"further e-commerce development offers no tangible

benefits"

to the business.

I often want to tell people that they can pay their council tax online, that they can order a rubbish collection online and that they can do things that are important to their business online. They can also get access to a range of government services online.

Professor Norton: Absolutely. In talking to small businesses, it is important to tell them how technology can affect their way of doing business. Technology is a great barrier for most small businesses, and for some of them it is largely irrelevant. When I talk about how technology can change the way they deal with customers, the way they charge and the way they create value, and how it can change who their competitors are, the businesses can understand that and it is almost like seeing light bulbs going on around the room, which gives me a great deal of pleasure. That is when you can start to make progress.

I would not underestimate the fact that Europe will, I believe, be the leader—Scotland and the UK in particular, I hope. I believe that Europe will be the leader because of what we are doing on digital television and on the third generation of mobile phones. There is every chance that the UK will overtake the US, probably by a long way. That will be because of interactive digital television, which will be very important in Scotland, especially given the difficulties of rural coverage; because of generation two and a half mobile phones, which should have good coverage in Scotland; and finally because of the third generation, which will be more problematic. Those things will give us a major infrastructure advantage over the US, where digital television has been problematic. My old friends at the Federal Communications Commission auctioned the raw material—the spectrum—for the second generation five years ago, and they have not got any left.

The Convener: I would like to return to the procurement issue. Scottish Enterprise has, to some extent, taken the lead with its k-web project. Are you suggesting that the best way forward, in using public sector procurement to drive the investment required, would be a massive extension of that kind of k-web concept? Is that a way in which we can assist?

Professor Norton: I would suggest that simpler things can be done first. We should sit down—the Executive is doing this—and assess how much capacity will be procured and in what time scale. We should consider what that will mean for traffic and how that traffic will move during the day. We should then go with a consistent story to the telecoms operators. That would not require any organisational change, just a bit of co-ordination.

You may want to pursue that with Wendy Alexander next week.

David Mundell: When we took evidence from Scottish Enterprise, it was clear that no one is doing what you suggest. In Dumfries and Galloway and the south-west, the local authority does not talk to the health board about telecoms procurement; they talk about community planning. A lot of progress is being made there, but because telecoms are seen as a procurement issue, which someone does in a back room and which is not on senior officials' agendas or councillors' agendas, it is never talked about.

Stranraer is one of the most isolated communities in Scotland, but no one is saying, "The Scottish Executive is putting bandwidth into the school as part of a programme. Scottish Enterprise is putting it into its office, and it is being put into the hospital to link up to Dumfries." Nobody is doing that work. We do not have co-ordination in procurement. That is why we cannot use procurement in the way you suggest—but it has enormous potential.

10:30

Elaine Thomson (Aberdeen North) (Lab): I am from Aberdeen and I take a strong interest in the oil and gas industries. This committee did a case study and went up there to talk to the industries. They are heavy users of telecoms and technology. The oil majors feel that they have a role in driving the take-up of e-commerce by SMEs. They are increasing the use of e-procurement by saying, "If you want to do business with us, do it electronically." Should government move in that direction too? You spoke about the hesitancy of SMEs in moving into e-business, although I believe that that may have changed a bit.

Professor Norton: Your point is well made. There is something else that large companies need to do—I do not know enough about the oil industry to know whether it is doing this. They should lend a helping hand to SMEs and say, "Okay, in two years' time you will be able to do business with us electronically only but, in the meantime, we will help you to come online." I know that it is fashionable to knock dear old BT, and I do it myself occasionally, but BT has lent a helping hand to its supply chain throughout the UK, recognising that disfranchising 25,000 businesses would probably not be a great idea.

BT spent a significant amount of time and effort helping businesses come online so that they could trade electronically with BT and they could both share in the cost savings. I feel that a corporate responsibility issue arises here and that a helping hand should be extended to SMEs. That is very important. I am sure that that is happening in the

oil industry, but I do not know much about it.

Elaine Thomson: Is enough being done to raise awareness of the implications of the digital revolution on the supply chain? We increasingly hear that, in the future, we will have not competing companies but competing supply chains.

Professor Norton: There is immense confusion. We are talking about an immature market, but let me speculate. At the moment, something like 2,500 internet trade exchanges trade around the world. Over the next two years, I believe that 2,250 of them will go broke and go out of business, or be taken over, leaving 250. Most of those trade exchanges are destructive; they operate purchasing models like auctions, which actually damage supply chains. The ones that will be around in two years' time will be taking out some cost but they will have worked out new ways of adding value, creating supply chains and managing innovation in the supply chains. They will be completely different animals.

The problem for the poor SMEs is that the examples that they are seeing at the moment are actually the wrong examples; they are not the examples that will survive. The need to communicate good practice is great, but the market is immature. The business to business sector is in the froth period, and that is quite dangerous.

There is a role not just for the Executive but for organisations such as mine in conveying wisdom. I have been trying hard to do that. I happen to think that it probably comes better from the private sector than from government. The private sector is occasionally slightly more credible.

Elaine Thomson: I am a self-confessed technophile but I have to play devil's advocate. I believe that Singapore invested ambitiously in broadband technologies but then discovered that demand was inadequate. I want to get away from business and talk about ordinary people at home. How important is all of this to them? When we consider how services will be delivered, will having broadband in the home be important?

Professor Norton: It depends what you mean by broadband. I certainly do not believe that, at this stage, tens of Mbps is essential for the home—although you could argue that digital television is actually tens of Mbps. For a lot of homes, digital television will be the key. If I have an interactive digital television—and the UK has the highest penetration in the world for digital televisions, most of which will be interactive within a year—and if I click on a dialogue box and buy something, I will not know that I am doing e-business and I will not care very much. I will not know that I have used the internet and I will not care very much. However, I will actually have done

something that I wanted to do as a consumer. It is horses for courses: some people will want to use screen-based computing and some will want to use digital television. The knack is to provide for all people. That will have the strongest impact in the home.

Elaine Thomson: I agree entirely.

Miss Goldie: I am a creaking technophile. It was fascinating to listen to the exchange between Jim Norton and David Mundell about the public sector procurement angle.

What I find difficult to grasp is an overall strategic view of where we are and what we do, because I imagine that part of that concerns our international infrastructure. Some of the representations that have been made to us have indicated that although Scottish businesses are geed up to the nines and there is no problem with their technical capability, there is a deficiency in their ability to trade competitively internationally. I would like to hear your comments on where Scotland should be in that regard. It has been suggested that we should consider a partnership with Ireland, which is transatlantic-served, or that we should consider a deal with Scandinavia or a spur from London. Although I am not a technophobe, those strike me as big issues. Even if we get the indigenous Scottish situation moved on, as we have been discussing, we will still have those issues lurking about. I am not quite sure what the strategic overview is or ought to be.

Professor Norton: The key thing that IOD members put to me is that they feel at a disadvantage in Scotland when trying to buy a high-capacity leased circuit pipe, whether international or not. If I wanted to be an ISP and was buying a big, fat pipe down to Telehouse in London, I would pay £500,000 more than would someone setting up an ISP in, say, Liverpool. That is a lot of money. Whatever capacity I buy, I would typically pay two and a half times as much to set up that business in Glasgow or Edinburgh as I would pay in northern England.

Miss Goldie: Are you saying that we are uncompetitive?

Professor Norton: In the market, there needs to be more wholesaling of capacity into Scotland. There need to be points of presence that terminate the leased circuit—your adviser can wax lyrical on that. What is being charged is not sustainable and is wrong, in my personal opinion and certainly in the opinion of my members. Something needs to be done to disrupt the state of the market as it is at present and bring it closer to cost.

Whether the solution is to bring in an international connection or to encourage a wholesaler into the Scottish market is probably for others to say, but your point is well made. Prices

are artificially high in Scotland. They do not need to be and a number of actions could be taken to give the market a shake so that it settles down to a new equilibrium below the current level. After that, a variety of things could be done that I am not competent to comment on—an international connection is one and a wholesaler is another. At present, there is certainly a problem, in the IOD's opinion.

Miss Goldie: Is it a significant problem? It seems to me that we could be beaver away, the Scottish Executive could sort out the procurement issue and tremendous progress could be made in a relatively short time on the leverage of purchasing power in Scotland, but if the bigger scene is not right, there will be a weakness. I would like to know how we should drive that forward and who should be doing it.

Professor Norton: I have heard mixed messages. It seems strange to me that there should be a two and a half times differential, but a lot of companies have said, "Oh, hell! We'll just pay it." I am not completely convinced that it is stopping people investing in Scotland or developing their businesses in Scotland, but it is none the less something that I hope will be engineered out of the way. It is hard for me to advise you on that, as I do not know enough of the detail. I have heard two conflicting stories; it is iniquitous but it is not stopping us investing.

Elaine Thomson: It has been suggested that there is in fact heaps of capacity for Scottish companies in the pipe down to London.

Professor Norton: Yes, there is loads.

Elaine Thomson: It is said that there is no problem with capacity and that, as you say, the real debate is about pricing issues and providing a level playing field between companies near the London end of the pipe and those in Glasgow.

Professor Norton: There is ample capacity on that trunk. We have dark fibre coming out of our ears. The question is what drives the pricing. It may be that there is not enough competition at the moment, but the capacity is not being expressed in current market prices.

David Mundell: I have a final question, which is slightly different from those that have been asked so far and is directed at Professor Norton wearing his IOD hat.

During my trip to America, I was struck by the way in which business worked with government on these issues. We do not seem to have achieved that approach in Scotland, although business people are on task forces and the rest of it. There seems to be a more direct relationship between business people and government in America—representatives of national and local government

could not escape people tapping them on the shoulder and saying "Oi—we need this done" in relation to IT procurement. Better engagement of government with the people who are driving the new economy is an important part of the way forward. How can that be achieved?

Professor Norton: You chose an interesting and slightly atypical example—northern Virginia has probably the highest concentration of major hi-tech companies outside silicon valley. Even companies that do not have their headquarters in northern Virginia have bases there, from where they are able to reach Washington.

We have a number of challenges, not least in relation to the public sector procurement rules. Ministers, the Executive and local government have to be seen to be obeying all the state aid requirements and all the public sector procurement rules. I understand why those rules were put in place, although I am occasionally frustrated by them. However, our American friends do not have the same restrictions.

On co-operation between industry and government, I congratulate the Enterprise and Lifelong Learning Committee on venturing outside the Parliament. I hope that my IOD role of reaching into the department of enterprise and lifelong learning—at the minister's behest—is the start of exactly what David Mundell seeks. However, we must be clear that we do not transgress the rules of propriety and so on, with which the committee is familiar.

The Convener: I want to go back to a specific issue, on which I would be grateful for your views. At one time, you were an adviser to the Irish Government. The Irish brought in a transatlantic link and a similar link was established with the north of Europe. Should Scotland try to set up an extension of the Irish link, or should we try for a spur from the north American link?

Professor Norton: I should stress that I am an adviser to the Office of the Director of Telecommunications Regulation—the regulator in Ireland—which was not responsible for the transatlantic link. However, my understanding is that the Irish Government underwrote the capacity in that cable by saying that if capacity was not taken up, the Government would meet the bill from Government funds. It was safe to do that, rather than use European funds. That action brought certainty to the marketplace, which promptly bought the capacity. I understand that the entire cable was sold out, so the Government, which acted as a facilitator for the infrastructure, had no bill to pick up at all.

In a sense, that is the model that I am talking about for local distribution in Scotland. It may be one way of throwing the market up in the air—so

to speak—and letting it come down, preferably at a lower equilibrium.

It is not really for me to comment, but the Irish approach was interesting and did not fall foul of the rules on state aids and so on.

The Convener: Do you have any final comments to make before we move on to the next item?

Professor Norton: No, other than to say more power to your collective elbow.

The Convener: That was very helpful.

Just before we move on to the next item, members may be interested to learn that the decision in the Lockerbie trial was that one of the accused was found guilty and the other was found not guilty. I cannot tell you which was which, as I cannot pronounce their names.

I will ask Simon Watkins to tell us what is going to happen next.

Simon Watkins: You should introduce our next witness, who comes to us from the USA. Fortunately, he is not in California, so we should not have the technical problems that we might have had otherwise.

I advise members that, because we are hearing evidence via teleconferencing facilities, there will be a time lag, despite modern e-communications. Members should take account of that when asking questions. It is also important to bear in mind that if you speak when Roger Hoggarth is speaking you will cut him off. We will require a little more discipline than we have sometimes had in the past.

The Convener: Most of the non-disciplined members are not here, so we should be okay.

Simon Watkins: Some hard-copy material, which relates to the short presentation that Roger will give, is now being distributed to members.

10:45

The Convener: Hello, Roger, can you hear us?

Roger Hoggarth (IBM): Yes.

The Convener: Good morning, Roger. Thank you very much for joining us this morning.

We usually ask people who are giving evidence to the committee to give a short introduction. Committee members will then ask you follow-up questions, and questions about matters that you may not have mentioned in your introduction.

We have received the papers, and members have had the chance to read some of them. Will you please give a short introduction.

Roger Hoggarth: Good morning, everybody. Welcome to Greenock and to virtual North Carolina. I am talking from our Research Triangle Park facility in North Carolina, where it is quarter to 6 in the morning.

I will briefly introduce myself and take the committee through a few personal perspectives on the internet culture and North Carolina versus Scotland. I will give you a brief portion of a presentation that I have given many times to customers who come into the briefing centre in Greenock, to give you an idea of what we are telling them.

I was based in Greenock until six months ago; I am still a Greenock employee. When I was there I was the IT manager for the Greenock facility and the personal systems group for Europe. In North Carolina, I am now the worldwide manager of e-sales operations; I work for the sales organisation. My basic responsibility is for the applications that deliver web functionality to our customers and for personal systems group data and how they are presented on the web.

Do members have any questions about that?

The Convener: No.

Roger Hoggarth: I will move on to give my personal perspectives.

As I said, I was based in Greenock. I lived in Skelmorlie, which is a small village down the coast from where members are now sitting. One of the fundamental differences that I have noticed in moving from there to here is the infrastructure, which you probably expect me to talk about. I will support what Professor Norton said—high bandwidth is not 2Mbps. In my case, it is cable access at the house; it is affordable and has a very good bandwidth—300 to 400Kbps. The key is that it is always on, so it is available all the time. You do not think about it: when you have a computer you have internet access. The fact that it is always on is the major difference.

The difference in culture in the US, as a consumer, is the critical mass that they have reached. Everything is available on the web. Anything that a consumer or someone looking for information wants is available to them. The critical mass is there in the consumer base of people who shop and look at web information. I do not know which came first. I do not know whether the infrastructure allowed broad access, which led to a marketplace in which people were willing to invest, or whether events happened the other way round. I suspect that the infrastructure made many consumers available for the marketplace to open up to.

Another difference has intrigued me here in the US. I expected banking and the willingness to use

credit cards as a purchasing mechanism on the web to be different. It is reasonable to say that, compared with the position in the UK, the willingness to use credit cards is greater and the availability of credit is broader in the US. I have never heard anyone in the US mention a concern about using their credit card on the web, whereas that is one of the hottest topics for UK consumers.

However, I was surprised to note how backwards the banking system on the web in the US is. I took web banking for granted in the UK. I have not changed my UK bank accounts for years, because the web access to them is excellent. However, web access to banking services in the US is almost unheard of, and the access that is available is new and somewhat rudimentary.

I will link back to Professor Norton's points about mobile communications, which are significantly backwards compared with those in the UK. Furthermore, the US is light years behind the position in Scandinavia.

I think that cable digital TV is the key to success in achieving moderate to high bandwidth availability. When I wanted to buy high bandwidth connectivity, several options were available. Cable TV made the most sense for the home, because it provided all my services. I have digital TV, fast cable access to the web and some digital TV services too, at an extremely affordable price.

Are there any questions?

The Convener: Thank you, Roger Hoggarth. We are conscious of the fact that it is about 10 minutes to 6 in the morning where you are and we appreciate your getting up at this time.

We have just lost your picture. Can you still hear us?

Roger Hoggarth: I can hear you, but I cannot see you any more.

The Convener: We will continue talking until we can see you again. You painted a mixed picture. The United States seems to be ahead of us in infrastructure but behind us in maximising the business potential of that infrastructure, at least in the banking system. Here, the question is whether we should put the infrastructure in place and hope that the demand from businesses justifies the investment.

You probably heard Professor Norton say that public sector procurement should be used to guarantee investment in the infrastructure, in the hope that private sector demand will follow. Do you have a view on that issue, which is crucial to the strategy that we should adopt?

Roger Hoggarth: I support the view that available bandwidth that has backing is needed, in line with the Irish model and others. If the

bandwidth is in place and supported by public spending, consumers and businesses will come, and that will drive the demand. I have no data on that, although I know of a few cases such as the Irish one, but that seems logical.

The Convener: Can you tell us a bit more about the States? In North Carolina, was getting the infrastructure in place a state or federal initiative?

Roger Hoggarth: The initiatives seem to be local to the state or group of states. Most of the telcos are local. BellSouth is the big player in this area and Time Warner is the cable provider.

Miss Goldie: Hello, Roger. You are probably blessed by being unable to see us.

What is the population of North Carolina?

Roger Hoggarth: I do not know.

The Convener: I think that it is about 10 million, but I am not sure.

Miss Goldie: I was wondering whether we could make a comparison with Scotland.

Roger Hoggarth: I imagine that the population of North Carolina is larger than that of Scotland. Raleigh-Durham, Charlotte and Greensboro are significant areas of population.

Miss Goldie: With the benefit of distance—as you are now in the States after spending a considerable time in Scotland—do you have a view on the state of our infrastructure vis-à-vis international communication?

Roger Hoggarth: My view of that is not terribly positive, even on basic telephony. Logically, one would think that there is the same piece of wire—we will not mention virtual circuits—between the US and Scotland as there is between Scotland and the US, yet the cost of using that facility from the US is about half of that for my colleagues, friends and relations in the UK. There seems to be a significant cost disadvantage for what must be the same facility.

Miss Goldie: What about capacity? *[Interruption.]*

The Convener: Are you still with us, Roger?

Roger Hoggarth: I am still here.

The Convener: Annabel Goldie asked about capacity.

Roger Hoggarth: I would not be able to speak on the capacity issue in Scotland. Certainly, I know that when I was a supplier of services for IBM we had no problems with capacity. There was ample capacity. *[Interruption.]* The cost of capacity was a significant issue.

The Convener: Roger, could you repeat that answer? We lost the connection right at the

beginning of it.

Roger Hoggarth: From my former role at Greenock as a supplier of IT function, I know that we have significant capacity—redundant capacity in fact—to our facility at Portsmouth. IBM goes out to the open net somewhere in the south of London. We have two 24Mbps connections down to Portsmouth. *[Interruption.]*

The Convener: There will be a short pause.

10:58

Meeting adjourned.

11:00

On resuming—

The Convener: Roger, I think that we caught what you said about Portsmouth. You were talking about IBM capacity. You told us about the IBM situation, but is it possible to widen that out into the more general capacity issue?

Roger Hoggarth: Customers who came to Greenock always asked about infrastructure. The issue of capacity was never raised per se, but customers were always concerned about its cost. I do not think that there is a particular issue with the amount of capacity, but most of the customers were Glasgow or central-belt based. I have not had discussions with people from the Highlands and Islands or regions of that type.

The Convener: Is the cost factor due to the lack of volume, which is required to pay back the investment, or is something else involved that leads to the problem?

Roger Hoggarth: The only comment that I can make—perhaps Professor Norton would like to help—is that while there is not a monopoly, there is a concern about opportunities to purchase from a variety of suppliers. The competition is limited, and there is a flat rate. I do not know if that is still the case. I have not compared the situation there with the situation facing equivalent companies here. You do not find SMEs and medium-to-large organisations here raising an issue about the cost of bandwidth capacity. They do not consider that to be a big issue, whereas it is one of the hot topics in Greenock. Every time a customer comes in and talks about e-business, the first thing that they mention is the cost of capacity.

The Convener: Roger, Professor Norton has left us, but no doubt we can follow up this issue with him.

Elaine Thomson: Good morning, Roger. You may not know the answer to this, but what interventions, if any, did Government make, whether at federal or local level, in North Carolina,

either in providing the infrastructure or in stimulating demand? For example, did Government put together an integrated strategy on how it wanted this issue to develop?

Roger Hoggarth: I do not know the answer to that question, but to a large degree the state and federal Governments led by example. Everything that you need to do with the state and local government you can do on the web. The only issue is the banking issue, which I talked about earlier. I have not used a cheque book for years in Scotland, but here I have to take my cheque book out to pay for things, which is frustrating. Other than that, Government information and services are widely available. I would imagine that that leading by example led to some of the growth.

Elaine Thomson: My next question relates more to the take-up of e-business by the SME sector. Although SMEs appear to have put up some resistance to getting on board, all the information included with your presentation suggests that business-to-business offers most opportunities. What has been the feeling in the US?

Roger Hoggarth: Are you asking whether business-to-business is still a large growth area in the US?

Elaine Thomson: No. My question was more about whether small and medium businesses in the US have moved into e-business and e-procurement.

Roger Hoggarth: Our experience as a driver of e-procurement is that there is a large take-up of e-procurement, electronic invoicing and so on in the supply chain.

David Mundell: I was struck by the lack of joined-up activity in the US. For example, I was amazed to find that we had to take four mobile phones for a car journey equivalent to the distance between Glasgow and Wick, because that was the only way of keeping in contact for most of the journey. If we can get our act together, Europe and the UK have a great potential advantage because of common standards and an acceptance of integration. The US will be in difficulties because of an inability to do the same.

Roger Hoggarth: That is a very good point. I am not able to use my mobile phone in a number of areas, as there are different standards: for example, BellSouth uses the global system of mobile communications—or GSM standard—which we all know and love. However, many of the others use their own standard, which I find astonishing, having experienced the growth of mobile phone communications in the UK. That is an example of standardisation not really helping in the US, and everyone is now somewhat on the back foot.

Another interesting example which might prove to be an advantage for the consumer is the state versus federal issue. For example, there is the state sales tax, which is the equivalent of VAT. One of the advantages of buying on the web is that I can buy from a state with lower or no sales tax. Last night, I bought something from a supplier in Georgia, where there is a sales tax; however, because I was purchasing from North Carolina, that tax is waived. I do not know how that works from a state point of view and can see that it might raise major issues. It is the equivalent of VAT in Scotland being 2 per cent lower than the rest of the UK, which is something that we all want. If that happened, selling things on the web to our friends south of the border would mean an overnight boom in Scotland.

The Convener: Wait till you see the SNP manifesto, David.

David Mundell: This will be a major issue for Europe. One of the biggest sites in the US is called cigs.com, where people can buy cigarettes at the cheapest US rate and have them shipped to them. The web itself does raise such issues about duty.

A Department of Trade and Industry report has shown that people will not buy from a website unless it makes a difference to them—clearly that means a financial difference. In the UK, the web, other than one or two specialist sites, offers only the same thing in a different way and the ordinary consumer does not get anything that is significantly different.

Roger Hoggarth: The big factor on which some pioneers on the web in the UK are focusing is convenience. Clearly, if, for little or no added cost, one can go to Tesco.com and have groceries delivered without having to trawl up and down the aisle every day, the take-up of that service will be large. Certainly, there is a large take-up of such a service from an equivalent supermarket chain in North Carolina. We regularly use that service, not because it saves us money—in fact it costs more—but because it is convenient and saves time. Convenience is an element that can bring advantage.

However, your point is valid. Unless there is a reason for using the web, people will not do so. The data seem to support the view that consumers are willing to buy everyday and consumable items from the web, but will not buy luxury goods or something with which they are not familiar. They want to touch it and ask silly questions of the guy in the shop.

The Convener: I will ask what I think will be the final question. One of the major issues that we have in Scotland, particularly in small and medium enterprises, is the shortage of skills with which to

make maximum use of modern IT capabilities. How has that issue been tackled in the States?

Roger Hoggarth: We had a similar problem. I can talk about this area from first-hand experience. One of the biggest issues in North Carolina is the availability of IT skill and resource. We constantly talk to customers who come into IBM Greenock to discuss e-business about an issue on which people should, but do not, focus: business analysis. One of the slides refers to business process and transforming the way in which business operates. A major misconception of customers and companies that are considering adopting e-business technology is that by applying that technology to their existing processes new opportunities will magically be created. A big issue in North Carolina is getting the business process analysis—re-engineering, we would call it in Greenock—skills that are needed. [*Interruption.*]

The Convener: Can you hear us, Roger? No.

When we re-establish contact, I should say, "Hi, Roger, this is Chris Tarrant calling."

Miss Goldie: The question can be, "What is the population of North Carolina?"

The Convener: "Is it 5 million, 10 million, 20 million or 200 million?"

Roger Hoggarth: The wonders of modern technology.

The Convener: Absolutely. We heard what you said up to the tail-end of your answer—you were drawing attention to the point in your presentation.

11:15

Roger Hoggarth: I was saying that the approach that the universities are taking towards learning and IT skills will lead to some relief in IT skills shortages over time. The issue that is coming up rapidly is how to integrate that with the business process. That is the point that IBM is at. We have taken the business process and added technology. We realise that, in many cases, all that that achieved was a somewhat more automated, yet inappropriate, business process. We are now much more involved in business process analysis and re-engineering of business processes. That is where we are applying most—[*Interruption.*]

David Mundell: I think that he was going to say "most effort".

The Convener: Yes. After we have re-established contact once again and allowed Roger to finish his point, we will wind up the videoconference.

Roger Hoggarth: We must ensure that business processes are right and that we are

prospering by re-engineering the business process, rather than simply applying technology to what is already there.

The Convener: As we are short of time and seem to have run out of luck with the videolink, I think that it is time to close the evidence session. Perhaps someone in Greenock has turned on their Hoover and that is what is causing all the problems.

On behalf of the committee, I would like to thank Roger Hoggarth, both for the written material and the comments that he has made this morning. You have been extremely helpful, Roger. The bad news is that Charlie Morrison has not left a message to say that you can have the rest of the day off.

Roger Hoggarth: That would be very unlike him.

The Convener: Thank you.

Roger Hoggarth: My pleasure.

Members: Goodbye.

Duffner Report

The Convener: The next item is a discussion on how the committee will handle the Duffner report.

Simon Watkins: There is a short paper that has arisen from suggestions made by members. We have a limited amount of committee time in which to consider the report because of our commitment to stage 2 of the Education (Graduate Endowment and Student Support) (Scotland) (No 2) Bill. It has been suggested that the committee might appoint some reporters or groups to go and speak to the organisations that would be most affected by the proposed reform of the careers service. The reporters would visit four different areas and get a feel for the situation on the ground. They might report back to the committee at the meeting on 13 February in order to condense the process.

Elaine Thomson: Marilyn Livingstone was the member who made the initial proposal to have reporters. She cannot be here today because she is unwell. I would like the committee to take up the suggestion. It is a method that has worked well in the past. It would allow us to take a closer look at the implications of the Duffner review and to take part in useful discussions with people in different parts of the country.

The paper suggests four different areas. I would be happy to accept the suggestion and decide who will take which area.

The Convener: In our discussion last week there seemed to be general agreement that that was the best approach. We do not have time to take full evidence and, in any case, it would be useful to hear the reaction from those on the coalface. Is there a general agreement that this is how we should deal with the matter?

Miss Goldie: I am conscious that we are fairly short of members this morning. I wonder whether the others would have an input. I find that the pressure on my diary is absolutely immense. I do not want to be unhelpful as I am interested in this process, but the various pressures on my diary conflict with one another. I do not know how the other members of the committee are placed.

The Convener: Unfortunately, because the issue must be discussed on 13 February, I do not think that we can carry the paper over.

Simon Watkins: We might not have to go on a visit. It might be easier to get someone from the Aberdeen careers service, for example, to come to Mohammed. Also, it might not be necessary to involve every member of the committee. We have suggested four areas, but there could be fewer and one member could deal with them.

Elaine Thomson: Annabel Goldie's point is correct; time is constrained. The review is important, however, and we should try to get our examination right. I know that some of the members who are not here today have indicated that they would be willing to be reporters.

Bill Butler (Glasgow Anniesland) (Lab): As long as we met them on site I would be more than willing to participate. Perhaps I could deal with Fife.

The Convener: I know that Marilyn Livingstone is anxious to meet the Grampian careers service.

Elaine Thomson: Yes, and I think that that would be a useful discussion. She could organise whether she goes to Aberdeen or people from there come to her.

The Convener: If we are agreed in principle to deal with the Duffner committee's review of the careers service, the only way in which we can do so is by the method that we are discussing, given the time scale. Shall we agree to proceed on that basis?

Members indicated agreement.

The Convener: Also, I am keen that we get cross-party views on the matter. I will ask Simon Watkins to co-ordinate the volunteers. If we have more than one member dealing with each area, that will be fine: the more members of the committee who are actively involved, the better.

Bearing in mind the need to make this a cross-party effort, the need to move quickly and the need to avoid placing too much pressure on our diaries—I agree entirely with Annabel Goldie on that point—we will ask Simon Watkins to co-ordinate the visits and come back to us by the end of the week. Is that okay, Simon?

Simon Watkins: Certainly.

The Convener: Tomorrow is 1 February, so we have less than two weeks to deal with the matter. Is the committee agreed to proceed in the manner that I have outlined?

Members indicated agreement.

The Convener: On 13 February, we will hear the feedback and address the issues in the Duffner report. It might be useful, Simon, to make sure that every member of the committee gets a copy of the Duffner report and the minister's response before going on their visits.

Simon Watkins: We will do that.

The Convener: Before we finish, I want to put on record our gratitude to Duncan McNeil, whose idea it was to come to IBM in Greenock, to IBM and to the members of staff—Simon and the clerks, the official reporters, the sound people and

the security staff—who have done an excellent job. Bringing a committee out of the Parliament is a big job and requires a fair deal of planning. On behalf of the committee, I would also like to thank Ian Ritchie for his attendance.

Miss Goldie: This morning has been exceedingly interesting. I was struck by the reaction of IBM to this committee's connecting with business. I hope that this meeting is the start of a pattern. This has been a meaningful way for the committee to discharge its business.

The Convener: Absolutely. It also demonstrates that we are willing to go out and listen to what business has to say. That is an important message for the Scottish Parliament to send.

Elaine Thomson: This committee has taken a lead in this kind of activity. Our trip to Inverness was one of the first times that a committee of the Parliament met outside Edinburgh.

The Convener: I hope that we also will be the first to have an away day after the election.

Miss Goldie: In North Carolina.

Elaine Thomson: I second that.

The Convener: That brings us to the end of the formal meeting and there will now be a site visit. Unfortunately, I have to be back in Edinburgh for a meeting at 1 o'clock that I could not get out of.

Meeting closed at 11:24.

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