The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 18 December 2013

Session 4

Wednesday 18 December 2013

CONTENTS

ECONOMY, ENERGY AND TOURISM COMMITTEE
36th Meeting 2013, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Christian Allard (North East Scotland) (SNP)
*Marco Biagi (Edinburgh Central) (SNP)
*Chic Brodie (South Scotland) (SNP)
*Alison Johnstone (Lothian) (Green)
*Mike MacKenzie (Highlands and Islands) (SNP)
*Hanzala Malik (Glasgow) (Lab)
*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Jamie Adam (Community Energy Scotland)
Graham Burnside (Islamic Finance Council UK)
Richard Buxbaum (Scotland Europa)
Lesley Cannon (Scotland Europa)
Joan McAlpine (South Scotland) (SNP) (Committee Substitute)
Omar Shaikh (Islamic Finance Council UK)

CLERK TO THE COMMITTEE

Stephen Imrie

LOCATION

Committee Room 4

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 18 December 2013

[The Convener *opened the meeting at 09:31*]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen. Welcome to the 36th and last meeting of the Economy, Energy and Tourism Committee in 2013. I welcome my colleagues and our witnesses, who I see are eager to contribute. I remind everyone to turn off or switch to silent their mobile phones or other electronic devices.

We have received apologies from Dennis Robertson, who is involved with his member's bill on disabled parking. We are joined instead by Joan McAlpine as his substitute—she is welcome.

Under agenda item 1, is the committee content to take item 4 in private?

Members *indicated agreement.*

Access to Finance

09:32

The Convener: Item 2 continues our inquiry into access to finance. I am pleased that we are joined by Omar Shaikh, who is an executive board member of the Islamic Finance Council UK, and Graham Burnside, who is also an executive board member of the Islamic Finance Council UK, as well as being a partner and head of banking and finance at Tods Murray LLP. I welcome you both, gentlemen.

Before we get into questions, I invite you to say something by way of introduction about Islamic finance and to explain the background to us.

Graham Burnside (Tods Murray LLP): We are happy to do so. My colleague Omar Shaikh will say a bit about Islamic finance in general, to give the committee some of the background picture.

I will start by saying a bit about what the Islamic Finance Council UK is. It is a not-for-profit body that was established around 2005 or 2006 in an informal, unincorporated way. It was formally incorporated as a body in 2008. Although it is the Islamic Finance Council UK, it is based in Scotland and has its office in Glasgow. My colleague Omar Shaikh was one of the prime movers, and the idea was to set up a not-for-profit body with the purposes of generally spreading the word about Islamic finance, providing knowledge and education and promoting the growth of the commercial side of the industry—although the council is very much a not-for-profit body.

Since the council's establishment, the range of things that it does has grown significantly. As well as continuing with our general education programme in the United Kingdom, we have an international programme on the go for educating Islamic scholars in commercial and financial matters. That might seem a slightly odd way round to do things, but it is because any Islamic financial transaction requires to be signed off, as it were, by an Islamic scholar—by an imam. For that to happen, they need to understand the commercial world sufficiently, and there is a shortage of such people worldwide. That is the reason behind that. The council also operates in effect as a consultancy for various bodies, which have included the Scottish Government.

That is the general picture of the hats that we have on today. I will now hand over to Omar Shaikh, who can speak about Islamic finance in general.

Omar Shaikh (Islamic Finance Council UK): Good morning, respected members. My background is that I am a chartered accountant. I used to work with Ernst & Young and I used to head its Islamic finance desk in London. I am a contributing member of UK Trade & Investment and Treasury sub-committees that were established under the previous Administration and the late Sir Eddie George to make the UK a global gateway for Islamic finance, as Gordon Brown initially positioned the UK.

The interesting thing about the initial strategy, which we put together when I was living in London and was involved with Westminster and Mansion House, was that it had two key pillars. One of them, which resonates perfectly with today's topic, was to ensure and promote financial inclusion in the UK. The second was to maintain London and the City as a premier global hub for finance and a financial market.

I am sure that members will have a number of questions about exactly what that involves. That probably links well with the statements that the Prime Minister, David Cameron, made just over a month ago at the world Islamic economic forum about ensuring that every Government department in Whitehall considers Islamic financing. That was augmented by the comments of His Royal Highness the Prince of Wales at the same event.

What is Islamic finance? The easiest way to understand it is through two lenses. One is ethical finance. Those of you who are familiar with ethical finance will know that it is a world characterised by shades of green. It is about avoiding investing in sectors that are deemed harmful to society. It is about social good. It is about financial services and banking—a topic that is particularly intriguing in the current crisis. People such as Lord Turner have said that much of conventional banking is socially useless. The first lens by which to understand Islamic finance is that it is a form of ethical finance. There is a host of shared values with other religions and so on.

The second lens that you should apply to understand Islamic finance is that it is similar to a structured product in the finance and banking sector, because of the restriction on interest. Like other Abrahamic traditions, Islam has an aversion to, if not a ban on, the receiving or charging of interest. Normally, most financiers or bankers fall off their seats at this point and say, "What? How can you do banking without receiving or charging interest?" However, that can be done, and it can be done in a more socially responsible way. That has been the case in the church and in the Jewish tradition for many centuries.

We had a lovely round-table meeting with the Archbishop of Canterbury in the House of Lords two months ago, when we discussed the shared values of the Abrahamic faiths. It is fascinating that the founding of the savings bank movement by the great Rev Henry Duncan of the Church of Scotland provided the exact model that was used to create the first contemporary Islamic bank. There are a lot of parallels.

Using such a system means that people can invest in an economy in a way that is more aligned and that they are more likely to invest in an equity-based form of financing as opposed to debt-based financing. People can still make returns through trading, investment and being aligned. They can make returns through charging rent—the bank can buy a building and lease it to people, for instance. It is possible to make returns when using Islamic finance, and there have been very good returns.

I am happy to answer the committee's detailed questions on financial inclusion.

The Convener: Thank you for that introduction. To get things started, will you tell us what the domestic market opportunities are for Islamic finance in Scotland and perhaps in the UK more generally?

Omar Shaikh: We look at that from two perspectives, one of which involves the domestic retail and small and medium-sized enterprises markets. In the Islamic retail space, banks such as HSBC, Lloyds and the Islamic Bank of Britain have established themselves and started servicing the domestic market. That predominantly involves Muslims, but other people—of no faith or other faiths—align themselves with that. HSBC is the largest provider of Islamic retail products in Malaysia, for example, where 50 per cent of the users are Chinese Malays who simply agree with the ethical principles and like the pricing and the quality of the products. There is a big opportunity.

Graham Burnside and Tods Murray structured the first Islamic mortgage under Scots law. The initial amendments that we made to the Finance Act 2005 as part of the Treasury sub-committee's work gave relief for stamp duty, but that was not extended to Scotland; it applied initially only to England and Wales.

We see a significant opportunity in the retail space to catalyse economic activity from people who every so often—every Ramadan—say, "I'm heavily engaged in debt and interest and I want to pull back," and who decide not to expand their businesses but to cut down their activities and let staff go. There is a significant opportunity on the banking side, but there is also an opportunity on the asset management side in respect of people's savings, investments and pensions.

Another side of the opportunity that we have tapped into extremely successfully in the City—we have said this to the Scottish Government—is that we have managed to attract billions of dollars of investment that has been structured in a Sharia-compliant way. That investment has been into

London predominantly, and some has gone into Manchester and Birmingham. The committee might be familiar with the Shard—the tallest tower in western Europe—which has been funded Islamically. Other examples come from the Chelsea barracks project and Aston Martin. I am not sure how many of you drive Aston Martins.

The Convener: Mr Brodie has one.

Chic Brodie (South Scotland) (SNP): I keep it in the garage.

Omar Shaikh: That is probably a wise decision, given the current weather.

Chic Brodie: It is right next to the Ferrari.

Margaret McDougall (West Scotland) (Lab): On his mantelpiece.

Omar Shaikh: I should not have dropped in the reference to Aston Martin.

The Convener: I think that we will stick to Islamic finance.

Omar Shaikh: We are looking at projects in the Olympic village as well. Hundreds of millions of dollars per transaction are being brought into London from direct structuring through Islamic financing. There is a significant opportunity.

The two areas that we tailored at the conference that Tods Murray hosted with the IFC related specifically to Scotland. Earlier this year, we looked at the opportunity for funding infrastructure and renewable energy projects in Scotland. At the conference, we looked at that in detail with the Green Investment Bank, investors from the Gulf, the Scottish Futures Trust and others. We see a lot of opportunity there for the Scottish Parliament to take forward. The second area involves the fund management community here in Edinburgh. Aberdeen Asset Management and Scottish Widows Investment Partnership manage Islamic funds, but we see the opportunity for that to extend significantly. There are two—or possibly three—distinct areas of opportunity for Scotland.

Hanzala Malik (Glasgow) (Lab): Assalamu alaikum, Omar. In 2010, the Islamic Bank of Britain suffered mounting losses, which led to it being bailed out by Qatar. If the Scottish Government assists an enterprise into Islamic funding ventures, what safeguards are there to ensure that such a situation is not repeated? The Islamic Bank of Britain is the only example that we have of Muslim banking.

Omar Shaikh: Fundamentally, there was no bail-out. I was at Ernst & Young and we were appointed to do a refinancing. It is normal to recapitalise a business as it grows. In banking, the balance sheets need to be recapitalised.

As a result of the bail-outs in mainstream banking, we moved from Basel II to Basel III, which required an increased capitalisation of balance sheets. For the Islamic Bank of Britain to grow, it needed further funding. That was not a bail-out; the bank needed further investment, which it attracted successfully. However, there is no doubt that, in venturing into any new area, the Islamic Bank of Britain will be challenged. It will be no easy slam-dunk; it will be difficult, because it takes time to educate the community.

09:45

We have to remember that the Islamic Bank of Britain used to be on the retail side and was not involved in other large investment deals. Four of the five stand-alone Islamic banks in the UK are investment banks in the City; the other is a retail bank. However, the Islamic Bank of Britain is still an interesting case, because it created 200 jobs not only at its headquarters in Birmingham but around the country.

As I said, the money in question was not a bail-out but a recapitalisation to grow the business. That concluded two weeks ago; in fact, I was with the chief executive officer of IBB and our ambassador to Bahrain at the world Islamic banking conference in Bahrain when the press reported that Masraf Al Rayan had concluded that transaction. IBB's growth in the past year has been stellar; last year, for example, it doubled its mortgages figure at a time when other banks were shrinking and deleveraging their positions.

There are inherent challenges in any new retail business model. Forget faith—if we wanted to launch just an ethical bank tomorrow morning, we would find it a challenge, because we would need to deal with consumer education issues, cultural issues and so on. In any case, I repeat that the IBB was not bailed out; instead, there was a recapitalisation. I make it absolutely clear that, in this global crisis, none of the Islamic banks globally has had to receive a bail-out. Academic studies by the International Monetary Fund and the World Bank have shown that Islamic banks are systemically less volatile than conventional banking.

Having said that, I would not go overboard with the academic evidence, because it is still early days; after all, there are only 15 years of contemporary experience to look at. However, the model that underpins Islamic banking is similar to the model of ethical and prudent finance that has a fantastic heritage in Scotland. We need to go back to those principles.

We have done a lot of work in the ethical finance arena and have put forward a proposition, which I believe that Mr Swinney is considering, on the creation of an ethical finance hub in Scotland—a centre of excellence for ethical finance. We cannot dislocate the two aspects in the way that your question suggests. The term "bail-out" carries the connotation of the contemporary banking crisis. If we had followed some of the principles that I have mentioned, which are simply common sense, much of the bail-out in this scenario would not have been required.

Hanzala Malik: Do you see any opportunity for Scottish banks to engage with you in a positive way that would allow you to work hand in glove? Is anything worthy of consideration in that area?

Omar Shaikh: Absolutely. What we did in London was successful because Eddie George, the late governor of the Bank of England, got up and did something and because the then chancellor, Gordon Brown, was vocal in his support. I was part of a machine that involved UKTI, the Treasury and those at Mansion House, who went out and promoted all this, created a level playing field, were proactive in the sector and went around the world to say, "We're open for business." That is the environment in which Lloyds and HSBC set up their Islamic banking operations. As we know, they serviced only England and Wales, not the Scottish market. We were quite angry about that and asked them, "Why are you providing these retail and other products in England and Wales but not up in Scotland?" Of course, that is their commercial prerogative.

The context and backdrop are that, if we want private sector activity, it needs to be catalysed. There is no better example of that than what happened at the recent world Islamic economic forum. I am not sure whether members read George Osborne's comments on the front page of the *Financial Times*, but the UK Government has said that it will issue a £200 million sterling sovereign Islamic bond. It is the first western Government to make such an announcement.

The forum was a large event that involved 14 heads of state from Organisation of Islamic Co-operation countries. Malaysian investors have just bought the old and derelict Battersea power station and are converting it into a mixed-use development. His Royal Highness Prince Charles addressed the audience at the event.

As Graham Burnside and I have discussed many times, there must be the political will and context for the investment activity to occur, because the sector is new. The trick is in attracting the money from the Gulf; the Islamic Bank of Britain and all the investment banks have been funded through more than £1 billion being put into their balance sheets. Where was that from? The Gulf and the middle east.

If we want to deal with that market, we cannot have a purely domestic perspective, although there is no harm in taking such a perspective, which can do well, particularly from a financial inclusion perspective. David Cameron has said that we will have Sharia-compliant student loans for Muslims who want to go to university but have been averse to doing so or feel that there is a barrier to doing so because they do not have access to student loans—and we know what has been done with tuition fees down south. There is a domestic market, but not to look at the issue from an international perspective would miss a huge opportunity.

Hanzala Malik: As a closing remark, I say that Scotland is open for business.

Omar Shaikh: That is great, but it has to be proved and has to be said to investors. You guys need to be out there saying that to them, but not a single minister from Scotland was at the WIEF.

Hanzala Malik: We will change that.

Omar Shaikh: For me, as a Scot, the situation is disappointing.

Graham Burnside: To follow up on an earlier question, it was in the press just yesterday that, earlier this year, the Islamic Bank of Britain carried through its first commercial financing operation in Scotland. It has for some time been considering or sniffing around the possibility of moving into Scotland. Having established residential mortgage and other retail products a few years back, it is now set up to produce Scots law-compliant as well as Islam-compliant commercial funding. I hope that that is the start of further growth in that direction.

Chic Brodie: Good morning, gentlemen. Interestingly, I looked at the Al Meezan deal on commercial property.

I understand the aim and objective of involving non-profit and non-political organisations. Does the IFC support giving access to finance to non-Islamic bodies? You said that the imam has to sign off the deals. If a deal went forward for a non-Islamic organisation, would it be accepted?

Graham Burnside: Do you mean would funding be provided to non-Islamic organisations?

Chic Brodie: If Chic Brodie Enterprises goes along and says to the Islamic Bank of Britain, "I want—

Graham Burnside: Absolutely. Yes, it is available. In fact, one of the purposes of the IFC is to try spread the word that Islamic finance is emphatically not just for Muslims; it is available to anyone who, whether commercially, ethically or philosophically, likes the idea and is interested in the product that is being offered. Interestingly, as

Omar Shaikh said, in some of the main Islamic centres of the world, such as Malaysia, a very conspicuous pattern in recent years has been the growth in non-Muslim participation in Islamic finance. Indeed, the last time that I spoke to a senior person in the Islamic Bank of Britain, which is based in Birmingham, they said to me that, for some of their savings products, they now have more non-Muslims than Muslims, even in the UK, on their books.

Omar Shaikh: You should also ask what Scottish Coal thinks of that, because it received Islamic funding from the Bank of London and the Middle East.

Chic Brodie: That is encouraging. In trying to wrestle with the idea of the deal, I was somewhat confused by the objectives and aims as established by the bank. The idea is shared ownership to begin with, after which the bank will transfer general ownership to the companies. That seems like a normal commercial transaction. On that basis, there must be some element of return that is considered when the beneficial ownership is transferred to the bank's partner.

Graham Burnside: Yes. I will not go into the technical details of how the deal that I was involved in was structured. To pick up on what Omar Shaikh said earlier, the fundamental principle is generally summarised as an inability to charge interest, but that is just one aspect of the more basic idea that people should not use money as an asset in itself—there should not be trading in money. Money should be used to promote commerce, wellbeing or whatever, but it should not be an end in itself.

Chic Brodie: I understand that, Mr Burnside. However, although there might be no return on the money, there could be a return on other assets. That is what I struggle with.

Omar Shaikh: Sorry, but which part do you struggle with? You can have a return in Islamic finance. Profit and free markets are allowed. What is the part that you struggle with?

Chic Brodie: The emphasis on there being no return on money.

Graham Burnside: All Islamic financial transactions are, in effect, seen as joint ventures. Each transaction is a joint venture between the funder and the borrower. They are in it together and they each get a share of what comes out of it—that is the fundamental approach. The bank does get a return.

Chic Brodie: For clarity, it is good to know that access to Islamic finance will be available across the community, as it must be under European competition law.

We have heard about the bank's relationship with other banks. How does it approach the setting of LIBOR—the London interbank offered rate—for example, and is there interbank borrowing?

Omar Shaikh: Sorry—what is the question about? LIBOR?

Chic Brodie: It comes back to making no money on money. The question is probably outwith the remit of the committee, but it would help me to understand the ethos. Does the bank participate in any way in setting LIBOR with the general banking council?

Omar Shaikh: I have two comments. First, access to finance should be available to everyone. The problem has been—and this is why the UK Government is promoting Islamic finance—that conventional finance excludes nearly 2 to 3 per cent of the UK community on a faith basis. Conventional, interest-based finance was already excluding people and causing access problems for the Muslim community. They had to engage with it out of necessity although they were not comfortable in doing so. Islamic finance works the other way round—it is open to everyone and does not exclude anyone.

Secondly, on the question of LIBOR, Islamic banks are not involved in setting or, indeed, in fixing LIBOR as conventional banks do.

The Convener: Allegedly.

Omar Shaikh: Allegedly. I know the chairman of Barclays, and he did not use the word "allegedly"—he just apologised.

Chic Brodie: Not strongly enough.

Omar Shaikh: It was a private conversation. We are not involved in that at all.

As Graham Burnside said, the principle of making money on money without any activity of the capital is problematic among Islamic theologians. Indeed, Aristotle said the same thing. If you leave something that is non-organic, it does not replicate itself into 1.1, for example, if the interest rate is 10 per cent. That is an issue for all the Abrahamic faiths.

The Islamic finance market is not involved in interest whatever. The question on the implication of interest was a good one, though, because Islamic finance does not live in a bubble. That is why, right at the beginning, I talked about a structured product. Yes, it is an ethical product, but it is also a structured product. In Islamic mortgages, when they charge rent to the co-owner for the portion of the house that they do not own, they cannot just make up a rent rate. They have to look at market values and general market returns. They then get involved in benchmarking and so on. The market has an influence, but Islamic finance—

10:00

Chic Brodie: So they consider interest rates.

Omar Shaikh: No. They consider commercial factors and interest rates dictate all commercial factors, but interest rates are not, in themselves, a determining factor within the legal structure.

Islamic funds have been in the top quartile of performers in the asset management community. That is because we apply financial ratios whereby investment cannot be made in companies that are geared to a certain extent. The scholars have said that we do not live in a utopia in which there is no interest. Global financial markets and companies use interest. The company that makes the microphones and speakers that are sitting on the desk in front of me, for example, might have interest borrowing or interest on its balance sheet. Islamic finance does not mean that we do not touch that. The company is not a brewery or a bank or an armaments company or any of the other excluded sectors. The scholars have therefore taken a very pragmatic approach.

Chic Brodie: May I have one final question, convener?

The Convener: Briefly please.

Chic Brodie: Why is there not—or maybe there is—a raft of small businesses in Scotland at the door of the Islamic banks?

Omar Shaikh: There are no Islamic banks in Scotland. That is the simple answer. All the banks that have been set up are in London. A number of people, from those who own SMEs, to multinational companies, to parliamentarians and prime ministers, are at the doors of those banks and funds. We have not yet done enough to attract the banks to Scotland.

Graham Burnside: To pick up on a point that I made earlier, the Islamic Bank of Britain might have been here for a while if it had not been for the recession. It has certainly been looking at Scotland.

The short answer is that there are no doors for people to knock on in Scotland. If people are made aware of it, they can apply to the IBB in Birmingham or wherever but, at the moment, other than for mortgages, the options are limited in Scotland.

Chic Brodie: Thank you.

Margaret McDougall: I think that most of my questions have been answered. I am interested to hear about the concept of a bank that operates on a not-for-profit basis. I am still trying to get my head around that.

Omar Shaikh: I am sorry, but there is a confusion here. We sit on the board of the IFC—the Islamic Finance Council—and that is the not-for-profit organisation. The banks are for-profit, commercial organisations that have shareholders. I apologise for that confusion.

Margaret McDougall: Thank you for clarifying that. You have also said that the banks do not charge interest and you have explained to Mr Brodie how investors can make a profit. People go to the banks for a loan and they are assessed. You have also explained that businesses are not involved with Islamic banking in Scotland because there is no such bank in Scotland, but people in Scotland can still access that facility in Birmingham. What is it that you want to do to make your business available to people in Scotland?

Omar Shaikh: The IFC's business is just promotion and advocacy, so we are there to help to promote the sector. We have been promoting to the Scottish Government and Scottish businesses the opportunity that Islamic finance presents as successfully proven and tapped into by the City of London. We will continue to do that work. We continue to urge the Scottish Government to engage in the sector in a way that the UK Government has.

It is not only the UK Government that has engaged. Indeed, Christine Lagarde has come out on record on Islamic financing, the German state of Saxony-Anhalt has issued a sovereign Islamic bond and tapped into the foreign direct investment, and the Vatican has supported it, as have Singapore and many other countries. We will continue to do our work, which is to promote the sector, so that Scotland and the commercial players benefit.

Margaret McDougall: You cannot just come and set up a bank in Scotland. What stops you?

Omar Shaikh: We are a not-for-profit body that promotes the sector—we are not shareholders of a bank and so on—so we encourage people who want to do that to do so, and we will help and support them and connect them with you and other parties when necessary; indeed, we have been doing exactly that.

Graham Burnside: Margaret McDougall is essentially asking about sources of finance and where those can be found in the present, restricted world. Our fundamental message is that the Islamic world and, as Omar Shaikh mentioned, the Gulf area in particular, are huge reservoirs of potential funding sources. There is no reason at all why Scotland could not make efforts to spread the word that it welcomes such funding and is interested in bringing in and encouraging that source of finance. Mr Brodie put his finger on an important part of that when he mentioned that the issue is about getting the message across. Part of what we do is get the message across so that when people hear the word "Islamic"—not to mention the even more negative aspects if they hear the word "Sharia"—they do not think, "I'm not a Muslim; this has nothing to do with me," and immediately switch off. We are keen to get the message across that, whether at Government or individual retail or investment levels, Islamic financing is a significant potential source of funding in the world.

Alison Johnstone (Lothian) (Green): A lot of my questions have been answered, too. I am really pleased that the witnesses are here this morning, because it is fair to say that we are all learning quite a lot about a sector that we do not know enough about. Islamic banking has much to commend it. Were it available on our high streets, I imagine that it would be very popular. What we can do to change that? There would be a lot of benefits to Scotland as a country if we were to establish ourselves as a leader in the provision of Islamic finance, so I want to investigate that issue a bit further. In addition, is Scotland unusual in its lack of Islamic banking?

Omar Shaikh: Those are very good questions; indeed, those are the core questions that we hear from politicians around the world, because the council is appointed to advise other Governments and we have done that for three other European Governments and an African Government.

We have looked at the matter for a number of years. Back in 2008, we put together a strategy paper for the Scottish Government with 14 recommendations on what to do. Unfortunately, not one was taken forward. I thought that that was perhaps because of our stupidity, but then, having being heard by Ernst & Young and having chartered accountants in most firms around the world taking our advice, I realised that maybe it was not just us.

A number of things can be done, but that must happen in a structured and systematic way. No country in the world has managed to tap into Islamic finance without the political will to do so. Even in Malaysia or the Gulf Co-operation Council, it has taken sustained and structured political will over a decade. You must remember that Islamic finance is the fastest growing segment in the financial services arena, and it is growing even faster in the ethical finance subsector of that arena. From what was \$50 billion more than a decade ago, it is now \$1.6 trillion globally and growing at double-digit pace. Therefore, the opportunity is significant.

We recently put forward a couple of specific suggestions to Mr Swinney on the back of conversations over a 24 months-plus period with the industry. One of those is the establishment of the ethical finance hub that I have mentioned. A catalyst vehicle would help us to focus, drive and link Scotland into the broader markets. That is important for two reasons. First, it widens the concept from Islamic financing to a broader concept of ethical finance. Secondly, because of Scotland's heritage with the mutual life companies, the Fenwick Weavers Co-operative in the west of Scotland, and Adam Smith and the great Rev Henry Duncan, we see that as a particularly pertinent way to enter into the market. We cannot just go in and be a me, too. Canada, Germany and all the other countries are trying to tap into the sector, so how do we differentiate ourselves? We cannot play to first-mover advantage, which is what London managed to do eight years ago. A differentiated approach is needed. We see that as a meaningful and interesting way to do that.

We believe that that vehicle can also be used to try to get the first one or two deals funded, perhaps for some infrastructure, a renewable energy project or a select school, and that, if one or two of those types of projects are done, they will help to create an environment and get the noise and buzz out there, so that people will start to say, "Ah, right. What's the opportunity here?" We believe that that will attract more players to Scotland.

The concept of the hub was that it would be a cluster. It is a bit like our innovation centres. The idea is to have a shared-service office space at competitive rates to encourage companies to come here and set up. That is what we hoped the hub could do along with its other activities. Again, that will attract investment management firms from around the world and, I hope, banks in England to come up and set up a rep office or a desk initially here and take things forward from there.

We have had specific conversations on those matters, and think that they could be a good starting point.

From an international perspective, ministers need to go out in a co-ordinated and structured way to particular markets. That can be added on to your existing engagement agenda.

I have travelled with Mansion House on at least three occasions. Just a fortnight ago, I was in Bahrain supporting the ambassador. The Lord Mayor goes out every year on his tours. If that is not pomp and ceremony, I do not know what is, but guess what? It actually works. It comes top of mind and that is put on the agenda. They say, "Hey. We're here. We like you. We love you. Don't forget us. London's great for X, Y and Z." That works, and it has been done in a systematic and structured way year after year. Such small things, which I was probably initially cynical about, have a long-term impact. A broader approach is needed.

Alison Johnstone: Thank you.

Joan McAlpine (South Scotland) (SNP): Obviously, the committee's inquiry is into access to finance. Would small businesses that have found it difficult to access finance through conventional banks have more luck with Islamic banks?

Omar Shaikh: In today's world, Islamic banks are just an extra banking provider on the high street. Islamic banking would help to a limited degree because the market is very small and it cannot have a meaningful impact. However, we have the examples of Scottish Coal and so on. As the market grows over time and more providers come in, the answer to that question will probably be yes.

There is something that Graham Burnside and I talked about yesterday. If I may take off an Islamic finance hat in this forum, I think that, fundamentally, there are other innovative ways to structure the financial services market that the committee needs to consider.

I am a conventional practitioner for the conventional finance world. Islamic finance just opened my eyes to a different way of doing things. I walked into it naturally because of my religious background. We have looked at the Chicago academics' work on our bankers, what is going on in the current crisis, and different ways of doing things, which is a very healthy process in itself. Pre-2007, nobody cared about what the monetary reformists said about this, that and the other, but since the crisis, all of a sudden people have been very interested. We have simply bailed out the banks and recapitalised their balance sheets; we have not fundamentally done anything other than that. We have not split up the banking system into investment banking and retail banking and brought back Glass–Steagall or any such thing.

10:15

We have not created local community banks that service the local community, and there is no doubt about the fact that Government has a role in initiating that. The whole issue, according to the Vickers report, comes from systemic risk. You can argue about whether Islamic banking changes systemic risk, but the argument from the IMF is that it reduces systemic risk, and that would be my view as well, based on the current evidence, although I think that it is shallow.

Nonetheless, you can look at the bigger picture. At a previous round-table meeting, hosted by Ken Macintosh and a number of other members, I asked why we cannot have banks in Scotland that give the people of Scotland a choice about where their money is to be lent. I am from Glasgow and I have just negotiated the M8 to get across here—which probably explains the state of me this morning—but why cannot I have the choice for my bank to fund people in Glasgow, or infrastructure in Scotland, or educational places in Scotland. Going back to some of the work of the Chicago academics on Arab banking, I think that that kind of change and innovative thinking could give banking a more meaningful impact that could genuinely give people choice. Because of technology, we have that opportunity for the first time.

Yesterday, we were talking specifically about why SMEs cannot access capital markets. We have a burgeoning, booming sukuk—Islamic debt capital—market, but why cannot SMEs access that? Why do they have to go to banks only and exclusively? We have been talking about creating an exchange, possibly something innovative that Scotland could lead in, for SMEs to access the debt capital markets in a cost-effective way.

I am sorry to go on about it, but the question was a valid one and I can answer it only from my broader perspective. Islamic banking is a very small part of the SME economy. It will have an impact, but it will not be a transformational impact—maybe it will over a decade, but there are more innovative ways of looking at the picture today.

Joan McAlpine: That is very interesting.

Graham Burnside: Could I add one further point? Omar Shaikh has been talking about some of the things that we have been doing. The IFC is organising what we call ethical finance round-table meetings, trying to bring together different strands of the ethical finance world, and from a non-Muslim perspective, Islamic finance is probably best understood as belonging in that category. As he says, the individual strands, whether it is Islamic finance or a green bank such as Triodos, tend still to be relatively small operations, and the idea of the hub concept is to try to generate some synergy between them and make the whole greater than the sum of its parts.

Chic Brodie: At previous meetings, I have asked about alternative investment markets and having a Scottish stock exchange of sorts, so it is heartening to hear the witnesses' comments.

Omar Shaikh specifically mentioned Scotland. I am currently dealing with an intermediary who acts on behalf of a large middle east fund that is interested in investing in two small Scottish manufacturing enterprises. One reason why I suspect that SMEs are not getting funding is that banks in London are more interested in investing in property, as I know from having worked in the City. That middle eastern fund has designated eight countries that it wishes to invest in, one of which is Scotland. What are your future plans to promote funding and investment, not necessarily in property but in things such as manufacturing in Scotland?

Omar Shaikh: We are active in four areas. As a council, we have put significant time and effort into promoting Scotland as a hub and as a potential destination for investment, and we will continue to do that. I had conversations with a multibillion dollar fund just two weeks ago and we had conversations yesterday with some of the Scottish Government representatives about deals with an investment firm that I have worked with in Dubai. We will continue to do that, but our specific focus over the next 12 months does not have anything allocated directly to the SMEs.

We believe that a structured, systematic approach is required, which can be catalysed by an ethical finance hub or some other relevant body that can work in a sustained way over a period of time. Specifically, over the next 12 months, we do not have anything beyond that for that purpose. We have our other priorities, too, which we are focusing on. Ultimately, that is your job. We are here to support you if you ever need anything, and we are happy to come across and talk to you.

Chic Brodie: It would certainly help us, working in that partnership, to know what your intentions are as you develop your plans for further investment in Scotland.

Omar Shaikh: We believe that the ethical finance hub will be the core, key vehicle towards achieving that. However, that will be realised only if the Government, councils or whoever wishes to back it. In the past, we brought letters of interest for investment in Scotland of in excess of $200 million. We presented those to the then Minister for Enterprise, Energy and Tourism, Jim Mather, and you can perhaps ask him about the results.

Graham Burnside: I should perhaps emphasise the point that we are still quite a small organisation. We have to make the best use of our resources as we see fit. As I said right at the beginning, that includes an international educational aspect. There are limits to what the Islamic Finance Council itself can undertake. However, we see an important part of our role as being in this part of the world. We are Scotland based, and that promotes the message of what the potential might be.

Christian Allard (North East Scotland) (SNP): Good morning, and thanks very much for coming this morning. We are learning a lot, as my colleagues have said.

You said that there is not yet any Islamic banking in Scotland, but there is in London. Could you give us a picture of how SMEs in London can access finance through the Islamic banking system?

Omar Shaikh: The four investment banks in London target SMEs. The Islamic Bank of Britain is more for small SMEs—SSMEs—or micro-SMEs, and more for retail consumer products. There are players such as Ocado, which is the delivery company for Waitrose's online groceries. Scottish Coal and a number of other firms have been funded through, and have access to, financing from junior term loans and so on. They get working capital facilities through players such as the Bank of London and the Middle East. Those existing banks are providing funding and are getting involved with some SMEs.

Those banks are relatively small, however. If we combine their balance sheets, the Islamic banking market is close to £2 billion. That is nothing compared with the mainstream banks. Much of the money has been allocated to real estate deals, although that has not always necessarily come in through the banks—it has come in through direct investment funds. It is exactly as was mentioned earlier—a lot is going into that area.

Islamic banking's share is a relatively small fraction of the market—it will not transform the market. In market conditions such as those of dropping house prices, as we have seen over the past three or four years, any provider, whether Islamic or conventional, will be very wary about how and what they finance.

Christian Allard: You are saying that the London example is not a good example yet.

Graham Burnside: The really large-scale investments that have occurred, including the Shard, which Omar Shaikh mentioned, have not come through the Islamic investment banks that are established in London. They are effectively sovereign or quasi-sovereign investments direct from the Gulf.

The activities of the investment banks in London, which are on a relatively small scale, as Omar Shaikh has said, have been spread across the UK. Perhaps ironically, the activities that I know of that have been undertaken by the banks in Scotland have been conventionally financed, rather than Islamicly financed. The banks' activities are not confined to London, although they are based there. I suppose that, between those activities and property values, they tend to have a London bias, but it is not a London-confined thing.

Omar Shaikh: It is not a magic pill. Islamic banking is very small, relatively speaking, and it is not going to change the landscape for SMEs overnight.

The Convener: I believe that Scottish Development International has just established an office in the United Arab Emirates. I do not know whether you are aware of that. Have you had any contact with or assistance from SDI?

Omar Shaikh: Yes, we have. It has had a representative there for more than 24 months. We have engaged with SDI. We had a meeting with the Minister for External Affairs and International Development, Humza Yousaf, three or months ago, and an SDI representative was with us as well. SDI has been picking up the reins, and we have been happy to share whatever knowledge and experience that we have with yourselves.

Graham Burnside: There were representatives from SDI at the conference that we held earlier this year on investment and infrastructure, which Omar Shaikh mentioned.

The Convener: Thank you very much. That evidence has been very helpful. Your point about the need for a diverse banking system is one that the committee is very much aware of. That was very interesting, and we all learned a lot from that. I am grateful to you for coming and giving us your time.

10:25

Meeting suspended.

10:29

On resuming—

The Convener: I welcome our second panel for our inquiry into access to finance. We have with us Richard Buxbaum, who is a Scotland Europa senior executive, and Lesley Cannon, who is the EU funding manager from Scotland Europa. Before we get into questions, do you want to say a little bit about Scotland Europa and how it interacts with European funding?

Lesley Cannon (Scotland Europa): Thank you for inviting us to talk to you about our work on European funding. Scotland Europa has been around for 21 years, promoting European engagement for Scotland and access to European funding for Scottish organisations and companies.

We have offices in Brussels and here in Scotland and we work to try to understand and influence policy and funding calls in order best to meet the needs of Scotland's priorities and opportunities. We work over here to try to promote the opportunities that exist in European funding and to help organisations and companies to access funds.

We are part of Scottish Enterprise. We work very closely with Scottish Enterprise colleagues, Scottish Development International and the Enterprise Europe Network, which is also part of Scottish Enterprise. We are a membership organisation. Most of the universities, local authority European consortia, the Scottish Further and Higher Education Funding Council, Scottish Natural Heritage, the Scottish Environment Protection Agency and representative bodies such as the Convention of Scottish Local Authorities, the Scottish Trades Union Congress and the NUS Scotland are members. We work with them to help them to understand and engage in European funding opportunities.

The Convener: In general terms, can you tell us how successful Scottish SMEs have been at accessing funding from Europe over the period 2007 to 2013? Our focus in this inquiry is very much on SMEs.

Lesley Cannon: For some funds we can tell you how successful SMEs have been, but for others the information is simply not available to us at Scotland level. For European structural and investment funds, such as the European regional development fund—the funds that are managed at Scotland level by the Scottish Government—a significant proportion of the money goes into support mechanisms for Scottish SMEs either by way of grant or by way of financial investment through the Scottish Investment Bank. From Scottish Enterprise's perspective, more than 3,000 companies have benefited over that period from Europe-funded support mechanisms. I think that the Scottish Investment Bank has already provided figures on the number of companies that have engaged through it.

We have looked at the figures for the horizon 2020 funds that are managed at European Commission level and which are competed for across Europe. Richard Buxbaum will answer on that.

Richard Buxbaum (Scotland Europa): The information that we have is for the seventh framework programme, given that horizon 2020 does not launch officially until 1 January 2014. Our figures on participation of SMEs show that 113 different companies have successfully applied for funding. That might not sound like a great number, but application to the fund is very competitive. There is a European target for 15 per cent of moneys going to SMEs from the overall total of successful applications; we are above that 15 per cent target.

Lesley Cannon: Some companies have also accessed funds through the European territorial co-operation programmes, or the Interreg programmes as they are better known. The numbers are far smaller, because private sector engagement in those funds is much more limited. About 21 private organisations or representative organisations have accessed funds through the funds, some of which have translated into grant support to SMEs.

The Convener: Are there any sources of European funding from which Scottish companies are excluded?

Lesley Cannon: In terms of direct access to European funds, Scottish companies are not excluded in any way that would be different to companies in other European countries. There is no specific exclusion for Scotland.

The Convener: So, the fact that Scotland is not a separate member state of the European Union does not mean that we lose out on funding from any EU funds.

Lesley Cannon: No. We are part of the UK, so we have access to funds as part of that member state.

Chic Brodie: That last comment is not exactly true, is it? As the committee's European reporter, I have had two meetings with the European Commission in the past six months, and because Scotland is not a member state we were unaware of details of COSME—the competitiveness of enterprises and small and medium-sized enterprises programme. I will come back to that in a minute, if I may.

I have a list of 86 interfaces that are required to access funds on behalf of Scotland—not just on behalf of Scotland, but in the UK—and only four of them are Scottish interfaces. One of those is Scottish Enterprise, but when I had a meeting with Scottish Enterprise representatives they said that they prefer to use mechanisms such as the enterprise finance guarantee to accessing European funding. Why is that?

Lesley Cannon: I cannot say why the Scottish Investment Bank or Scottish Enterprise would prefer to use particular types of financial instrument. At the moment, we use the European structural funds effectively in investment, co-investment funds, loan funds and venture capital funds, and Scottish Enterprise believes that that market has been well served by those products, but I think—

Chic Brodie: I am sorry to interrupt, but can you tell me what the total COSME programme is in terms of billions of euros for the period 2014 to 2020?

Lesley Cannon: I can indeed—

Chic Brodie: Let me help you. It is €2.3 billion—

Lesley Cannon: It is €1.4 billion.

Chic Brodie: So €900 million have been taken out.

Lesley Cannon: In terms of financial instruments the total is €1.4 billion.

Chic Brodie: How much of that €1.4 billion—€700 million of which is for equity finance and €700 million of which is for a loan fund—will Scotland access with an interface of only four public bodies and one venture capital fund?

Lesley Cannon: I am afraid that I cannot estimate that. I will say that our role is to try to promote the European funding opportunities that are available to Scotland to the agencies that can make use of them, and I know that Scottish Enterprise and the Scottish Investment Bank are looking at the wider range of financial instruments that are on the table—which now include financial instruments under horizon 2020, the connecting Europe facility, Erasmus+, the employment and social innovation fund, LIFE+ and the structural funds—to find the best opportunities for meeting what they believe to be need in Scotland. Equally, the committee's promotion of the funds is welcome, and we are working with Scottish Financial Enterprise and the Scottish Investment Bank to deliver a seminar in February targeted specifically at potential financial intermediaries in order to help to raise awareness of the funds. We need to get better at engaging financial intermediary bodies.

Chic Brodie: Do not get me wrong—I think that Scotland Europa does an excellent job, in so far as it can with the available interfaces. To answer the convener's previous question, the harsh reality is that we have no meaningful access to what is actually happening in European funding or in terms of other operational requirements. Who is the small business envoy from Scotland to Europe?

Lesley Cannon: I cannot answer that question.

Chic Brodie: No, because we did not know about it, because Westminster did not tell us that an envoy was required. How many meetings have been held by the European funding regime with small businesses in Scotland?

Lesley Cannon: Again, I cannot answer that question.

Chic Brodie: I am not surprised, because we are not yet a member state. Meetings have been held by the small business funding part of the Commission, which has been going round Europe having meetings with small businesses and asking them, prior to legislation or directives, how they would be impacted, but we did not know about that.

Can you give me some ideas as to how we might improve that situation through getting a small business envoy, encouraging Europe to bring its small business regime and having meetings in Scotland? How can we access the €1.4 billion, and particularly the €700 million for loan funding for small businesses?

The Convener: To be fair, I think that those are questions for ministers, not for Scotland Europa. However, if Scotland Europa wishes to try and answer them—

Chic Brodie: I presume that Scotland Europa gives advice to ministers.

The Convener: Perhaps the witnesses can explain their role in relation to Government ministers.

Lesley Cannon: Yes—certainly. Scotland Europa works very closely with Scottish Government officials, both in the structural funds division and in the Europe division. We share Scotland House in Brussels, and we work with policy teams across the Government to identify European funding opportunities and to help the Government to consider how it can support institutions and businesses in accessing the funds.

We have recognised that we need to promote the use of financial instruments more widely and we need to get more intermediaries engaged in taking up the options. Part of what we do is to try and get companies to engage at Europe level in discussions and through participation in network events that the Commission attends and at which what policy and funding instruments should be in the future is discussed.

We are working hard with our partners and other agencies to get companies involved on management committees and working groups—in particular the committees that set the terms for European funding calls. We are trying to ensure that there is greater engagement at Europe level.

Through the Scottish Enterprise sector teams, we are working closely with the industry leadership groups to get them to think proactively about their European engagement strategy for their industries, and about how Scottish businesses can engage positively at Europe level. We also work with Scottish Chambers of Commerce and other organisations to help them and to explain to their members what the opportunities are.

Chic Brodie: I understand that. I know from having met your management team and other people in Scotland Europa how hard you are working. The problem is that the message is not getting through, although I do not lay that at the door of Scotland Europa. There is a huge area of development in Europe that we are not tapping into. I had a conversation with representatives of the Federation of Small Businesses, who were not aware of the interfaces that are required. We need to stimulate within the FSB knowledge of exactly what can be done, either through your offices or directly.

The current arrangements are just not working, however, with four or five interfaces with Europe. Part of the problem—this is not a political point, but a point about communications—is that we are not getting information from the UK Government with regard to small businesses. What relationship do you have when it comes to getting from the UK Government information on the implications for small businesses in Scotland?

Lesley Cannon: Our relationship with the UK Government tends to be through our involvement with the national contact point network for European funds. Our engagement is with the Department for Business, Innovation and Skills and the Department for Communities and Local Government in relation to how the UK is interfacing with some of the European funding opportunities. As part of that national contact point network, we and colleagues in the Scottish Government are involved in discussions around what is available from Europe, how that comes through the UK and how the opportunities are promoted through the network of national contact points at Scotland level. We believe that more can be done in that regard, and we are in active discussion with the Scottish Government and the UK Government about how to get greater regional contact point coverage for Scotland in the next programme.

Chic Brodie: Do you feel that, when it comes to small business finance, the UK Government is biased towards the UK banking system rather than to engagement with Europe and the European funding mechanisms?

10:45

Lesley Cannon: I am afraid that I am not qualified to answer that question.

The Convener: I refer to the example of the COSME programme, which is a competitive, bid-in programme. Is that right?

Lesley Cannon: The COSME programme has more than one element to it, but the financial instruments are likely to be managed by the European Investment Fund. Scottish Enterprise is a member of the European Investment Fund. Intermediaries have to bid in to the Commission's COSME programme to become registered and to access funds to invest in their organisations. Those bids are made on a competitive basis. Generally, the funds are awarded on a first come, first served basis, so it is important that we raise awareness of the necessity to bid early. Funds are also awarded based on the Commission's view of the competence of the intermediary's bid and its fit with the policy objectives of the programme.

The Convener: Mr Brodie's point was that Scottish SMEs are not aware of the programmes. It is the responsibility of Scottish Enterprise and the Scottish Investment Bank to spread awareness.

Lesley Cannon: It is the responsibility not just of Scottish Enterprise and the Scottish Investment Bank, but of the economic development network in Scotland. We work with a number of agencies that engage directly with companies, and we try to promote that awareness.

The new voucher that the Scottish Further and Higher Education Funding Council is providing is specifically to help SMEs to engage with the universities to use their expertise to access European funding. None of us can do that alone, and such initiatives are part of the wider network of engagement. That should be part of our economic development structure. It is important to understand what the SMEs need the money for and to point them towards the most appropriate European funding vehicle to get it, rather than simply promoting European funding opportunities.

Hanzala Malik: Good morning, and thank you for joining us. Are you aware that the Scottish Government has recently employed an individual specifically to identify small and medium-sized enterprises and organisations to tap into European funding?

Lesley Cannon: Yes. We are working closely with the Government. As part of our regular engagement with the Government, we are considering how we can better promote funding and work together. It is also a matter of establishing how we can better assess what our performance has been and how we can build on it.

Hanzala Malik: That is helpful.

I was amazed that, last year, we could have applied for up to another €1 million, but we failed to do that. I hope that we will not continue to allow such slippage. Is the new recruitment helping you so far, or do you feel that you have not really engaged with it yet?

Lesley Cannon: It is too early to say. However, we are working together and promoting European funding opportunities for 2014 to 2020, which now involves far greater knowledge, partnership working and awareness across the agencies. We are working together on events to raise awareness of the range of support that is available and how agencies can provide that support to companies.

Hanzala Malik: What steps, if any, have you taken to engage in and make use of the new facility that will be made available? Have you a timetable or framework for that, so that you maximise the opportunity?

Lesley Cannon: Yes. Our research and innovation steering group involves the Government, Scotland Europa, the Enterprise Europe Network, the Scottish funding council and the enterprise agencies, and we have an action plan for how we will work together to deliver awareness raising about funding opportunities, and for how we will streamline our approach to providing support to companies that want to engage in horizon 2020.

As I said, the Scottish funding council's innovation voucher was specifically designed to address a gap and to help to get demand-driven research projects into horizon 2020 by using the expertise of the universities and by funding businesses to engage with the universities.

Hanzala Malik: I wish you luck. Thank you.

The Convener: Do you look at other parts of the EU—other subnational regions or nations—to see how they interface with EU funding and whether they do it better than we do?

Lesley Cannon: Certainly, we do. Through our Brussels office, we are part of a number of European networks. We are part of Eurada—the European Association of Development Agencies—and ERRIN, which is the European Regions Research and Innovation Network, as well as a number of other networks, and we are always looking for opportunities to do things better and to share the mechanisms that they use. Sometimes it is not possible to replicate things that work in other regions or member states because their institutional set-up is different from ours, but there are certainly areas that we can learn from, so we hope to do that.

Equally, there are areas where other regions and member states consider that we are doing good work—in particular, how we have tackled the horizon 2020 opportunities—and they are coming to us to learn from what we intend to do.

Chic Brodie: I appreciate the difficulty that Scotland Europa has, but the horizon 2020 €77 billion is basically there to marshall new ideas in R and D and to build on innovation. We are also considering the €1.4 billion COSME funding that is planned for access to on-going development capital for businesses that are in place. It is almost a rhetorical question, but is there a danger that we are mixing the two—horizon 2020 and the COSME programme? That might have happened because of the €900 million that was transferred from COSME to horizon 2020. Is it quite clear in the minds of SMEs, universities and Government that there are quite separate SME activities in terms of horizon 2020 and the COSME programme?

Lesley Cannon: I do not think that that will be completely clear. As I said, it is more important that SMEs are aware that there is a range of Europe-funded opportunities, that we work with those SMEs to understand what they need the money for and that we then direct them to the most appropriate funding mechanism.

Chic Brodie: Thank you.

Margaret McDougall: I have a question for clarification. From what I have heard this morning, it seems that a business that is already on the radar of Scottish Enterprise or that is an account-managed company can benefit from all that information and knowledge already. What about small businesses that have not been involved or engaged before? Do you go out and engage with the business community so that they have the opportunity to partake of those funds?

Lesley Cannon: That is the strength of our being a membership organisation. While we are supporting Scottish Enterprise in identifying how it can use European funds most effectively, we are also engaged with our other members, particularly with organisations such as the local authorities' European consortia, which bring in the community planning partnerships and the business gateway. We promote the opportunities to them and they promote those opportunities throughout their network of activities. We also support the chambers of commerce with some of their Europe-funded projects. VisitScotland is a member of Scotland Europa, and it has used the European structural funds to provide products to support tourism businesses. We are also engaged through the industry leadership groups, such as Scotland Food and Drink, which has provided information that has helped it to access European funds that it can use to support its members.

We use our contacts within networks, and those networks use their contacts to try to spread the word as wide as possible, but we would be the first to say that we can always do more, and we would always welcome ideas and opportunities for spreading the message further.

The Convener: Are the Federation of Small Businesses and Scottish Chambers of Commerce members of Scotland Europa?

Lesley Cannon: No, they are not. They are part of their wider networks, which engage at Europe level directly. However, the fact that they are not members does not mean that we do not interact with them.

The Convener: Do you engage with them on funding?

Lesley Cannon: Yes, and they have been part of the wider partnership discussions that we have been having on development of the structural funds programme and on how the structural funds can be used most effectively to deliver business support.

The Convener: Thank you for coming along. Your evidence has been helpful.

10:56

Meeting suspended.

11:01

On resuming—

The Convener: We come to our third panel today in our inquiry into access to finance. I welcome Jamie Adam, the development manager for Community Energy Scotland. Before we get into questions, Mr Adam, will you say something by way of background about access to finance for community renewable projects?

Jamie Adam (Community Energy Scotland): It would be useful and worth while to give the committee a brief history of how community renewable projects in Scotland have been funded in the past and how that situation has changed in the past few years.

Between around 2002, when the Gigha scheme was built, and 2010, most projects relied on support through the renewables obligation and were largely funded by project finance, particularly through two main banks. It was non-recourse finance; in other words, the people involved received a loan solely for the project without having to rely on security or other assets. The loan generally funded about 80 per cent of the costs, while the other 20 per cent or thereabouts tended to be funded through significant grants that were provided mainly by the Big Lottery Fund but also by Highlands and Islands Enterprise and a number of other agencies.

From 2010 onwards, with the introduction of the feed-in tariff, the situation changed and the bulk of community projects, certainly those below 5MW, opted to go through that scheme because it offered a more realistic level of support for projects of that size. Again, the projects tended to be funded through non-recourse project finance. However, the main change came in about 2011, when the Department of Energy and Climate Change decided that there were significant issues in providing grant funding for projects that were also receiving support from the feed-in tariff. Initially, the issue was one of state aid from a European perspective, but there was also a perception that it amounted to double funding. Since then, most projects that have gone forward have been trying to squeeze as much as possible out of bank loans and have, in effect, been 100 per cent funded through project finance.

I want to briefly touch on the three big issues that we are facing at the moment. First, community and small-scale projects find it particularly hard to get finance. They tend to have no equity of their own, no assets that they can use as security for a secured loan and few, if any, economies of scale. Generally, one project will be taken forward, with no portfolio of projects to balance risks or achieve that economy of scale.

Secondly, such projects face significant uncertainty as far as the incentive framework is concerned, which puts off funders quite significantly. Over the past 18 months, significant changes have been made to the RO scheme and, more particularly, the feed-in tariff scheme, and the UK Government has sent mixed messages.

Thirdly, only a limited number of capital funders are interested in providing project finance. That has been a real issue from the point of view not only of a lack of competition but of the time that those funders have to provide to projects, which means that they focus much more on larger projects that are more profitable for them.

The Convener: Thank you, Mr Adam. We would like to tease out some of those issues in questioning.

I want to pick up on your final point about funders. You mentioned that two main banks were involved. Would they be the Co-operative Bank and Triodos Bank?

Jamie Adam: Yes. To date, they have tended to be the main funders.

The Convener: The Co-operative Bank has well-publicised difficulties and Triodos Bank has pulled back a bit from funding, too, has it not?

Jamie Adam: We have not noticed Triodos pulling back in general, but it is tending to focus on larger schemes. It can now pick and choose which schemes to go for. The Co-op's pulling out of the market was a source of great sadness to us. Its renewables team had been extremely helpful and supportive and, from what we heard, it had been one of the most profitable parts of the bank, so it is a great pity that it is not lending any more.

Santander is starting to move into the market, which is welcome, but it, too, is focusing on quite large projects—ones with a value of £10 million to £20 million. In addition, it is looking to offer shorter loan terms. Typically, it offers terms of seven to 10 years, rather than the 10 to 15 years that other banks have offered in the past.

The Convener: The other mainstream high street banks—the likes of RBS, Lloyds and TSB—are not interested at all.

Jamie Adam: They are not, as far as we can see. Some of them have talked about providing schemes for farmers and rural businesses that have other assets that they can use as security. That is useful but, in general, other banks have shown very little interest.

The Charity Bank, which provides funding specifically for charities, has started to move into the renewables sector. It is interested in lending less than £1 million, which is useful. Social Investment Scotland has provided funding to a number of schemes, but it can provide only around £250,000, which is a relatively small amount. Those have been the sole players that we have dealt with to date.

The Convener: For those that are lending, is the percentage that they are prepared to lend still around 80 per cent of the value of the project?

Jamie Adam: Yes, up to a point—it is 80 per cent, but they will take into account the sweat equity that community groups have invested in getting the project to that stage. In other words, they will look at the overall value of the project in considering the amount that they are willing to lend. That means that, in recent years, some banks have been able to lend 100 per cent of the capital costs. Without that, many community groups would have struggled.

Christian Allard: You have answered many of my questions already, but I want to ask about the financing that many communities are still managing to get, which you just mentioned. Is the financing that they get for community-owned projects, or do they get financing only for projects that are not community owned? I would like you to clarify that.

Jamie Adam: Sure. There are a number of models out there. Some of them are joint ventures between a community group and a landowner or a commercial developer. In some cases, the commercial developer has been able to bring in other sources of finance or banks that might not have been interested otherwise.

The bulk of projects out there that we have been involved with are wholly community owned. The model tends to be a community development trust—usually a company limited by guarantee—that has a wholly owned trading subsidiary that takes on the loans. That wholly owned model has been the most prevalent to date in Scotland.

Christian Allard: Thank you—that has answered my questions.

Mike MacKenzie (Highlands and Islands) (SNP): I want to clarify the point that Mr Adam seems to be making. Are you saying that mixed messages and the length of time that the energy market reform process is taking are damaging communities' prospects of getting projects under way that they can benefit from?

Jamie Adam: That has been a significant issue. The issue has been not so much to do with energy market reform and the replacement for the RO—although it is still slightly unclear how smaller community groups will be able to benefit through that process—and more to do with the cuts over the past few years to the renewables obligation, which have affected some of the bigger community projects. Even more significant have been the changes that have been made to the feed-in tariff. The degression system that is now in place means that, for communities or any developers to guarantee their tariff, they have to make a preliminary accreditation this month, before midnight on Hogmanay, which is not a particularly helpful deadline for doing lots of business. That will be submitted to the Office of Gas and Electricity Markets, which says that it does not know how long it will take to get it confirmed—it might take three months or six months. For wind power, that will result in a guaranteed tariff for a period of only one year from the date that the accreditation is submitted.

The effect of that is disastrous because it means that everything is being done in a ginormous rush. After this meeting, I am going to meet a developer who has consent and a grid connection for a two-turbine site. They are going to pay credit this week, but they have been told by their funders that they cannot get to financial close until they get confirmation that the preliminary accreditation has been successful. If that comes through in June, it will leave them only six months to get the site commissioned and built, otherwise they will be subject to a 20 per cent cut in the FIT, which would make the site unviable. The system is a disaster for turbine suppliers as well, because everyone is in the same boat and wants their turbine built and delivered in the last six months of the year, three of which are not at all ideal for building such things. For instance, Scottish Power has more than 500 projects that it needs to connect next year, and it has very little confidence that that will happen.

Many community groups and rural businesses will have consented projects with secure grid connection that, a few years ago, would have been considered ready to go. However, they may not be able to get finance because the banks, quite rightly, consider the projects far too risky, or those groups might be left in the lurch, having paid a significant amount up front, and have the rug pulled out from underneath them. It is a huge problem for wind, because we know that the cut is coming. We do not yet know what the cut will be for hydro and photovoltaic or even what feed-in tariff rate will be applicable in three months' time. All of that creates enormous uncertainty, which is very damaging.

The other issue is the mixed messages that are coming from the UK Government. Greg Barker will say that he wants 20GW of solar installed, and the environment minister will then say that he wants rid of all the windmills and things that are appearing. Alternatively, Ed Davey will say that we are very much open for business and investment and then David Cameron will say publicly that he thinks that we have enough wind in the UK while saying privately that he wants rid of all this green nonsense.

The Convener: Allegedly.

Jamie Adam: Allegedly, I should say.

Chic Brodie: That is clearly an impartial statement.

11:15

Jamie Adam: The fact that there is no clear message coming from the UK Government means that funders have very little confidence that it will stick to its approach. I cannot emphasise enough how important it is to have long-term support systems in place. The projects are very long term. Some projects in the Western Isles that have recently been built have been in the pipeline for about eight years, because of grid issues and other issues that they have faced. To pull in finance, it is absolutely vital to have long-term support and clear messages. Otherwise, everything is more risky and ultimately more expensive.

Mike MacKenzie: Thank you for that comprehensive answer. I think that you have pre-empted most of my remaining questions.

I represent the Highlands and Islands, so you will understand where I am coming from. There appears to be a high risk that the promise of renewable energy opportunities that was held out to many communities that have been in social and economic decline for generations will be snatched away. Do you agree that that is particularly unfortunate?

Jamie Adam: Yes. There are projects in the Highlands and Islands that have gone a long way down the road, and that have had thousands of hours and hundreds of thousands of pounds invested in them, that face the prospect of not being viable. That is potentially a massive lost opportunity.

There are ways of resolving the matter that are, potentially, within the power of the Scottish Parliament, although a lot of the issues are to do with UK incentives. I mentioned that, originally, the projects were largely supported through the RO, with significant grant support. Ironically, after some of the cuts that we are seeing, the RO might provide a higher level of support than the feed-in tariff. We could see a situation in which groups look to go through the RO and use a significant grant, if one is available, through the lottery, Highlands and Islands Enterprise or the Scottish Government. There are ways in which we can salvage the situation. I hope that that happens, because I agree that it would be a deeply sad missed opportunity if those projects were to fail at the final hurdle.

Mike MacKenzie: With your indulgence, convener, my next question is more for the benefit of other committee members than for me.

The subsidy environment is quite complex. We talk about contracts for difference, ROs and the feed-in tariff. Would you give us a brief explanation of those different mechanisms, to illustrate the point that you just made?

Jamie Adam: Absolutely. The renewable obligation has been around for some time. Originally it was the only renewable subsidy, which is why it was used by a lot of community groups that were developing small projects. It gives a subsidy of approximately 4.5p per kilowatt hour generated. It is a market traded subsidy so the amount that is received for it will vary.

Feed-in tariffs were introduced in about 2010. They give different rates of support for different types and sizes of technology. The amounts are fixed—in fact, they are linked to the retail price index. Once you are in that scheme, you know that for a 20-year period the support that you get will be guaranteed. Because that gives a greater level of support to smaller projects, which have higher costs per kilowatt installed, feed-in tariffs have been really important in securing a viable level of support for smaller projects and other technologies, such as solar PV.

The contracts for difference will be introduced from around 2015 to 2017. They are effectively a form of feed-in tariff, but whereas a feed-in tariff has a fixed amount with the wholesale cost—whatever it is—on top of that, the contracts for difference will have a strike price agreed as the minimum that is required to make a project for a particular technology happen. If the market price is less than the strike price, there will be a top-up towards that. If the market price exceeds the strike price, the generator will have to pay some of that back, which will help to keep costs down for consumers.

The details are very much still being worked out, and we have yet to see how well the contract for difference will work for community groups, but the concept seems good in principle. By and large, community groups have so far been using renewables obligation certificates—ROCs—and feed-in tariffs.

Chic Brodie: We are talking about community ownership, but it is clear that part of the problem, specifically with installations in the south of Scotland, has been the issue of community benefit versus community ownership. Are you seeing any significant shift—which some of us would like to see—away from the community benefit model towards community ownership or community participation in wind farm equity?

The Convener: We are moving slightly off the topic of access to finance, but we have some time in hand, so I will allow the witness to answer.

Chic Brodie: I can put the question in terms of access to finance if you wish, convener.

The Convener: It is fine—we have some time in hand, so I will let you off on this occasion.

Chic Brodie: That issue has some significance in terms of finance.

Jamie Adam: I agree—it certainly does. The issue of community benefit has come up a great deal. We have been pleased to see some changes to the model recently, as Scottish Renewables—the industry body—has agreed to a rate of £5,000 per MW. It is hoped that developers will sign up and agree to pay that amount.

We are keen—as I am sure the developers are—for that money to be put to best use. There is nothing wrong with hanging baskets and things like that, but when we see some of the fantastic projects that communities with their own turbines have helped to fund with the income from those turbines, we think that more could sometimes be done with the money. We are keen to see a broader concept of community benefit and to look at ways in which communities that have a lot of community benefit money but do not know what to do with it could invest it in community renewables projects elsewhere that are struggling to find finance.

Over the past few years we have seen a greater number of joint ventures in which developers offer communities a stake in their projects, but that is not without its complexities. A wide range of different models have been adopted, and they have been very successful in certain places—such as, most recently, in Neilston. As I mentioned earlier, the model can potentially help to draw in further finance for projects that might, if they were wholly community owned, have struggled to find funding. However, given the capacity that community groups build and the benefits that they accrue, there is no doubt that wholly community-owned projects are often the best way to go about maximising those benefits. We have seen that the majority of projects out there are wholly community owned, which is very positive.

Alison Johnstone: One of the three big issues that you mentioned was the lack of economies of scale. Do community ventures ever get together with others? Has that happened?

Jamie Adam: Yes, absolutely. Where it is possible, communities will certainly try to come together. One of the best examples is in Orkney, where six community projects on individual islands got together to form the community power Orkney project. That was very useful for exchanging ideas and assistance, and for jointly employing consultants and approaching turbine manufacturers. The group was able to say, “Look, this is not just a single project out on an island in the middle of nowhere—we have six projects, so it is worth your while coming to do this.”

That has been very important, and there are definitely places in which such ventures can work well. The issue is that projects are still quite small, and the level of due diligence that must be undertaken for a small project is pretty much the same as it would be for a big project. Communities might potentially be looking at a bank fee of £60,000 for due diligence, and that will not change much whether it is a 1MW project or a 10MW project. Even after shelling out that money, they have no guarantee that the bank will say yes and give them the money. Those types of issues are a real difficulty across projects in terms of economies of scale.

Alison Johnstone: You mentioned that small projects are more expensive but can have a much greater community benefit. We have discussed the barriers that exist in terms of access to finance, getting hold of the land and access to the grid, but I am heartened to hear that you think that the concept is salvageable. What extra support could be provided in Scotland to ensure that projects have the opportunity to flourish?

Jamie Adam: As I mentioned, we have been giving some thought to the concept of returning to ROCs plus grant, which may well be the only route forward. The Scottish Parliament has an element of control over the ROC banding, so perhaps a specific banding could be introduced for community projects.

A community feed-in tariff has been discussed with the Department of Energy and Climate Change and a very limited version has been brought in. However, it does not give any additional support, and it does not really recognise the Scottish model of community renewables in that it does not support companies limited by guarantee. It really only gives support to co-operatives, community benefit societies—known as ben coms—and community interest companies, which have so far not been used to the same extent in Scotland. It would therefore be useful to look at whether grant funding could be brought in again.

Another issue concerns the timescales. The real challenge that the groups face is in getting the projects financed and connected to the grid in time. The grid is now another huge problem in Scotland because the capacity is so limited, and the district network operators have such a high workload in getting all those projects connected in time. If pressure can be brought to bear or additional support can be given, particularly where expensive upgrades are required, it would be very useful.

11:30

Mike MacKenzie: My ears pricked up when you mentioned the fees for due diligence. Are you seriously suggesting that for a small project—perhaps a feed-in project, where it is possible to predict with a high degree of certainty how much power a wind generator may generate over the course of a year—banks are charging figures such as £60,000 merely to perform due diligence, once a community has jumped through all the hoops and uncertainties about grid connections, planning applications, planning permission and so on?

Jamie Adam: That is correct. The fees are always going to be larger for project finance, because the bank is entirely reliant on the project performing. If a group has some form of collateral that could be used—be that land or another asset—the fees would come down, because if the project failed the bank could then take security over it instead.

Mike MacKenzie: Sure, but am I not right in saying that due diligence is done as part of the bank’s decision on whether to lend at all? Why are banks are asking small communities to come up with that sort of up-front fee merely to carry out due diligence? I come from a business background and I would expect that kind of calculation and assessment to take me no more than half an hour. I am sure that Chic Brodie would agree. Even Chic’s fee would not be £60,000 for that amount of work.

Chic Brodie: I have my Ferrari to run. [*Laughter*.]

Mike MacKenzie: It is an important point in the frame of reference of the inquiry, so would you be prepared to submit some further written evidence to the committee on the subject?

Jamie Adam: Absolutely. In defence of the banks, although communities have found the due diligence process enormously expensive, frustrating and prolonged, they have in some cases found it useful. It is a double check that all the ducks are in a row—and there is a lot that they need to go through in projects of that kind. However, it is frustrating because it costs a lot of money, and we must ask whether there are ways to avoid that, given what we now know about such projects.

Another interesting concept is that the Scottish Government could perhaps provide an element of backing for those projects, to reduce the due diligence fees and effectively provide the guarantee or collateral in the event of the project failing. I suppose that that is an open question.

Hanzala Malik: I get the feeling that there is a wind of blame blowing towards central Government, and I also get the feeling that you are suggesting that the Scottish Government is not doing enough to support what you are trying to achieve. What is the middle ground? How do you think that the Scottish Government could help you achieve the optimum result?

Jamie Adam: I would not entirely agree with that, and it is my own fault for not having given the full picture.

Hanzala Malik: That is not what I am getting from you. Either you are telling me something wrong or I am not picking you up right.

Jamie Adam: The Scottish Government has been generally supportive of community renewables. For instance, the community and renewable energy scheme—CARES—is vital to getting projects off the ground in the first place. In effect, it provides soft loans that are repayable in the event that the project goes ahead but which would be written off if the project failed for some reason—if, for example, it could not get planning consent or a grid connection. CARES is vital, and we are pleased that the Scottish Government has developed a ground-breaking scheme that could be replicated elsewhere.

Hanzala Malik: In terms of planning, you also suggested that there was a time lapse of nearly six months in some instances. If that is the case, surely it becomes ineffective, particularly if you run out of time.

Jamie Adam: I do not quite follow. Are you talking about planning consent?

Hanzala Malik: Yes.

Jamie Adam: The planning consent would usually be valid for a number of years.

Hanzala Malik: I am talking about the time it takes to get to that.

Jamie Adam: The time taken to get to planning consent can be several years, depending on the studies that need to be done. Again, the time taken after planning can also be several years, depending on whether we have to wait for a long grid connection or something like that.

Hanzala Malik: So, in principle, people could sit on something for up to three years or longer.

Jamie Adam: Generally they do not want to do that, but they can be put in that position if, for example, a transition upgrade is not due to happen until 2020. One of the projects that I am involved with is in exactly that boat at the moment, which is enormously frustrating because we have invested so much in it.

Hanzala Malik: Yes, but surely if people know that they can find themselves in the position of something taking three to six years, it might actually suit them to allow themselves to sit on it, without anyone saying that they are to blame. They can use the system to their advantage.

Jamie Adam: I do not see how that would be to their advantage. If someone has invested so much in a project, they will want to see a return on it and they will get that only when the project has been completed and is operating.

Hanzala Malik: Surely that will depend on the grants that are available at the time. If the level of grant shifts, people could bank land and sit on it until the grants become favourable again.

Jamie Adam: CARES, for instance, is a soft-loan scheme. A loan under it could be written off, which would mean that, in effect, it was a grant. However, if the project goes ahead, CARES is a loan scheme and interest will be accrued at the rate of 10 per cent. Again, it would be very much not in someone's interest to sit on a project and not develop it. The Government would expect to see such a project progressing. If it went ahead, the loan would have to be repaid with the annual 10 per cent interest applied.

Hanzala Malik: I have witnessed something similar in industry. If people are in a position to invest but the investment is not in their best interest at the time, they might choose to sit and wait until the soft grants come in rather than apply for loans. The danger is that the timetable will slip because of that. I think that we need to ensure that some sort of mechanism is in place that prevents people from doing that so that we do not fall behind in our timetable for renewable energy.

Jamie Adam: I see what you mean, although I would say that, given all that the trajectories for the support schemes are downwards, it is in people's interest to do things as soon as possible. The ROC scheme is going down, as are the feed-in tariffs, and we still do not know what the strike price is going to be for EMR.

Even if there was the prospect of grants at some point in the future, I do not think that that would prevent projects from going full steam ahead now, because people want to see the projects being built. In addition, when volunteers have been developing a project for eight years, they really want to get to the end of it and do not want to stretch it out any longer than they have to.

The Convener: You mentioned CARES a couple of times. I know that, as from August, Community Energy Scotland no longer administers that scheme, but it did so historically. A particular issue has come up in my parliamentary region. When somebody applies for a so-called community development, what steps do you take to ensure that it has genuine community support?

Jamie Adam: As you said, we are not involved in CARES any more; local energy Scotland now delivers the scheme, and it may have slightly different procedures in place. We always encouraged community consultation at a very early stage. It would be written into the conditions of the loan.

We wanted to keep things flexible because for some communities, particularly larger ones, conducting a full ballot could be very complex. That said, most communities have held a ballot to ensure that people want to go through the project.

We have seen some fairly remarkable results in the ballots. The ballot for one project in which I was involved had a 53 per cent turnout from the electoral roll, which is bigger than the turnout for general elections, and the project itself received 97 per cent support. I am sure that there will be some people in a community who do not want a project to go ahead, but that is fair enough. There are also a number of projects in which, following the consultation, it has been decided that it is not the right thing for the community, that they should move on to something different, that the location of the site needs to be changed and so on. I certainly agree that genuine community support is vital.

The Convener: I was thinking in particular of a case in which a community group made an application to which there was a lot of local opposition, and those who opposed the project were very resentful of the fact that the application was in effect being funded by public money. When the developers were rejected by the local authority, they launched an appeal, which again was funded with public money, while the objectors had no access to public funds to make the opposite case.

Jamie Adam: I would be very surprised if the appeal had been funded through CARES; in fact, I can say for certain that it was not funded through that scheme, because the Scottish Government has taken the view that it should not fund that sort of thing.

There will always be people who do not want these things to go ahead but they will not necessarily comprise the majority. As I have said, we always encourage as much consultation as possible and indeed ballots where they might be the right move, as much to protect the individuals involved as anything else. After all, they do not want to be put in the position that you have highlighted.

The Convener: As members have no more questions, I thank Mr Adam for his time and his very helpful evidence.

European Union (Priorities)

11:42

The Convener: We have one more item to deal with before we go into private session. Item 3 is consideration of European Union priorities, and I am very grateful to the clerks for preparing a paper on EU strategy and priorities for engagement in 2014. The convener of the European and External Relations Committee has written to me on this issue and members will see in their paperwork a draft response that sums up some of the key issues that we have considered over the past year or so in relation to European engagement.

I am happy to take members' comments on the terms of the draft.

Chic Brodie: The draft is generally fine, but I should say that the committee's European reporters met in Brussels to talk about the European Commission's procurement directives. I wonder whether the letter should contain some recognition of the possibility that we might have to consider that issue at some stage in 2014.

The Convener: The issue of the procurement directives?

Chic Brodie: Yes.

The Convener: Okay. Are people happy to add in a reference to that?

Chic Brodie: There could also be a reference to the Procurement Reform (Scotland) Bill.

Margaret McDougall: I see that we have not mentioned tourism. Perhaps we should.

The Convener: Is there a specific European angle on tourism that you want to refer to?

Margaret McDougall: No. It is just that tourism is part of the economy and one of the committee's responsibilities, so we should make some reference to it.

The Convener: We can suggest that we want to keep abreast of developments in tourism in the wider section on the economy and economic growth.

Hanzala Malik: Are we asking the European and External Relations Committee to keep us abreast of those matters? If not, who?

The Convener: No. It will happen through our own clerking team.

Hanzala Malik: But will you be liaising with the European and External Relations Committee or independently?

The Convener: I will let Stephen Imrie answer that question.

11:45

Stephen Imrie (Clerk): We have very close relations with our colleagues on the European and External Relations Committee and they and our Scottish Parliament information centre colleagues will ensure that we are kept abreast of any legislative, policy or financial changes at European level. This paper gives us a set of priorities that we can use to focus information, and a lot of the initial discussions about what issues to bring to the committee and their importance will happen with the committee's own European reporter, Mr Brodie. In other words, we will probably discuss with Chic first of all the information that is coming in and how it fits with the committee's priorities. Given the vast amount of information out there and the vast amount of developments that are taking place in Europe, the paper just provides members with a bit of a framework and gives us a steer on what to focus on and what to bring to members and when.

Hanzala Malik: I am interested in this issue because I simply do not think that we have maximised our opportunities to engage with Europe in developing our tourism industry. Time and again, I have felt that the industry is not resourced as well as it could be. The last time we spoke to witnesses from VisitScotland and the banks, I suggested that they get together to assist the industry up and down Scotland. They said that they would do so, but the committee had no benchmarking with regard to how they might progress that work and who would report back to us. That is why I am interested in seeing what results we can get out of this. Being in the loop is not enough—I want some tangible results.

The Convener: That is slightly different from the issue of EU strategy and engagement that we are discussing just now. On 15 January, VisitScotland will give us evidence on the events happening in 2014 and you will have an opportunity then to pursue some of those questions with the organisation. If thereafter we want to pursue the matter with Scottish Government officials, we can do so.

Hanzala Malik: It might be better to pursue the matter just with Scottish ministers. After all, it is more about maximising our engagement with Europe than about the Commonwealth games. Some European countries, particularly France, have a lot of experience in tourism and I would hope to learn some lessons from the French in order to support our own tourism industry.

The Convener: It would be very fair to ask VisitScotland about its engagement with other tourism agencies around Europe and the level of information and knowledge sharing. If any issues emerge from that, we can follow them up.

Hanzala Malik: Perhaps the clerks can write to VisitScotland and give its people notice that we will be asking for such information. It will give them an opportunity to get that stuff for us.

Stephen Imrie: It is now a matter of public record but I am happy to engage with VisitScotland staff before their appearance on 15 January to give them a heads-up about the questions that might be asked. We always do that anyway.

Chic Brodie: I am not sure whether my question is for this committee or the Infrastructure and Capital Investment Committee but it is very important. Two weeks ago, I chaired a meeting, involving people from Europe's financial ministry, about funding for TEN-T, the trans-European transport network. A decision is about to be made on the allocation of €26.2 billion, part of which will be dedicated to establishing ports, particularly on the east coast of Scotland and in the Northern Isles, that will provide ships with clean marine fuel such as ethanol and liquefied natural gas. Ships will not be allowed into ports that cannot provide those fuels.

It is another example of our not knowing what is going on in Europe. The decision will be made within the month and its longer-term implications are huge, as the €26 billion will leverage in another €500 billion over the next 10 years. Perhaps Stephen Imrie could liaise with the Infrastructure and Capital Investment Committee and get some commentary on the matter. I will ask the Minister for Transport and Veterans, Keith Brown, a question on the issue this afternoon. It is significant, particularly for the eastern seaboard ports and the Northern Isles.

The Convener: As you said, it is a matter for the Infrastructure and Capital Investment Committee. We will ask our clerks to liaise with its clerks.

Subject to the comments that members have made, is the committee content with the terms of the letter, for it to be redrafted and for me to sign it off?

Members *indicated agreement.*

The Convener: As this is the final meeting of the year, I will put on record our thanks to our wonderful support team: our clerks, SPICe and all those who assist. We could not do this without you. Please have a merry Christmas and a very happy new year.

11:50

Meeting continued in private until 12:04.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice to SPICe.

Available in e-format only. Printed Scottish Parliament documentation is published in Edinburgh by APS Group Scotland.

All documents are available on
the Scottish Parliament website at:

www.scottish.parliament.uk

For details of documents available to
order in hard copy format, please contact:
APS Scottish Parliament Publications on 0131 629 9941.

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@scottish.parliament.uk

e-format first available
ISBN 978-1-78392-405-9

Revised e-format available
ISBN 978-1-78392-418-9

Printed in Scotland by APS Group Scotland