



The Scottish Parliament
Pàrlamaid na h-Alba

ECONOMY, ENERGY AND TOURISM COMMITTEE

AGENDA

10th Meeting, 2014 (Session 4)

Wednesday 2 April 2014

The Committee will meet at 9.30 am in Committee Room 4.

1. **Scotland's Economic Future Post-2014:** The Committee will take evidence from—

Iain McMillan, CBE, Director, CBI Scotland;

Owen Kelly, OBE, Chief Executive, Scottish Financial Enterprise;

David Watt, Regional Director, Institute of Directors Scotland;

Colin Borland, Head of External Affairs, Scotland, Federation of Small Businesses;

Garry Clarke, Head of Policy and Public Affairs, Scottish Chambers of Commerce;

and then from—

Stephen Boyd, Assistant Secretary, Scottish Trades Union Congress;

Professor Mike Danson, Professor of Enterprise Policy, Heriot-Watt University;

Robin McAlpine, Director, Jimmy Reid Foundation.

2. **Scotland's Economic Future Post-2014- Review of evidence heard (in private):** The Committee will review the evidence heard at today's meeting.

EET/S4/14/10/A

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The papers for this meeting are as follows—

Agenda item 1

Note from the clerk

EET/S4/14/10/1

PRIVATE PAPER

EET/S4/14/10/2 (P)

Economy, Energy and Tourism Committee

10th Meeting, 2014 (Session 4), Wednesday, 2 April 2014

Scotland's Economic Future Post-2014

Introduction

1. This paper provides background information for the Committee's sixth evidence session of its [inquiry into Scotland's economic future post 2014](#). The theme for this session is 'economic sectors, regulation, trade, labour markets'.

2. The remit and call for evidence for this inquiry can be found online: [www.scottish.parliament.uk/S4_EconomyEnergyandTourismCommittee/Inquiries/Economic Future Inquiry - Remit and Call for Evidence.pdf](http://www.scottish.parliament.uk/S4_EconomyEnergyandTourismCommittee/Inquiries/Economic_Future_Inquiry_-_Remit_and_Call_for_Evidence.pdf)

3. The Committee will hear from witnesses as below:

Panel 1

- Iain McMillan CBE, CBI Scotland
- Owen Kelly OBE, Scottish Financial Enterprise
- David Watt, Institute of Directors
- Colin Borland, FSB Scotland
- Garry Clarke, Scottish Chambers of Commerce

Panel 2

- Stephen Boyd, STUC
- Robin McAlpine, Jimmy Reid Foundation
- Professor Mike Danson, Heriot Watt University

4. Written submissions from witnesses are attached (Annex A). Briefings by the Financial Scrutiny Unit (FSU) are also attached (Annex B). The FSU has published wider briefings of relevance to the inquiry. Links to these, for information, are below:

- Scotland's economy: recent developments
www.scottish.parliament.uk/parliamentarybusiness/72299.aspx
- Scotland's economy: future developments
www.scottish.parliament.uk/parliamentarybusiness/72297.aspx
- The currency of an independent Scotland
www.scottish.parliament.uk/parliamentarybusiness/74067.aspx

5. For information, a list of the agreed further sessions is attached (Annex C).

Fergus D. Cochrane
Senior Assistant Clerk to the Committee

Annex A

The following written submissions are available via the link below:

- CBI Scotland
- Scottish Financial Enterprise
- Scottish Chambers of Commerce

Panel 2

- STUC
- Jimmie Reid Foundation & Professor Mike Danson

www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/72692.aspx

Annex B

Briefings by the Financial Scrutiny Unit:

Agenda item 1		
28 March 2014		

Economy, Energy & Tourism Committee: Scotland's Economic Future Post-2014

Evidence Session on economic sectors, labour market, regulation, etc.

Background briefing for Panel 1

1. Regulation

Regulation as outlined in Scotland's Future

The 'Scotland's Future' white paper sets out proposed actions to streamline competition and regulation policy. The white paper states:

- "We will also develop and deliver a streamlined and efficient regulatory model with a combined regulatory body with a single, strong voice, both in Scotland and internationally, on competition and consumer issues."
- "Membership of the EU and the increasingly integrated single market for financial services will be central to Scotland's continuing success as a leading financial centre."
- "An independent Scotland will establish our own [financial] regulator, as is the case in all other EU countries."
- "... financial stability policy will be conducted on a consistent basis across the Sterling Area."

How regulation might work in practice

The 'Scotland's Future' white paper outlines the practical arrangements for regulation including the following key points:

- The Bank of England Financial Policy Committee will continue to set macroprudential policy¹ and identify systemic risks across the whole of the Sterling Area.
- There could be a shared Sterling Area prudential regulatory authority for deposit takers, insurance companies and investment firms. Alternatively this could be undertaken by the regulatory arm of a Scottish Monetary Institute working alongside the equivalent UK authority on a consistent and harmonised basis.
- The Bank of England, accountable to both countries, will continue to provide lender of last resort facilities and retain its role in dealing with financial institutions which posed a systemic risk.
- Where financial resource was required to secure financial stability, there will be shared contributions from both the Scottish and Westminster Governments based on the principle that financial stability is of mutual benefit to consumers in both countries.
- A Scottish regulator which will assume the key responsibilities of the UK Financial Conduct Authority in Scotland covering the monitoring of the conduct and behaviour of firms in local markets, to ensure that financial markets function well, with choice and competition, whilst protecting consumers.

2. Views on Regulation from Businesses

The recent CBI report 'The Scottish Government's Plans for Independence an Analysis from Business' cites the following key findings:

- Scotland's success is underpinned by being a vital part of a dynamic and outward-looking UK economy
- The white paper's vision for an independent Scotland lacks clarity and coherence on issues that are vital for future economic success
- Independence opens key sectors of the Scottish economy to increased risk.

The CBI cite a number of unanswered key questions related to financial regulation. The CBI suggest that by providing an isolated view of the sterling zone, the white paper did not address the broader policy and regulatory context for protecting the internal market.

"For example, while it is proposed that the Financial Policy Committee (FPC) will set macro prudential policy, there is no discussion of the interconnectedness of financial stability, prudential and conduct regulation."

¹ The Bank of England Quarterly Bulletin 2013 Q3 provides further details in the article [Macroprudential policy at the Bank of England](#)

The CBI also suggests there is a lack of clarity on the interdependence of key institutions within proposed the regulatory regime.

“ ... the white paper does not discuss the functions and future working relationship of the FPC and HM Treasury or the wider European system of financial supervision, including the role of the European Supervisory Authorities (ESAs).”

Scottish Financial Enterprise (SFE) recently produced a briefing paper on the implications of the independence referendum for the Scottish financial services industry.

SFE suggest that important questions about the consequences of a ‘yes’ vote cannot be answered before it occurs. Compared with the business environment as it stands, greater cost and complexity are certain after such a vote.

The key points raised by SFE include

- The Scottish Government and the UK Government are both *parti pris* and what they say should be treated with caution for business planning purposes.
- It would be prudent to consider the creation of a new and separate currency as a real possibility. This will be a major undertaking.
- Unilateral use of sterling (‘dollarization’) by an independent Scotland cannot be ruled out at this stage.
- After a ‘yes’ vote, the existing UK market for financial services is likely, over time, to become two separate markets for the purposes of tax and regulation and, therefore, demanding different products and associated business activities.
- International competitiveness will likely be affected by a ‘yes’ vote, as firms based in Scotland deal with increases in cost and complexity that won’t apply to their competitors, either in the rest of the UK or in other countries.
- A new financial regulator, or regulators, will be required for an independent Scotland. The precise nature and cost of these structures cannot be known at this stage.

The ESRC funded research programme into The Future of the UK and Scotland recently published the study ‘The Scottish Independence Debate: Evidence from Business’. The study involved over 60 interviews between November 2013 and February 2014 with senior business leaders in medium and large companies from across strategically important, and mobile, industries operating in Scotland.

The key findings were as follows:

- Business leaders are immensely proud of their Scottish links.
- For a majority of business leaders and the firms they represent, with some notable exceptions, they are resolutely politically neutral where their business interests are concerned.
- While it is uncertainty generally that poses the biggest challenge for business, specific uncertainties include the currency, followed by regulation, tax and the EU.

- The primary responsibility of business leaders is to look after their customers, employees and shareholders. It appears to be the ownership structure of firms and whether their primary jurisdiction for trade is in the rest of the UK (rUK) that is driving contingency planning, and may well drive business behaviour under different constitutional scenarios.

Business leaders were asked about risks posed by the independence referendum. Regulatory challenges were the most commonly cited challenges by business leaders in the financial services industry, ahead of a change in currency.

3. Regulation and Europe

Commentary on the regulation of financial services has included reference to European Union law and whether companies including Royal Bank of Scotland may be required to move their registered office or legal home to the rest of the UK ([BBC online](#): EU Law May Force RBS and Lloyds to Become English).

Robert Peston (BBC Economics Editor) referred to Council Directive 95/26/EC of 29 June 1995 and suggested it “ ... implies that those registered and head offices should be located where a group has the bulk of its activities - which, as you know, is England for Lloyds and RBS.”

There is limited evidence that this Directive has been tested.

The latest 2013 Annual Report from Santander shows 25.5 million group customers in the UK (24% of group customers) compared to 14.1 million customers in Spain (15%). The UK has the largest number of Santander customers in Europe.

The 2013 Annual Report also states loans and deposits for separate countries as follows:

- UK loans €231 billion, deposits €187 billion
- Spain loans €160 billion deposits €181 billion
-

As reported in 2012 during the financial crisis in Spain the Prime Minister was quoted in the Financial Times (21 May 2012) with regards to Santander as follows: “People should know that British banks are well regulated and well capitalised.” The article also suggested that “The Financial Services Authority said...that British bank customers would be protected because money could not be moved from Santander UK to the company’s Spanish arm”.

Richard Marsh, SPICe Research, 28 March 2014

Evidence Session on economic sectors, labour market, regulation, etc.

Background briefing for Panel 2

This briefing provides an overview of the key issues relating to the Scottish labour market and economic sectors post-2014. It draws on Scottish Government publications and written submissions from witnesses.

Note that the briefing provides an overview of some of the key issues debated, but does not try to offer comprehensive coverage.

1. Labour market reforms

Chapter 3 of *Scotland's Future* sets out the Scottish Government's objectives for the Scottish workforce following a 'yes' vote. It believes that *'well-rewarded and sustained employment is the best route out of poverty and the best way to tackle inequality'*. In addition, it states that its proposed actions are designed to support long-term economic resilience and success. The Scottish Government intends to:

- Build a partnership approach to address labour market challenges;
- Increase the minimum wage and commit to the living wage;
- Encourage more people into work with a focus on early intervention.

A partnership approach

Referencing OECD research linking trade union membership to lower levels of income inequality, the Scottish Government proposes to 'formalise the relationship between government, employer associations and employee associations'. Key to this will be the establishment of a National Convention on Employment and Labour Relations, 'a forum which encourages direct and constructive dialogue across all key stakeholders'.²

The Scottish Government is keen to see more employee representation on company boards (as is common in Germany and some Scandinavian countries) as well as greater gender balance on boards, concluding that 'an independent Scotland can examine innovative ways to support improvements in the productivity and well-being of the workforce'. The STUC 'generally supports' the White Paper's partnership approach, going on to argue that 'the current separation of powers between employment services and health and education as well as from wider powers on employment and trade union rights is a limiting factor in the promotion of effective labour market policy'.³

In his presentation to the Royal Society of Edinburgh in June last year, the STUC's Stephen Boyd suggested that an independent Scotland could adopt a more Nordic labour market model, including higher trade union membership, wider collective bargaining coverage, increased investment in active labour market programmes, as well as more generous unemployment benefits. Although these are desirable from a

² P 104 to 105 White Paper

³ <http://www.ajustscotland.org/>

STUC perspective, Mr Boyd accepts that ‘a set of societal factors exist in the Nordic nations which enable social partnership to flourish...these conditions do not currently apply in Scotland’.⁴

The living wage and the minimum wage

According to the Joseph Rowntree Foundation, of those living in [working poverty](#), 56 per cent live in households where at least one person in the household is paid less than £7.40 per hour’.⁵ The Scottish Government estimates that over 400,000 people in Scotland earn less than the living wage, with the majority of these being women. It goes on to commit to ‘support and promote the living wage in an independent Scotland’. The White Paper also gives a ‘firm commitment’ to increasing the minimum wage each year in line with inflation. These measures will be delivered by a ‘Fair Work Commission’, comprising business representatives, trade unions and members from ‘wider society’.

2. Industrial strategy and manufacturing

The STUC and Scottish Government agree on the need for a Scottish industrial strategy. This, according to the former, should help ‘create sufficient jobs, with an emphasis on middle income jobs’.⁶ The Scottish Government’s future industrial strategy, as set out in *Scotland’s Future*, would include:

- Support for investment, including research and development
- Support for indigenous companies and ownership
- Bringing together employment and skills policies
- Targeted use of loan guarantees
- Expanding our manufacturing base.

The importance of manufacturing to Scotland’s economic future is highlighted in the STUC’s submission, *A Just Scotland*. It argues that manufacturing distributes economic benefits more effectively than the services sectors, with higher wages and jobs more evenly spread around the country. In their joint written submission, the Jimmy Reid Foundation and Professor Mike Danson agree that ‘We should promote a high-investment economy and significantly rebalance the economy in favour of manufacturing’.

The STUC believes that the lack of political and economic support for manufacturing in recent years, coupled with the short-termism of the UK financial system, have been central factors in the demise of manufacturing. According to the STUC, ‘what is required is an acknowledgement of the deep structural problems that adversely affect manufacturing within the UK economy and how these can be effectively addressed’.

⁴ http://www.royalsoced.org.uk/1064_TheRealEconomy.html

⁵ <http://www.jrf.org.uk/blog/2014/01/increasing-minimum-wage-only-half-answer-poverty>

⁶ <http://www.ajustscotland.org/> p. 30

3. Foreign ownership and alternative ownership models

Enterprises with ultimate ownership outside Scotland (either in the rest of the UK or overseas) accounted for 3.1% of all enterprises, 35.2% of all employment and 58.1% of turnover.⁷ The STUC believe there is a trend in the Scottish economy ‘towards increased non-indigenous ownership’ and that ‘it isn’t serious (for governments) to pledge support for manufacturing while in practice demonstrating abject complacency over high levels of foreign ownership’.

Jim and Margaret Cuthbert, writing in their ‘*Economic policy options for an independent Scotland*’ paper for the Jimmy Reid Foundation, believe that Scotland has suffered badly from foreign takeovers of Scottish companies, resulting ‘in loss of control, of high quality functions, and of profits, from Scotland’. They insist that some countries prevent companies in ‘vital sectors’ from being acquired by foreign owners. According to the authors, ‘this is true even for members of the EU, and also for the US’. Nevertheless, they do accept that protective actions are difficult in light of EU state aid laws, and besides, may act to ‘featherbed’ Scottish companies to the detriment of longer-term productivity.⁸

Alternative ownership models

Scotland’s Future includes a commitment to renationalise the Royal Mail, as well as explore ‘public-supported and not-for-profit’ models of ownership for Scotland’s rail services. These measures fall short of the STUC’s call for ‘the democratic control of the economy through a combination of public ownership, effective regulation, community ownership and industrial democracy’. The STUC finds it ‘very disappointing and somewhat perplexing’ that the White Paper contains not a single reference to cooperative or employee ownership’.

Cooperative Development Scotland estimates that there are currently 45 employee-owned companies and cooperatives headquartered in Scotland. Recent joint research by the universities of St. Andrews, Stirling and Napier concluded that these businesses often outperform ‘conventionally based firms’, specifically in terms of higher financial returns, greater productivity and in their levels of employment stability.⁹ Furthermore, there are clear *social* benefits, as set out by Stephen Boyd (STUC) and Katherine Trebeck (Oxfam):

‘Crucially, the community (or employees) decides where surpluses are spent, so money is retained locally (leading to further investment and multiplying effects), distributing resources more fairly than other business models... The presence of cooperatives in local economies is associated with lower levels of inequality.’

⁷ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Business/Corporate>

⁸ <http://www.optionsforscotland.com/wp-content/uploads/sites/4/2013/09/independent-scotland-policy-options.pdf>

⁹ http://www.strath.ac.uk/media/departments/economics/fairse/2014-03/The_Performance_of_Employee-owned_Businesses_in_ScotlandI_-_Ross_Brown_et_al_-_March_2014.pdf

To encourage more employee or community-owned enterprises, the authors call for reforms to the taxation system as well as increased levels of support from state agencies.¹⁰

Greig Liddell, SPICe Research, 28 March 2014

Note: Committee briefing papers are provided by SPICe for the use of Scottish Parliament committees and clerking staff. They provide focused information or respond to specific questions or areas of interest to committees and are not intended to offer comprehensive coverage of a subject area.

Annex C

Future Committee evidence sessions:

Date/theme	Witnesses
23 April 2014 Welfare/equality	<u>Panel 1</u> <ul style="list-style-type: none"> • Peter Kelly, Poverty Alliance • Katherine Trebeck, Oxfam • Dr Sally Witcher, Inclusion Scotland <u>Panel 2</u> <ul style="list-style-type: none"> • Dr Jim McCormick, Joseph Rowntree Foundation • David Eiser, University of Stirling • Morag Gillespie, Glasgow Caledonian University
28 April 2014 (Sir Duncan Rice Library, University of Aberdeen) Energy: oil and gas	
30 April 2014 Energy: Renewables	
7 May 2014 International/lessons from abroad & Civic Scotland	
21 May 2014 Campaign groups	<u>Panel 1</u> Better Together <u>Panel 2</u> Yes Scotland
11 June 2014 Closing session UK and Scottish governments	<u>Panel 1</u> UK Government <u>Panel 2</u> Scottish Government

¹⁰ Stephen Boyd and Katherine Trebeck 'Concepts and challenges relating to the economics of self-government' in Hassan and Mitchell's *After Independence* (Glasgow, 2013)