Your ref: Future Relationship Negotiations: Checks on Goods Imported into the European Union

Dear Joan,

Thank you for your letter of 24 September. I apologise for the delay in responding. I share the concerns expressed in that letter and discussed by the Committee on 17 September with Dr Anna Jerzewska regarding border bureaucracy and customs compliance burdens on businesses trading with the European Union after the end of this year, and further detailed in her report to the Committee.

It is an act of extraordinary recklessness to end the Brexit transition period at the end of December 2020 – at a time when the economy is already being hit hard by COVID-19. The UK Government wants either a “low deal” or no deal. Both will take Scotland out of the Single Market, out of the Customs Union and end freedom of movement – hitting jobs and living standards hard. That is utterly reckless and avoidable.

A recent independent study (July 2020) by the University of Warwick Economic Research Centre shows the Scottish economy in 2019 was nearly £4 billion, or £736 per person, lower because of the Brexit vote – and that’s before the no deal or low deal disaster hits. Scottish Government modelling of a basic trade agreement of the type that the UK Government wants to negotiate finds that Scottish GDP is estimated to be 6.1% lower by 2030 compared to continued EU membership. This equates to a cost to each person in Scotland of an equivalent to £1,600.

This will clearly hamper recovery from the impact of the pandemic. At a time when we are working tirelessly with people and businesses across Scotland to avoid a second Covid peak and the further damage that would cause, this entirely unnecessary hard Brexit is a bitter pill to swallow.
Despite the unprecedented challenges we face with the COVID crisis, the UK Government ruled out any extension to the transition period, which would have allowed governments and businesses further much-needed time to prepare and deal with the hugely negative double impacts of COVID-19 and EU Exit. For many businesses which manage to survive the coronavirus crisis, the second shock of Brexit would hit them at their weakest.

The end of the EU Exit implementation period will bring major challenges for Scottish businesses. It is not just an extra headwind to the economic recovery from COVID, but will drive up the costs of doing business and create barriers to trade that do not currently exist.

As Dr Jerzewska rightly observed, not only do we not yet know whether tariffs will be applied to imports into the EU, but the practical consequences of the lack of basic information are ham-stringing business and government attempts to prepare for these otherwise unnecessary changes. As she emphasised, even a no-tariff, no-quota deal brings with it substantial compliance burdens on Scottish business finances, staff, and other resources, ultimately threatening their cash flow and profits.

You requested an update on engagement between the Scottish Government and the UK Government on these issues. The Scottish Government and Scottish Ministers have continually sought more forward planning, detailed information, and meaningful engagement with the UK Government on these issues. I have personally made this point with the Chancellor of the Duchy of Lancaster.

Whilst there are some venues where there is discussion of related issues, such as the Defra-DA Inter-Ministerial Group meeting on Environment, Food and Rural Affairs, overall engagement is minimal and often involves 24-hour ‘notice’ rather than meaningful opportunities to assess the issues and develop useful policies and practices. It is only in the last month that Devolved Administration Ministers are now invited to attend the XO meetings at which these issues are discussed.

In January, the Joint Ministerial Committee for EU Negotiations agreed to initiate a joint workstream of the UK Government and the Devolved Administrations to consider implementation of the Northern Ireland Protocol. Eventually, nearly six months later on 10 July, the UK Government participated in an official-level meeting on the subject; one other official-level meeting of this group has taken place since then. The meetings were used to present the Devolved Administrations with information that had already been published by the UK Government.

There have been increasing contacts between DEFRA and Scottish officials on implementation of Sanitary and Phyto-sanitary (SPS) border checks, which address devolved policy areas. Those contacts still occurred relatively late in the UK Government’s own planning and have had to be handled on a very constricted time schedule, which is a sub-optimal way of working in this complex field, affecting not only the economy, but the environment, food, animal and plant life.

As another example, the UK Government has only this month released its latest version of the UK Border Operating Model, detailing how the UK will apply its own
customs and border checks to goods coming into the UK from the EU. This Operating Model does not address matters related to the Northern Ireland Protocol, making it impossible to practically prepare for trade across the Irish Sea. Crucial issues such as how to check which goods are ‘Northern Ireland Qualifying Goods’ under the terms of the Prime Minister’s commitment on ‘unfettered market access’ remain undefined. Despite this, businesses including the agrifood sector and haulage and logistics firms are expected to prepare for the unknown. There are staffing, pricing, supply chain, IT and training decisions which depend on having sufficient clear indication of which systems will be in use and assurances that UK systems and EU systems will work in concert. None of this information has been adequate.

As well as engaging with the UK Government when and as possible, the Scottish Government engages with our own businesses directly to assist them in finding needed information, where that does exist. The Scottish Government regularly convenes a Food Sector Resilience Group and a Ports Engagement Group, and also participates in meetings of the UK Border and Protocol Delivery Group with the Scottish Ports and Airports Group.

You have also requested information on support to help Scottish businesses cope with the new customs and borders compliance arrangements and with the costs of compliance. To support businesses through the dual challenges of EU exit and Covid-19, the Scottish Government and its enterprise agencies have formed the Building Resilience Steering Group (BRSG). The BRSG, led by Scottish Enterprise, provides strategic leadership and coordination to ensure effective delivery of the joint Brexit and Covid-19 response by the Enterprise and Skills Agencies, Business Gateway, SLAED, VisitScotland, the Scottish Cities Alliance and The Scottish Government.

The BRSG is coordinating and delivering a single response to both Brexit and Covid-19 across Scotland’s enterprise and skills system, through a joint action plan aligned with the Programme for Government. It promotes the PrepareforBrexit.scot website as the main communications channel for businesses in Scotland, with signposting from FindBusinessSupport.gov.scot.

Specific elements of this work include working with companies on access to finance (COVID-19 support, financial advice, and signposting UK Government EU Exit readiness support), advice on trading with the EU from January 2021, skills and knowledge development, immigration advice and support for employer sponsorship, gathering intelligence on trader readiness and challenges, and coordinating engagement and communications across all partner touchpoints with business.

The group’s membership has an obvious role in supporting businesses through the end of the implementation period given their many touch points with the business community, and the expertise and insight accumulated during their involvement in the No Deal exit preparations during 2019. In addition, Scottish Enterprise has provided over £725,000 in funding for Chambers of Commerce to train in customs compliance and support capacity building for businesses facing this compliance burden.
Nevertheless there are significant challenges to reaching companies that are still struggling with impact of COVID-19 and helping them make difficult business decisions in a short period of time.

The Scottish Government and its partners are also signposting to available UK Government support such as funding for additional customs training and IT provision, the newly established Port Infrastructure Fund, and Field Force, a Cabinet Office project with support from DIT. Whilst we welcome these provisions, they are stopgap measures and ultimately inadequate to meet the greatest challenge, which is that it is nigh impossible for businesses to prepare with only fragmentary information. This is a failing of UK Government planning and preparation which support measures cannot remedy.

In conclusion, however, it is regrettably very clear that the long-term costs of Brexit are huge and will not be met by some extra business support. We have continually pressed the UK Government to meet all costs of planning and preparing for Brexit and that is not being provided, whether for government, the wider public sector and key agencies, or indeed businesses.

The Scottish Government is committed to continue all efforts to obtain greater clarity from the UK Government on these vital matters and to supporting Scottish businesses to cope with the severe challenges they pose.

MICHAEL RUSSELL