Dear Lord Frost,

EU-UK TRADE AND CO-OPERATION AGREEMENT

Congratulations on your recent appointment to Minister of State within the Cabinet Office representing the UK Government on the EU-UK ‘Partnership Council’. The Culture, Tourism, Europe and External Affairs Committee has taken a wide range of evidence on the initial impacts of the Trade and Co-operation Agreement (TCA) on key sectors of the Scottish economy which we have written previously to the Chancellor of the Duchy of Lancaster regarding key issues raised in evidence with us.

Most recently, the Committee took evidence from the British Retail Consortium and a legal expert who advises financial services firms on the implications for the sector on leaving the EU. Specifically, three critical issues were raised in evidence. These are—

- Equivalence with the EU for financial services;
- Rules of Origin; and
- Export Health Certificates.

As you will be aware, the process of leaving the European Union has already resulted in a transfer of financial services assets and jobs being from the UK to the EU. The Committee understands that the UK Government is in the process of negotiating with the European Commission a memorandum of understanding on regulatory cooperation by 31 March 2021. In evidence the Committee has taken, the importance of obtaining equivalence for financial services has been emphasised as the key means of stemming the loss of further financial services assets and jobs. The Committee would appreciate an update regarding the MOU and progress towards securing equivalence determinations for the financial services sector.
With regard to rules of origin, the impact on businesses of complying with rules of origin regulations, in particular the impact on SMEs, since 1 January was emphasised to the Committee by the British Retail Consortium (BRC). The BRC noted that there are 200,000 SMEs in the UK that trade solely with the EU and have not previously had to deal with rules of origin regulations. In evidence to the Committee, the BRC stated—

“As we know, with a trade agreement rather than a customs union, only qualifying goods get the zero-tariff treatment. That means that there are product-specific rules of origin for every commodity, from trousers to aubergines, which have to be complied with to get that zero-tariff treatment. That has been quite onerous, given some of the supply chains in operation”1.

The Committee requests an update on what support the UK Government is providing businesses, in particular SMEs, that export to the EU to absorb the additional costs associated with rules of origin regulations that have applied since 1 January. In addition, the BRC also highlighted the impact of the TCA on e-commerce with VAT being levied at the point of delivery when a UK company is supplying an EU customer. The BRC has called for a summit on e-commerce, bringing together the logistics industry, retail sector, VAT and customs experts as well as governments to address the problem in e-commerce arising from the implementation of the TCA. The Committee supports this call for an e-commerce summit and seeks a response from the UK Government regarding this proposal.

The Committee has heard a wide range of evidence regarding the cost and bureaucracy associated with the export health certification regime required under the TCA and for trade between Great Britain and Northern Ireland. For example, the Committee is aware that the Scottish Association of Meat Wholesalers has estimated that the annual cost for their sector of EHC’s to be £1m per annum. The Committee recognises that additional customs checks will be required on products of animal origin from 1 April and then all goods from 1 July. These additional customs checks will disrupt supply-chains and present a real challenge to exporters and importers in addition to those already being experienced. The BRC suggested, in evidence to the Committee, that this could result in “some shortages of certain foodstuffs”2. The Committee requests information on what support, financial and non-financial, the UK Government is putting in place to assist exporters and importers with the additional customs checks coming into force on 1 April and 1 July.

Lastly, the Committee has extended an invitation, for several months, for a UK Government Minister with responsibility for the TCA to give evidence to the Committee before the end of the current session of the Scottish Parliament. It is my understanding that you do not consider that you will be available to give evidence to the Committee in that timescale. This is a matter of considerable regret particularly given that there was no scope to take evidence from a UK Government Minister on the TCA prior to the agreement being published on Christmas Eve and coming into force on 1 January 2021. As you will be aware, the Committee’s last meeting is on the morning of Thursday 18 March and we remain available to take evidence from you on that date. I therefore invite you to give evidence on 18 March and urge you to

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1 CTEEAA Committee, 4 March 2021, Col. 19.
2 Ibid, Col. 4.
re-consider your position. However, the Committee wishes to be as flexible as possible in order to accommodate you and the Committee would also be willing to meet and take evidence from you, prior to the end of the current session of the Scottish Parliament, on either Friday 19 or Monday 22 March 2021. This would provide an opportunity for you to address the issues raised in this letter and in our previous correspondence with the Cabinet Office this year.

I look forward to hearing from you as a matter of urgency.

Yours sincerely,

Joan McAlpine MSP
Convener, Culture, Tourism, Europe and External Affairs Committee