The Committee will meet at 9.00 am in a virtual meeting and will be broadcast on www.scottishparliament.tv.

1. **Negotiation of the future relationship between the European Union and the UK Government**: The Committee will take evidence from—

   Charlie Adam, Vice President, NFU Scotland;

   John Davidson, Strategy and External Relations Director, Scotland Food and Drink;

   Elspeth Macdonald, Chief Executive Officer, Scottish Fishermen's Federation;

   Jimmy Buchan, Chief Executive, Scottish Seafood Association;

   and then from—

   Stephen Phillips, Partner, CMS;

   Allie Renison, Head of EU and Trade Policy, Institute of Directors;

   Wendy Alexander, Vice Principal (International), University of Dundee, Universities Scotland.

2. **Consideration of evidence (in private)**: The Committee will consider the evidence heard earlier in the meeting.

3. **Work programme (in private)**: The Committee will consider its work programme.
Stephen Herbert
Clerk to the Culture, Tourism, Europe and External Affairs Committee
Room T3.40
The Scottish Parliament
Edinburgh
Tel: 0131 348 5234
Email: stephen.herbert@parliament.scot
The papers for this meeting are as follows—

**Agenda item 1**

Note by the Clerk

PRIVATE PAPER

**Agenda item 3**

PRIVATE PAPER
1. The Committee has an ongoing inquiry into the future relationship negotiations between the European Union and the UK Government with the end of the transition period due on 31 December 2020. The Committee took evidence last week from the chemicals, engineering, pharmaceuticals and road haulage sectors. This week the Committee will further evidence from a range of sectors of the Scottish economy likely to be significantly impacted by the outcome of the future relationship negotiations.

2. The Committee will take evidence, via video conference, from two panels of witnesses as follows—

   **Panel One**
   - Charlie Adam, Vice President, NFU Scotland;
   - Jimmy Buchan, Chief Executive, Scottish Seafood Association;
   - John Davidson, Strategic and External Relations Director, Scotland Food and Drink; and
   - Elspeth MacDonald, Chief Executive Officer, Scottish Fishermen’s Federation.

   **Panel Two**
   - Wendy Alexander, Vice-Principal (International), University of Dundee (representing Universities Scotland);
   - Stephen Phillips, Partner, CMS; and
   - Allie Renison, Head of EU and Trade Policy, Institute of Directors.

3. Written submissions have been received from NFU Scotland, Scottish Fishermen’s Federation, Scotland Food and Drink, and Universities Scotland. These written submissions are at Annexe A to this paper.
Supporting Information

4. SPICe have produced a series of briefing notes on the potential impact of the negotiations on the following sectors of the Scottish economy—

- Agriculture;
- Fisheries;
- Food and drink;
- Business;
- Financial services; and
- Universities.

These sectoral briefing notes are provided in Annexe B to this paper.

Stephen Herbert
Clerk
Culture, Tourism, Europe and External Affairs Committee
9 November 2020
Written Submission from NFU Scotland

FUTURE RELATIONSHIP NEGOTIATIONS – NFU SCOTLAND POSITION

• Since the outcome of the EU referendum in 2016, NFU Scotland (NFUS) has consistently argued that agriculture can flourish outside the EU, but only if enabled to operate under favourable trade, immigration and support policies.

• NFUS and the UK Farming Unions have agreed a six-point policy with regard to Brexit, which has been reiterated consistently to the UK Government and key negotiators during the withdrawal and future relationship negotiations. This is as follows:
  o Avoiding a ‘no deal’ outcome and any short-term political and economic turmoil
  o Ensuring as free trade in agri-food goods as possible with our principal EU market
  o Gaining greater regulatory control and discretion over UK farm practice
  o Maintaining access to the seasonal and permanent workforce required by the UK food chain
  o Ensuring international trade fully aligns with domestic production standards
  o Implementing a new agricultural policy framework that supports farmers as food producers, improves productivity and resilience and properly rewards the delivery of public goods.

• NFUS represents 8,500 farmers, crofters and growers across Scotland. NFUS represents a range of members who are involved in direct exports and imports, for whom the risks of a ‘no deal’ outcome would be immediate. The majority of NFUS’s members do not directly export, but would be very susceptible to the secondary market impacts of a ‘no deal’. As such, NFUS has consolidated all available government guidance\(^1\) and is encouraging all businesses within its membership to put the necessary preparations in place.

• NFUS therefore strongly believes that finding a deal with the EU on the future relationship is paramount to secure the future stability and prosperity of the agriculture sector.

Brexit readiness

1. NFUS undertook an extensive survey of its membership in summer 2019, the results of which revealed the following:

\(^{1}\) NFU Scotland online: https://www.nfus.org.uk/policy/brexit.aspx
1.1. 11% of members felt a ‘no deal’ Brexit would have a ‘positive’ or ‘very positive’ impact on their business and 64% viewed it as ‘negative’ or ‘very negative’.

1.2. At that time, 45% had already experienced Brexit-related impacts (direct and indirect) since the referendum – of that, the main issues were increased costs of inputs (54%); putting off new investments (51%); putting off expansion in the business (35%) and difficulty in recruiting and/or retaining staff (12%).

1.3. More positively, 65% had some degree of confidence about their business longevity after Brexit, while 35% had low or no confidence.

2. The survey also found that, at that time, the majority of businesses (74%) had not undertaken any business planning for Brexit.

3. The results of this survey work have vindicated the lobbying priorities of NFUS and the UK farming unions towards Brexit in the last 18 months, and have also justified the regular engagement NFUS has undertaken amongst its membership to put plans in place for their businesses. NFUS continues to highlight the best available guidance to members to ensure that they are putting the right preparatory measures in place for their businesses.

Trade

4. The internal UK market is by far Scotland’s largest market, with nearly 60% of Scottish produce destined for the UK market. Indeed, the UK is a net importer of food and agri-food products. In 2018, the UK was 61 per cent self-sufficient in all food and 75 per cent for the foods that can be (viably) produced in the UK. The EU is the key source of imported food to the UK, with 28 per cent of food consumed in the UK in 2018 coming from the EU.

5. The EU, as a single trading bloc, is the most important international trading partner for UK farming and given its size and proximity will continue to be so in the future. In 2018, 62 per cent of UK food, feed and drink exports were to the EU (rising to 74 per cent when alcoholic beverages are excluded) and 70 per cent UK food, feed and drink imports (71 per cent excluding alcoholic beverages) were from the EU.

6. These facts underline NFUS’s unequivocal view that a future trading relationship between the UK and the EU must be free of tariffs and quotas and which is as frictionless as possible. NFUS supports the UK Government’s and the EU’s common objective of securing a free trade agreement that involves no tariffs, fees, charges and quantitative restrictions on each other’s goods.

7. Without an FTA in place between the EU and the GB at the end of 2020, trade between the EU and GB will revert to a very unsatisfactory WTO-default,

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including application of the EU’s full Common External Tariff on GB agri-food products destined for the EU market.

8. Based on value of trade in 2017, this would be a new tax equivalent to some £1.36 billion on exports of GB food products (including beef, lamb, pork, dairy products, poultry meat, arable crops, flour, malt, etc.) and place considerable strain on the viability of certain sectors heavily geared towards the EU market or reliant on that market for carcase balance.

9. If EU consumers are not to pay more for GB products, this additional cost would ultimately come off GB farmers’ bottom lines in order to maintain sales. In the extreme, tariffs could mean GB products simply no longer being sold to EU customers as it is priced out of the market.

10. NFUS believes that if a negotiated agreement between the UK and the EU is not agreed by 31 December 2020, there must be no delay in implementing the UK Most Favoured Nation Tariff Schedule as announced in May 2020 from 1 January 2021 and apply it to imports from the EU. There do, however, remain some anomalies in that schedule which require change before then.

11. NFU Scotland disagreed profoundly with the approach of the Temporary Tariff Regime (TTR), proposed in 2019 in face of a ‘No Deal’ departure, that would have created an uneven playing field with regard to the tariffs to be applied on trade between the UK and the EU. Government policy in the absence of a negotiated agreement must ensure such an imbalance does not still arise.

12. If tariff free, quota free trade is realised, this would achieve one part of NFUS’s ambition for free and as frictionless trade as possible with the EU. However, even with ‘free’ trade there is still scope for ‘friction’. Despite the UK position that will maintain the sovereign right to set production standards at the end of the transition period, issues around the ‘level playing field’ must be addressed by negotiators if there is to be agreement.

13. NFUS believes that there is a balance to be struck between maintaining the high levels of environmental, climate change, social and employment protection under current EU auspices and sovereignty alongside appropriate levels of regulatory equivalence with trading partners in the EU to maintain the smooth flow of trade in agri-food products. Equally vital is ensuring a degree of regulatory autonomy so that regulations are designed to take into account the specific conditions and challenges of the UK’s and Scotland’s unique circumstances, which may in some instances mean that priorities differ to those which are applied at EU level.

14. The UK Government has underlined that it has no intention of entering a ‘race to the bottom’ on UK domestic standards for its farmers. However, NFUS considers it absolutely vital that the UK Government does not simply reserve the right to diverge on regulations with the EU in order to make space for greater imports of food from elsewhere in the world produced to lower standards than those
required of our own farmers. Such an outcome would seriously impinge the productive capacity of domestic producers by providing unfair competition and would ultimately lead to domestic producers being priced out of the market by inequivalently produced products. For these reasons, NFUS has consistently advocated for legislative protections to be put into the UK Agriculture Bill and the UK Trade Bill which assert the predominance of domestic production standards and which ensure there is greater industry, expert and parliamentary oversight of new trade agreements before they are signed.

Labour supply issues following the end of freedom of movement

15. For many years, valued and manually skilled workers from outside the UK have been employed on farms and throughout the agri-food supply chain in both seasonal and permanent roles, which are difficult for agricultural businesses to fill with domestic workers.

16. NFUS has ensured that the EU Settled Status (EUSS) scheme has been promoted to as many members as possible, as a vital tool in ensuring that EEA workers who have undertaken work on Scottish farms either in a permanent or in a temporary capacity have registered, in order to secure their status to continue working or to return from 2021 onwards.

17. From 1 January 2021, the UK Home Office will implement a new Points Based System which will require all migrants, both EU and non-EU citizens, to meet skill, salary and English-language thresholds in order to be eligible to make an application.

18. NFUS has consistently argued that the use of skill and salary thresholds are arbitrary measures which do not accurately reflect the challenges facing the agricultural labour market in Scotland. Having fed extensive, member-led evidence to the Home Office and the UK Government’s Migration Advisory Committee about shortages in the agriculture and wider food, drink and haulage sector, NFUS is very disappointed that genuine concerns about the restrictiveness of the new Points Based System haven’t been adequately reflected in the UK Government’s policy.

19. NFUS believes the application of arbitrary skills and salary thresholds, paired with the UK Government’s decision not to include agricultural roles to the Shortage Occupation List, creates a very difficult employment challenge for agricultural businesses in the future. Many valued non-UK staff may have salaries that start at the lower end of the pay scale, but are trained up and make a valued contribution to vital farm tasks. With the stringent applicant criteria in place, it remains the case that NFUS does not believe that the new Points Based System will provide adequate access for the wide range of non-UK workers who are employed in roles across agriculture and the wider food, drink and haulage sector from 2021 onwards. This remains a key lobbying priority for NFUS with the Home Office.
20. Seasonal agricultural workers are considered separately from the Points Based System due to the seasonal nature of the work. The Home Office’s Seasonal Agricultural Workers Pilot has been in operation through 2019 and 2020, allowing 10,000 visas for non-EU nationals to ‘top up’ workers who have travelled from the EU or domestic workers.

21. Despite a significant industry effort throughout 2020 to recruit domestic workers – underpinned by the UK Government’s own Pick for Britain campaign – NFUS understands that the take-up rate of these schemes was limited. Statistics gathered from Scotland’s largest soft fruit producer organisation suggest that its domestic recruitment scheme had only a 15% success rate when measuring up the number of initial applicants with the number of staff who stayed in post after one week in the job. Indeed, survey work carried out by NFUS amongst its growers members indicated that the 2020 season only completed successfully because travel restrictions in the EU were lifted in just enough time for a large number of EU workers to arrive in the country to assist with picking. Some 60% of the seasonal agricultural workforce in Scotland was from the EU in 2020.

22. Growers therefore are facing an immediate challenge of the end of free movement from 1 January, paired with the end of the Seasonal Worker Pilot Scheme. NFUS understands that the Pilot scheme will be reviewed shortly, and a decision taken on future arrangements for seasonal workers.

23. NFUS is lobbying for the number of visas to be dramatically increased within a fully-fledged scheme in 2021 to properly reflect shortages within the sector and is continually submitting feedback on the operation of the Pilot and worker shortages to both UK and Scottish governments. The ultimate aim of NFUS and the other UK farming unions is to get a Seasonal Agricultural Workers Scheme permanently instated that provides upwards of 70,000 visas to non-UK workers (with no differentiation between EU and non-EU workers), that is affordable for both employers and applicants and can be utilised by a range of labour providers.

Key opportunities

Future support

24. NFUS has consistently maintained that leaving the EU’s Common Agricultural Policy is a key opportunity of Brexit as it will allow the Scottish Government the opportunity to develop and deliver a new agricultural policy that is better fitted to Scottish agricultural systems. This is vital if Scottish agriculture is to play a meaningful role in assisting Scotland’s net-zero emissions target by 2045, and indeed the ambitious interim target of a 75% reduction by 2030.

25. The UK Government confirmed on 30 December 2019[^3] that it will deliver its manifesto commitment to deliver the same cash total in farm support until the end

of this Parliament, which is in 2024. This short-term certainty is welcome, but NFUS continues to make the case to the UK Government for a sustained, ringfenced budget for an agricultural policy into the longer term that will support the agriculture sector to deliver outcomes anticipated from the so-called ‘Green Recovery’.

26. NFUS supports the approach of the Scottish Government in using the powers granted by the Agriculture (Retained EU Law and Data) Act 2020 to ensure stability in the immediate period following the end of transition, whilst running Pilots of new schemes through to 2024. NFUS is clear that change to the current system of agricultural support is a necessity for the industry to adapt to new challenges, including adaption of measures to assist the climate.

27. However, change must be managed to provide stability and certainty through what is likely to be a turbulent period for the whole economy. NFUS’ policy proposals for the 2021-24 transition period, are in its policy document ‘Stability – The Platform for Change’[^4], which was launched in March 2020.

28. Moving beyond 2024, NFUS is equally clear that a bold and ambitious agricultural policy must be rolled out in Scotland that ensures a much greater focus on driving productivity and environmental benefits for all agricultural units in Scotland. NFUS proposals for a new agricultural policy for Scotland are in its 2018 document, ‘Steps to Change’[^5].

Growing new overseas markets

29. Scottish farmers and crofters are proud to have a reputation based on provenance and extremely high production standards. It is on this reputation that NFUS sees opportunities in new export markets elsewhere in the world. NFUS believes that the UK Government is right to pursue an ambitious independent trade policy in new and emerging overseas markets in order to create new opportunities for Scotland’s high-value, high-provenance agri-food offering. Such efforts must not, however, be done at the expense of allowing undue market share to third country trading partners if that imported produce does not meet domestic producers high standards of production. To do so would undercut the value and the environmental and welfare credentials of UK producers – an outcome which would be unacceptable to NFUS and the UK farming unions.

30. NFU Scotland works with Scotland Food and Drink within the Scotland Food and Drink Partnership to deliver initiatives that will benefit the wider food and drink industry. Scotland Food and Drink have effectively mapped markets and targets for Scottish produce, and since its establishment has installed in-market

specialists who promote and develop relationships which work to the advantage of commercial Scottish food and drink companies.

31. In 2017, the Partnership launched ‘Ambition 2030’ which set a new industry target for Scottish food and drink to turn over £30 billion by 2030 – an ambition that has been supported by the Scottish Government.

32. Whilst ambitious in scope, it is the view of NFUS that the target is firmly within the reach of industry based upon the growth of the sector within the last decade:

32.1. The Scottish food and drink industry turns over £14.4 billion a year.
32.2. Food and drink exports are worth £6 billion to the Scottish economy per year. This figure has increased by 70 per cent since 2007.
32.3. Food and drink is Scotland’s largest manufacturing sector, accounting for almost 19 per cent of total manufacturing turnover. The Scottish manufacturing growth rate is twice that of the UK average for food and drink.

33. As argued in this submission, the negotiations on the future relationship will be critical in creating the operating environment for NFUS members to produce the raw materials to achieve these targets.

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Written Submission from Scottish Fishermen’s Federation

INTRODUCTION

The Scottish Fishermen’s Federation (SFF) is a democratically constituted industry group set up in 1973 and its key aims are:

- To preserve and promote the collective interests of the Scottish Fishermen’s Federation constituent associations.
- Ensuring a viable and sustainable future for the fleet in terms of both economics and environmental responsibility.
- Working to improve the perception of the fishing industry, attracting new entrants and ensuring professional standards of training and safety.

We have eight constituent associations within the Federation, with over 400 vessels within their membership, representing a wide range of fishing businesses, both inshore and offshore and catching a wide range of fish and shellfish species.

The value at first landing of the Scottish fishing industry in 2019 was just under £0.6 billion. Scottish vessels accounted for 60% of value and 62% of landings of all fish caught by UK vessels in 2019.

SFF’S PRIORITIES FOR A FISHERIES AGREEMENT BETWEEN THE UK AND EU

The UK’s departure from the EU and its Common Fisheries Policy allows the UK to become an independent coastal state, and to control access to our fishing waters – just like our neighbours do, in Norway, in Faroe and indeed as the EU itself does. This is the accepted norm under international law.

The SFF’s priority, through a standalone fisheries agreement with the EU, is that the UK, as an independent coastal state under international law, must be able to determine for itself who catches what, where and when in UK waters.

In order to do this, the UK must control access of non-UK vessels to the UK’s Exclusive Economic Zone (EEZ) and be able to negotiate annually on access to fishing opportunities.

This can be achieved through a Framework Agreement on fisheries that sets the high-level framework for annual negotiations on fishing opportunities, with quota shares based on the modern, science based method of zonal attachment – based on where fish actually are, rather than the outdated and unfair method called relative stability that applies in the EU Common Fisheries Policy (CFP), where quota shares are fixed, based on historical fishing patterns of almost half a century ago.

Under the CFP, the UK is entitled to catch less than 40% of all the fish caught in the UK’s EEZ, so by default, more than 60% of fish caught in the UK’s EEZ are not caught by the UK fleet. In contrast, the UK catches only around 10% of its total catch from outwith UK waters.
Compare this with Norway, our neighbour across the North Sea with which the EU shares a number of stocks, but where Norwegian vessels account for upwards of 80% of the total catch in Norwegian waters.

This is what the UK industry aspires to; a model whereby the coastal state has priority to harvest the natural resources in its own waters. This is, the Sea of Opportunity.

The UK Government’s Position

The SFF has welcomed the UK Government’s position that getting the right deal on fishing is not a matter of expediency but a matter of principle. We also welcome the UK Government’s repeated promises to redress the historic injustices from the Common Fisheries Policy when UK becomes an independent coastal state, recognising the great potential to revive our coastal communities.

The EU Position

The EU’s mandate is unrealistic in demanding little change from the current arrangement under the CFP for the clear reason that it benefits the EU fleet and disadvantages ours. We support the UK Government’s continued firm stance in resisting this, and urge them not make any damaging concessions to the EU’s unrealistic demands as the negotiations move into the final stages, and to continue to advance the clear position advocated by SFF.

The EU is also insisting that reaching a free trade agreement with the UK is dependent on reaching agreement on fisheries. This is completely at odds with their fisheries agreements with other independent coastal states.

Both the EU and UK want to reach an agreement on trade – it is in the interests of both parties to do so. But it is completely unacceptable to expect the UK to concede our sovereign natural resources – to the UK’s great detriment and the EU’s great advantage – for something that both parties would benefit from.

What does a good deal on fishing look like?

Leaving the Common Fisheries Policy has always been about redressing the woefully unfair allocation of quota shares, where the EU fleet has an unfettered right of access to the UK’s rich fishing grounds and fish five times more in UK waters than we fish in theirs.

The only satisfactory means of ensuring that this is achieved is for the UK, as a sovereign coastal State, to maintain full control over access to our waters.

This does not mean denying EU vessels access to fish in the UK Exclusive Economic Zone. Rather, that such access would be negotiated annually – as is the norm for the EU and Norway and other non-EU fishing nations.

The right deal on fisheries must be the right deal on its own merits, and provide the opportunity for us to benefit far more from the resources within our own seas, and for
these resources to sustain and develop our industry and the communities that depend upon it.

SFF believe the best possible outcome of the negotiations is a fisheries agreement based on the current fisheries arrangement between the EU and Norway. The UK has now reached similar bilateral agreements on fisheries with Norway and the Faroe Islands and has taken its seat in coastal State negotiations, showing that the UK is now a trusted partner on the international stage.

These agreements ensure shared stocks are managed through annual fisheries agreements; total allowable catches are set annually on the basis of science and evidence; access to each other's waters is negotiated annually, quota shares are based on zonal attachment; and each party has regulatory autonomy in their respective Exclusive Economic Zones.

The annual negotiation model is well established and is the normal vehicle for coastal States to manage shared stocks; flexibly and effectively and based on international law and norms.

SFF firmly believe this type of model will ensure that the fishing industry can continue to manage our natural fishery resources sustainably, making use of the best available science and evidence in domestic fisheries policies, and help to revive coastal communities and build the industry for future generations.

What happens if there is no deal between the EU and UK?

SFF would prefer the UK and EU to reach an agreement over fisheries which meets the both the UK Government and the industry’s objective of controlling access to fish in the UK Exclusive Economic Zone and much fairer quota shares based on zonal attachment.

However, if an acceptable deal cannot be reached then these issues will be addressed through the annual negotiations process, with no automatic rights of access for either party. Under international law, this will be the default position if a fisheries Agreement cannot be reached This is in line with the UK’s Government’s negotiating position, which SFF fully supports.

The EU has a choice. It is for them to decide which of the two routes it wishes to take toward the UK becoming an independent coastal State – through a stable framework agreement that respects UK sovereignty and follows similar arrangements that the EU has with other coastal States like Iceland or Norway, or via a more uncertain route for the EU where everything is done through annual negotiations with no framework agreement in place.
Written Submission from Scotland Food and Drink

Joint open letter from the Scottish food and drink industry

Rt Hon Boris Johnson MP
Prime Minister
10 Downing Street
London
SW1A 2AA

4 November 2020

Dear Prime Minister

As Scotland’s leading food, drink, seafood and farming organisations, we are taking the unusual step of writing directly to you to highlight the perilous situation facing our sector with less than 60 days until the end of the Brexit transition period.

There are immediate steps that need to be taken by the UK Government to avoid enormous damage to our industry - one that has faced a multi-billion pound impact from the Covid-19 pandemic.

As you will be aware, food and drink is one of Scotland’s fastest growing and globally recognised sectors, with a value of £15 billion per annum and employing 120,000 people in communities the length and breadth of Scotland. The sector is critical to Scotland’s economy as one of the biggest employers, particularly in coastal and rural communities where businesses, large and small, are the lifeblood.

Covid-19 has had a devastating impact on many businesses across the industry and through the supply chain. The effective shutdown of export markets across the world has been compounded by the closure of huge swathes of the UK hospitality sector in 2020. The impact has been grave with the latest assessment being a £3 billion loss of revenue to industry this year alone, compounded by the additional operational costs incurred by those businesses.

Just as businesses thought they had weathered the worst of the storm and could chart a path to recovery, the second wave of the virus has now taken hold, with further deep restrictions across the UK and much of Europe. The timing of the second wave means the impact is likely to be even more severe given this is typically the most important trading period for many businesses, particularly our seafood, red meat and drink producers.

The end of the transition period and ever-increasing uncertainty on the terms of our new trading arrangement with the EU compounds these concerns. The EU is the destination of 70% of our food exports. It is also the largest market for Scotch whisky. Indeed, our food and drink exports are four times more important to the Scottish economy than to the English economy. Tariffs, border disruption for high value perishable goods, and certification costs are all far greater threats for the food and drink sector than they are for other sectors in the economy. And our food
producers are extremely reliant on labour from the EU, such as the North East where over 70% of the workforce in seafood processing are EU nationals.

So what we do in the next 60 days is critical to the survival of many food, drink, farming, fishing and seafood businesses and the supply chain and jobs they support.

We recognise the enormity of the task facing the UK Government in negotiating new trade deals. As an industry in Scotland, we are committed to working with you to support this process. However, whilst new market opportunities may emerge in the future the fallout from a No Deal would be catastrophic and we cannot emphasise strongly enough the need to avoid this outcome.

We wrote to your Cabinet colleague George Eustice, Secretary of State at DEFRA, seven weeks ago, just as we had passed the 100 days to go milestone. We have yet to receive a substantive reply to our letter, or the offer of a meeting that was requested. Needless to say this is enormously disappointing and leaves us questioning the commitment to acknowledge, let alone address, our concerns.

In light of this, we now seek urgent action and assurances directly from you as follows:

1. As a top priority, the UK Government must negotiate a six-month “grace period” from the end of the transition period to allow businesses to adjust to the new rules. This was ultimately what the transition period was meant to do but there remains a number of unanswered questions around trading arrangements after 31 December. Most significantly, Brexit preparation planned for 2020 have been lost to a battle against a global pandemic. A six-month grace period would enable businesses to trade with the new rules but without fear of significant border disruption, enforcement action and loss of further revenue. Most critically for Scotland is the need for a six-month derogation from the requirement to produce export health certificates and other export certification including haulage permits. To be clear, there is no system available that can cope with the increased demand in EHCs likely to be required from 1 January.

2. A commitment to bring forward a package of financial compensation for producers, processors, manufacturers and distributors who encounter loses as a direct result of border or market disruption, initially for a 3-month period but to be reviewed thereafter. Clearly appropriate criteria would need to be defined and agreed but having this safety net, to cover instances outwith businesses control, would provide much reassurance and confidence to business at a time when they have never been more fragile.

3. Finalise operational arrangements for enabling the smooth passage for seafood consignments across the Channel (Operation Brock) and at other ports; and a commitment from the UK Government that its new procured ferry service capacity could be used for exporting seafood consignments if required. Given the nature and value of the seafood supply chain, which operates on a just-in-time model, it is vital that smooth transit continues in order to fulfil orders and retain customer confidence, especially in the face of current market disruption and fierce competition.
4. Add food and drink sector roles to the Scottish Shortage Occupation List and support seasonal and remote workers to facilitate the continuation of overseas labour where it is necessary to do so. Our sector is more reliant on overseas labour than any other sector and accounts for a greater proportion of our economy than the UK as a whole. Parts of the food sector are even more reliant, such as seafood processing and soft fruit. Whilst we will do all we can to look closer to home and promote our jobs to the local population, we must retain the ability to access labour from elsewhere which has served us well and loyally over the years. We ask you to include food and drink roles from the MAC’s latest Shortage Occupations List review on the Scottish SOL in time for January 1st 2021, provide clarity on the future of the Seasonal Workers Pilot, and to consider taking forward the MAC’s recommendation for a Remote areas pilot visa.

With less than 60 days until the UK enters into new historic trading arrangements, time is not on our side and there is an enormous task that lies ahead to get businesses ready and support them through the coming months. We are sure you do not underestimate the scale of this challenge and the unique combination of concerns facing our sector, the businesses within it and the people whose livelihoods depend upon it. It is vital that the UK Government stands ready and willing to support our industry in the months ahead and we urge your Government to agree to the measures we have articulated above.

We look forward to hearing from you at the earliest opportunity.

We are copying this letter to the Secretary of State for Scotland and the Secretary of State at DEFRA.

Yours sincerely

Scotland Food & Drink, James Withers, Chief Executive
Food and Drink Federation Scotland, David Thomson, Chief Executive
National Farmers’ Union Scotland, Scott Walker, Chief Executive
Quality Meat Scotland, Alan Clarke, Chief Executive
Scottish Agricultural Organisation Society, Tim Bailey, Chief Executive
Scottish Association of Meat Wholesalers, Martin Morgan, Executive Manager
Scottish Bakers, Alasdair Smith, Chief Executive
Scottish Salmon Producers Organisation, Tavish Scott, Chief Executive Designate
Scottish Seafood Association, Jimmy Buchan, Chief Executive
Scottish Wholesale Association, Colin Smith, Chief Executive
Seafood Scotland, Donna Fordyce, Head of Seafood Scotland
Written Submission from Universities Scotland

Ahead of leaving the European Union, there remains several “unresolved issues facing the higher education sector, but the two main unresolved issues for our members are: Horizon and Erasmus+, which will form the basis of this submission.

Our stated wish since the European Union referendum is that the UK should be a full and active member of both Horizon and Erasmus+.

Horizon

- The uncertainty about future participation is worrying for scientists on an individual level and for universities. We want to be at the heart of Europe’s most successful research programme and there is a clear and present risk that this might not happen as it is contingent on the UK striking an overall deal with the EU. Universities, and Scotland, need the flow of talent to come here and without Horizon we will be a much poorer proposition for the world’s best scientists. The Horizon Framework Programme for research is unparalleled in supporting deep research collaborations. There is a risk that these partnerships with our closest neighbours will be more difficult if we are not a part of Horizon Europe, the successor to Horizon 2020.
- Scotland’s universities have performed very well in Horizon 2020. Horizon 2020 made almost €80 billion of funding available across Europe from 2014 to 2020. By 2018, Scotland had received €533m in total across 881 different projects. This represents 1.61% of the total allocated Horizon 2020 budget to date. The €533million secured by Scotland is 11.24% of the total funding awarded to UK organisations (over €4.7billion).
- Research is one of Scotland’s key assets. As a sector, we do it well: Scotland produces 12% of the UK’s research with 8% of the UK’s population and 10% of its researchers. More of Scotland’s research publications are in the world’s top 1% of most cited publications than anywhere else in the UK or EU. Highly cited work is a mark of the impact of the research. Not being able to access a vital network of colleagues and funding is threatening our position and reputation.
- We welcome the UK Government’s continued expression of intent to remain in Horizon as an “associate member” but that is contingent on the achievement of a negotiated outcome. The Political Declaration included a section supportive of this outcome, “the Parties will establish general principles, terms and conditions for the United Kingdom’s participation in Union programmes, subject to the conditions set out in the corresponding Union instruments, in areas such as science and innovation”7. Negotiations on this issue have stalled over the UK’s financial contribution and a potential

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7 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/840656/Political_Declaration_setting_out_the_framework_for_the_future_relationship_between_the_European_Union_and_the_United_Kingdom.pdf See section II A 11
rebate to the EU on the basis that the UK has historically won more in Horizon 2020 grants than it contributed.

Erasmus+

- Over 2,700 people at Scotland’s universities had the experience of outward mobility for study or work through Erasmus in 2017/18. We believe outward mobility to be a crucially important experience for students that want to participate.
- Between 2014-18, Erasmus+ funded 164 projects and 17 strategic partnerships in higher education in Scotland at the value of €50.2m and €5.4m respectively. Erasmus+ projects have given opportunities to students to study abroad who might not have otherwise been able to.
- We could be potentially leaving Erasmus+ at a key juncture. The next funding programme for Erasmus+ will double in size to €30bn for the 2021-27 programme. This is not just for universities, but for colleges, schools and community activities.
- Whilst there is a financial underwrite in place until 2020, there is no clarity on whether the UK Government will negotiate an association to Erasmus+ to ensure the continuation of two-way student mobility. Nor is there sufficient clarity on the detail of domestic alternative successor scheme in the event of no negotiated outcome by 31 December. A UK-successor scheme may not be in place at the time of our Erasmus+ membership ending, thus denying many students the opportunity to study abroad at all.
- Our concerns are that a successor scheme would be inferior to Erasmus+ if it did not also include staff mobility or international collaborative projects as the current scheme does. Additionally, there has been speculation that a UK domestic alternative scheme would only fund UK students on exchange, not operate on the reciprocal basis that the Erasmus+ model does. This would leave the UK or UK universities to reach bilateral deal with other governments and/or institutions which is far more time and resource intensive for institutions and is likely to reduce the range of options available to students relative to the opportunities available in Erasmus+.
Agriculture and Brexit

Context

Scottish agriculture has been deeply entwined with the policies and workings of the EU and the practicalities of the single market for decades. The EU Common Agricultural Policy (CAP) has directed policy and agricultural support, with only some flexibility in policy design left to Member States.

The majority of the funding provided to Scotland (nearly £600m per year in direct payments, and over £1bn in Rural Development payments spent over the 6-year 2014-2020 programme) has come from the EU. Additionally, much of Scotland's agriculture-related regulation is shared with the EU, in the form of the regulation of water quality, nitrates, birds and habitats, food and feed law, animal welfare, and so on.

Moreover, the EU is the largest export market for Scottish agricultural produce. In addition to, and partly as a result of, the shared policy framework for agriculture, agricultural producers have had frictionless and tariff-free trade with the EU, the future of which is determined by the relationship between the EU and UK.

Arrangements over immigration as part of any future deal will also impact agriculture, with a large proportion of the seasonal agricultural workforce coming from EU countries.

Access to market

Access to market is a key issue for a number of agricultural sectors. Food and Drink is Scotland's largest export sector; nearly 40% of Scottish food and drink exports are traded with the EU. This is particularly important in certain sectors: 87.7% of UK beef exports went to EU countries in 2018; likewise 95.1% of UK sheep meat exports went to EU countries in 2018, with France being the largest importer. The livestock sector made up 42% of Scottish agricultural output in 2018.

Under the Food and Agriculture Policy Research Institute UK (FAPRI) Project, funded by the four UK governmental agriculture departments, an analysis was commissioned in August 2017 on the "Impacts of Alternative Post-Brexit Trade Agreements on UK Agriculture". Using three different trade scenarios – a bespoke

8 Approximately half of the Rural Development budget has been co-financed by the Scottish Government, but this has varied in the past.
free trade agreement with the EU; WTO default; unilateral trade liberalisation - the researchers modelled the impact on commodity prices, production and value of output for different agricultural sectors.

The scenario with the least impact on any sector in this analysis is a bespoke free trade agreement with the EU, under which the UK retains tariff and quota free access to the EU and vice versa, and that tariffs applied to exports UK exports to the rest of the world are unchanged, with a 5% trade facilitation cost (i.e. the administration cost of additional paperwork, checks on country of origin, sanitary and phytosanitary checks etc.) with EU-27 countries.

The other two scenarios have large variability in the impact on each sector. Both the WTO default and the unilateral trade liberalisation scenarios forecast large impacts in the beef and sheep sectors in terms of price, production and output value, which as mentioned make up a large share of Scottish agriculture. For a clear summary of the differences between these scenarios, see the table on page ii in the executive summary of the report.

As such, in the agricultural sector, there may be significant trade-offs associated with any approach to the future relationship with the EU.

**Level playing field**

The outcome of negotiations on the ‘level playing field’ is also an area of significant importance for agriculture. As mentioned, Scottish and UK agriculture has shared a regulatory level playing field with the EU on environment, animal welfare, food safety and other matters. The level playing field has been a key sticking point in the negotiations, with the EU requiring the maintenance of regulatory standards as a condition for preferential access to markets, but with the UK maintaining that it will not commit to automatic regulatory alignment.

Without a compromise on the level playing field, it is likely that there will be tariffs on UK goods entering the EU; as discussed above, such tariffs may be significant for Scottish agricultural sectors. Moreover, Scottish stakeholders, including the NFUS, have emphasised the need to maintain high standards as part of the brand and expected quality of many Scottish agricultural products. Therefore, any decisions on a level playing field may have indirect market effects on Scottish producers as a result of the dynamics of both the UK’s ‘internal market’ and any trade deals with the EU or third parties.

**Regulation of subsidies/state aid**

An agreement between the UK and the EU on regulation of subsidies (also known as ‘state aid’) may impact the amount and type of agricultural support that can be paid to producers. The rules around state aid form part of the level playing field negotiations, and are another key point of disagreement, with the EU arguing for a common approach to state aid, and the UK maintaining that it wants to be free to develop its own system.
There are currently specific exceptions to general state aid rules, notably for agricultural subsidies under the Direct Payments Regulation and the Rural Development Regulation, for the reason that a prescribed framework is provided in the Common Agricultural Policy which is the same for all EU member states. Likewise, state support for agriculture is also treated differently under WTO rules, which is governed separately by the WTO Agreement on Agriculture (AoA).

For agriculture and fisheries products, the UK's proposals in its draft negotiating text simply reaffirms both parties’ intention of “further enhanc[ing] multilateral disciplines and rules on agricultural trade in the WTO”, and makes provision for consultation between the parties if one party considers that a subsidy provided by another is harmful. The other party should then “use its best endeavours to eliminate or minimise the adverse effects of the subsidy”.

By contrast, the EU’s draft negotiating text provides detail on how to separate the UK’s obligations under the WTO AoA from the EU’s – a point which is not addressed by the UK’s negotiating text. The AoA divides agricultural support into three ‘boxes’ – blue, green and amber - based on the level of trade distortion that may occur as a result. Those in the ‘amber box’ are considered to be potentially trade distorting (e.g. measures to support prices, or payments coupled to production). Countries may make use of potentially trade-distorting agricultural subsidies but the amount of support they can provide is limited to 5% of agricultural production for developed countries (10% for developing countries).

However, the EU is one of 32 WTO members whose amber box subsidies have exceeded the limited levels and is therefore committed to reducing this over time. The EU as a whole has a single maximum amount that it can pay in amber box subsidies; that amount must reduce over time. More information on this can be found in the WTO explainer.

The EU’s position is that a future relationship should include UK compliance with a number of state-aid-related EU acts and provisions. However, the EU specifies in its draft negotiating text that these acts and provisions “shall not apply with respect to domestic support measures of the United Kingdom authorities within the meaning of Part IV of the WTO Agreement on Agriculture up to a determined maximum overall annual level of support, and provided that a determined minimum percentage of that domestic support complies with the provisions of Annex 2 to the WTO Agreement on Agriculture.”

In addition, according to the EU, the UK’s share of the maximum overall annual level of support and the minimum percentage of domestic support which shall comply with rules around trade distortion set out in Annex 2 of the AoA, will be determined in a new Specialised Committee on the Level Playing Field and Sustainability comprised of representatives of both parties.

The EU has set out how the UK’s share and minimum percentage should be determined: “The initial maximum exempted overall annual level of support shall be informed by the design of the United Kingdom's future agricultural support scheme as well as by the annual average of the total amount of domestic support incurred in the United Kingdom during the period of the current Multiannual Financial
Framework 2014-2020. The initial minimum percentage shall be informed by the design of the United Kingdom’s agricultural support scheme as well as by the percentage to which the overall domestic support in the Union complied with the provisions of Annex 2 to the WTO Agreement on Agriculture as notified for the period concerned.” Finally, the amount of support and minimum percentage would be adjusted over time, alongside the EU’s multiannual financial frameworks.

As such, in the EU’s view, the UK’s allowable amount of support for agriculture would be determined by the “United Kingdom’s future agricultural support scheme” alongside its previous domestic support scheme. For Scotland, this may be complicated by a number of factors, including that the United Kingdom has no single future agricultural support scheme. While the UK Agriculture Bill sets out a framework for English agricultural support post-Brexit, there is currently no future agricultural support scheme set out for Scotland. The 2020/21 Programme for Government committed to “bring[ing] forward recommendations for new mechanisms of agricultural support” before the end of this Parliament.

Furthermore, the UK Agriculture Bill makes provision for the UK Government to set the limits on the amount of support that may be provided to agricultural producers (for the UK as a whole, and for each separate UK nation), and the classification of different support measures into the WTO ‘boxes’. It is conceivable therefore that Scottish agricultural policy may find itself constrained by the outcome of these multiple processes.

Even in the UK’s preferred scenario, the question of the UK’s share of the EU’s maximum amount of non-exempt support will remain. The draft UK agreement is silent on this point. In conclusion therefore, the outcome of the negotiations on the aspects of state aid/subsidies that apply to agriculture may have an impact, directly or indirectly, on Scotland’s future agricultural policy design, though the scope of this impact is not clear.

Labour supply

Approximately 10,000 seasonal agricultural workers come to Scotland each year, with 60% coming from Bulgaria or Romania. This was a big topic of conversation as a result of the travel restrictions caused by Covid-19, which shone a spotlight on the difficulty of managing without this workforce.

The UK Government’s Immigration and Social Security Co-Ordination (EU Withdrawal) Bill has ended “rights to free movement of persons under retained EU law and to repeal other retained EU law relating to immigration”9, including the free movement of seasonal workers. A pilot Seasonal Work Scheme has been running in 2019 and 2020 which has allowed non-EU seasonal workers to work in UK horticulture for six months under a Tier 5 Temporary Worker Visa. The scheme provided 2500 places in 2019 and 10,000 places in 2020 for the whole of the UK, and the visa costs £244. It has not yet been confirmed whether this will be permanent and extended to EU workers. In the absence of a bespoke scheme for

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9 [https://services.parliament.uk/Bills/2019-21/immigrationandsocialsecuritycoordinationeuwithdrawal.html](https://services.parliament.uk/Bills/2019-21/immigrationandsocialsecuritycoordinationeuwithdrawal.html)
agriculture, farmers and crofters will rely on the UK Government’s points-based immigration system, though it has been questioned whether this is fit for purpose for seasonal agricultural work.

More detail on a number of these areas can be found in the agriculture chapter of the SPICe Briefing on ‘Negotiating the Future UK and EU Relationship’.

Anna Brand
SPICe Research
Fisheries and Brexit

Background

At the end of the transition period the UK will no longer be party to the Common Fisheries Policy (CFP), and new agreements on fisheries management will need to be reached with the EU and with other coastal states.

The UK’s draft for a fisheries framework agreement was published on 19 May 2020. The document sets out the UK’s proposal for a fisheries agreement, independent of any trade agreement with the EU.

Recent media reports indicate that negotiations between the UK and EU are close to reaching an agreement and suggest that the UK may achieve its aim of setting future quotas in the principle of zonal attachment (see box 1.) but deferring decisions on quota shares for EU boats to a later date. There have also been suggestions that the sides could agree a “phasing-out mechanism” that would gradually reduce EU quota shares over time.

Meanwhile, separate from these negotiations the UK has negotiated its first fisheries framework agreements as an independent coastal state with the Faroe Islands and Norway. These agreements set out that the parties will hold annual negotiations on issues of access to waters and quota shares.

Opportunities of Brexit for the sector

The UK Government’s approach to the UK-EU Fisheries agreement has focussed on the following benefits for the UK’s fishing fleet:

- Ending current arrangements on quota sharing so that UK vessels can gain a greater share of quota in UK waters.
- Basing future quota shares on the principle of ‘zonal attachment’ (see box 1.) rather than ‘relative stability’ (historical catches).
- Negotiating quota shares with the EU and other independent coastal states on an annual basis.
Box 1 – Zonal Attachment

Zonal attachment refers to the idea that total allowable catch should be allocated based on the temporal and spatial distribution of stocks, rather than historical catches. There is no single method for determining zonal attachment, though the UK Government’s fisheries white paper, Sustainable Fisheries for Future Generations (July 2018) has set out preliminary research for how this might be calculated.

Scottish Government commissioned analysis of the Impact of Alternative Fish Trade Agreements Post EU-Exit based on trade modelling indicates that pelagic (mid-water) species such as hake, herring, mackerel and saithe all stand to gain significant percentage increases in quota allocation under zonal attachment.

In written evidence to the Committee the Scottish Fishermen’s Federation stated:

“Getting this right will give the Scottish fleet the opportunity to, over time, as much as double the amount of raw material that it catches, bringing benefit to the wider supply chain and our coastal communities.”

Access to market

Access to European markets is also an important issue for Scotland’s fishers, and especially for sectors that do not target ‘quota’ species such as shellfish. EU countries combined make up the largest export market for shellfish caught in Scottish waters.

Equally, aquaculture and seafood processing rely heavily on EU exports and imports. These sectors do not stand to gain from changes to how quota is calculated and shared but stand to lose from increased trade tariffs and delays in exporting goods to the EU.

Whilst the fisheries agreement may be a stand-alone agreement, it is unlikely to be agreed without reference to other elements of the future relationship. The Political Declaration stated that a fisheries agreement would be agreed “within the context of the overall economic partnership”.

Labour supply

Labour supply from the EU is particularly important for the seafood processing sector. Results of a survey of processing businesses conducted by Seafish suggest that EEA workers represented 51% of those employed in the sector across the UK in 2018, a figure that rises to 59% for Scotland as a whole and 69% for the Grampian region in particular.

In its October 2018 quarterly processing sector labour report, Seafish highlighted that 41% of businesses it had surveyed were finding it harder to fill vacancies than in

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the previous quarter. This rose to 56% among processors in the Grampian region. 17% of respondents said that workers from EEA countries were less willing to come to the UK while 20% said that existing EEA workers were leaving in increasing numbers. One of the most common reasons given for this was the uncertainty surrounding both Brexit and the future status of EEA workers in the UK.

Scottish Government figures estimate that approximately 27% of the overall workforce in the catching sector are non-UK nationals, of which approximately 8% are from the European Economic Area (EEA) and 19% are from non-EEA nationals (the majority of which are from the Philippines).

Replacement EU Funding

Scotland received 44% (€107.7 million) of the UK allocation of the 2014-2020 EMFF. The European Maritime and Fisheries Fund (EMFF) has been an important source of finance for growth and jobs in coastal communities and for sustainable development within the fishing and aquaculture sectors and conservation of the marine environment.

In June 2020, the Cabinet Secretary for the Rural Economy wrote to the UK Secretary of State for Environment, Food and Rural Affairs to seek clarity on future replacement funding for the EMFF.

The Scottish Government has also been consulting on future funding options as part of its Future of Fisheries Management National Discussion. The 'policy intent' paper states:

“The replacement for the EMFF remains dependent on the funding solutions and approaches taken by the UK Government as a whole. Our immediate focus is on securing a fair funding settlement to replace EMFF for Scotland, and for that funding to be fully devolved to Scotland to allow us to design an approach suited to Scotland's own circumstances and policy priorities.

Going forward, we will build on the suggestions received and consider how a new funding system would work for all of Scotland's fishing and seafood interests, along with wider marine priorities.”

Brexit Preparedness

In a Rural Economy and Connectivity Committee evidence session on the implications of Brexit on 9 October 2019, a number of issues were raised in relation to Brexit preparedness. These included:

- Lack of clarity and costs in meeting export certification requirements
- Uncertainty around seafood export logistics
- Concerns over capacity for post-Brexit marine compliance and enforcement
Beyond Brexit – implications in the long-term, challenges for the long-term relationship

Sustainable fisheries

There is pressure on the UK to deliver on commitments to deliver a greater share of quotas for the UK fleet post-Brexit. However, this may risk setting fishing quotas that lead to overfishing.

For example, an agreement was recently reached between the UK, EU and other independent coastal states on the management of herring in the northeast Atlantic for 2021. This set a total catch limit aligned with scientific advice (651,033 tonnes). However, the agreement states:

“The delegations agreed that establishing unilateral quotas for 2021 does not in any way imply the acceptance of the level of these quotas by any Party.”

Although this is a joint agreement, quota shares are decided unilaterally. This means that if any party to the agreement decides it wants a higher quota share, this may lead to others following suit meaning quotas are set much higher than scientific advice on sustainable catch limits.

A recent SPICE guest blog from Prof Michael Heath and Dr Robin Cook from the University of Strathclyde summarised research that estimated the potential for substantial overfishing if unilateralism takes over from cooperation.

Damon Davies
SPICE Research
Food and Drink and Brexit

Context

The agri-food sector in the UK and EU is highly interconnected, with significant flows of goods in both directions and interdependent supply chains. The food and drink sector is said to have one of the highest stakes in the outcome of the negotiations.

In June 2020, EU stakeholders warned that in the event of no agreement and no extension to transition arrangements in that case, both trade and integrated supply chains would be "severely disrupted" with impacts on both sides.

For Scotland, food and drink is the largest export sector, worth £5.9bn. Of this, whisky is worth £4.4bn.

Access to markets

As explored in the agriculture briefing, food and drink exports will be affected by the outcome of the negotiations and the trade agreement reached between the UK and EU. The Food and Drink Federation, which represents food and drink manufacturers across the UK, highlighted to the House of Lords EU Committee inquiry on Brexit and agriculture that over 70 percent of exports go to EU countries, and that 94 percent of the UK’s imports and 97 percent of the UK’s exports are traded with countries that have an FTA with the EU, from which the UK currently benefits.

For Scotch whisky, which makes up a large proportion of exports, the EU is the largest single export market, with exports worth £1.48bn. The Scotch Whisky Association states on their webpage that:

“Four EU member states - France, Germany, Spain and Latvia - are amongst our Top 10 export markets worldwide. Retaining frictionless access to the EU's Internal Market post-Brexit and tackling existing or potential trade barriers in the individual Member States is a priority for the SWA.”

In addition, tariffs on imports into the UK may also have an impact on food and drink processing. Researchers at the London School of Economics found that the “food manufacturing sector imports 9% and the agricultural sector 11% of its intermediate inputs from the EU”.
Regulatory standards

Sanitary and phytosanitary (SPS) measures refer to food safety and animal and plant health measures, for example to prevent the spread of pests and diseases.

EU law includes detailed rules designed to reduce or eliminate such threats, and to reduce the chances of animal and plant diseases being introduced to the EU from non-EU countries. The outcome of the negotiations and an agreement on alignment in SPS measures is likely to determine the non-tariff barriers to trade, with a higher level of divergence requiring a higher level of border checks resulting in higher costs.

In addition, level playing field provisions on workers’ rights and the environment are relevant to the food and drink sector.

Geographical Indications

As an EU member state, the UK participates in the EU's approach to protected Geographical Indications (GIs) and operates a protected food names scheme in the UK, which has 88 protected food names including 14 Scottish products, for example, Scotch Whisky and Stornoway Black Pudding.

In evidence to the House of Commons Scottish Affairs Committee on 3 July 2018, Lindesay Low from the Law Society of Scotland outlined the three benefits for goods with a GI:

“There are probably three main benefits bestowed by GIs. The first of these benefits is to the producers, because of course they are able to protect their reputation and their quality, and they are not going to be undercut by foreign competitors cutting corners. The second one, which is perhaps sometimes overlooked, is that it protects consumers. A consumer buying Stornaway black pudding or an Arbroath smokie will know that it is that particular type of sausage or fish made in a traditional way in a traditional place. That is extremely important.

“The last thing is that it is good for the Administration of the country because geographical indications are products that are sold at a premium and typically they are made in rural areas, which means that people can invest, get jobs and promote tourism in particular parts of the country. Geographical indications have a broader national importance beyond the individual traders’ benefits.

More background information on geographical indications is available in the SPICe Briefing Geographical Indications and Brexit.

The Withdrawal Agreement finalised in October 2019 provided protection for the UK's current recognised GIs on the EU market after Brexit and requires the UK to set up its own list of geographical indications in domestic legislation. That list will include recognition of the EU’s current GIs.

This approach applies "unless and until" superseded by the long-term trading relationship. Whilst the Withdrawal Agreement protects GIs in place at the end of the
transition period, it makes no provision for new GIs which gain that status after the date on which the transition period ends and would therefore need to be addressed as part of the negotiations.

On GIs, the DRAFT UK-EU Comprehensive Free Trade Agreement only states:

“The provisions of this sub-section shall supersede Article 54(2) of the Withdrawal Agreement [setting out the arrangements for GIs unless and until superseded by a long-term trading relationship]. [Further text on the provisions of this sub-section to be proposed]”. By contrast, the EU’s approach differs markedly, and the Union states that “The envisaged partnership should confirm the protection of existing geographical indications as provided for in the Withdrawal Agreement and establish a mechanism for the protection of future geographical indications ensuring the same level of protection as that provided for by the Withdrawal Agreement.”

On 23 October 2020, the UK Government announced new rules and logos for GIs from 1 January 2021, including a new series of labels. However, stakeholders have raised that the value of such a new scheme depends on the outcome of the negotiations with the EU and whether the EU will recognise the UK’s new scheme. Chief Executive of Scotland Food and Drink, James Withers, told The Scottish Farmer on 30 October that:

“With a no deal now looking the most likely – and disastrous – Brexit outcome, I don’t share the same confidence that our GIs are going to remain recognised throughout the EU on a long-term basis.

“If talks with the EU collapse and the UK doesn’t offer mutual recognition for EU GIs in this country, what will that mean for ours in Europe?”.

Food and consumers

73% of the UK’s food imports come from the EU. If the cost of importing food increases as a result of tariffs and non-tariff barriers, food prices may increase. On 25 September 2020, the British Retail Consortium highlighted that “85% of foods imported from the EU will face tariffs of more than 5%. The average tariff on food imported from the EU would be over 20%”. They said that “given the highly competitive nature of retail, the industry cannot absorb all these increased costs, meaning the public would face higher prices from 1st January 2021”.

In the same vein, in a report titled the Vulnerabilities of Supply Chains Post-Brexit published in September 2020 by the London School of Economics (commissioned by Arla Foods) researchers highlighted that “40 percent of all consumption of food products in the UK comes from EU countries, suggesting that UK consumers are highly exposed to changes in the future trading relationship”. In a no-deal scenario, the researchers found that the average price increase for branded and specialty products imported from the EU would be 26.5%, and with an FTA, 9.9%. For unbranded and substitutable products, the increase is expected to be somewhat less: 12.5% on average under a no-deal scenario, and 4.7% with an FTA.
Brexit preparedness

Food and drink traders who currently trade with the EU may be required to present additional paperwork and face additional checks at borders. The UK Government has provided guidance on new paperwork, such as export health certificates, that may be required after 31 December 2021. Likewise, the UK Food and Drink Exporters Association has provided information for exporters on preparing for 1 January 2021. However, it is not yet clear what export requirements will apply following the end of the Implementation Period, as this will be determined by the outcome of the negotiations.

In addition, stakeholders have long highlighted potential issues with the processes and systems in place. Concerns have been raised about the capacity to issue export health certificates on all goods exported to the EU, which may be required depending on the outcome of the negotiations. Whilst these are currently issued for exports to non-EU countries, issuing them for export to EU countries will significantly increase the volume of paperwork. Researchers at LSE also highlight a continued lack of clarity around the UK’s Border Operating Model and the procedure for customs clearance and payment of duty. Chief Executive of the Scotland Food and Drink, James Withers, told the Rural Economy and Connectivity Committee on 18 September 2019 that:

“I am keen to state that we cannot plan our way out of the impacts of a no-deal Brexit, even though we can mitigate some of them.”.

Anna Brand
SPICe Research
Business and Brexit

Context

The transition period is due to end in seven weeks. According to a recent Institute of Directors survey, just over a fifth of company directors said their organisation was fully prepared for the end of the transition period, with almost a quarter not expecting to be ready by the end of the year\(^\text{11}\).

The CBI has described the end of the transition period as a moment of change in the UK-EU partnership:

“With the UK government ruling out an extension to the transition period, a no trade deal scenario at the end of the year remains a possibility. However, if a deal is agreed it will be an Free Trade Agreement (FTA) offering a markedly different basis for market access between the UK and the EU. This means that, deal or no deal, there will be extra costs and barriers to trade in the UK-EU relationship post-Brexit; from 1 January 2021 which will have implications for UK businesses.”\(^\text{12}\)

Impact of Brexit

For businesses in the UK, those who trade with the EU are unlikely to be the only ones affected by Brexit. For example, as the CBI highlights:

“The end of the transition period will affect every business in the UK in different ways – whether you’re part of a pan-European supply chain, stock European products or rely on the skills of EU nationals.”\(^\text{13}\)

As a result, if there is a UK-EU deal focussing on zero tariffs and zero quotas it is unlikely to address all the issues facing business given the significant changes compared to the conditions UK business currently enjoy in trading with the EU.

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\(^{12}\) [https://www.cbi.org.uk/uk-transition-hub/](https://www.cbi.org.uk/uk-transition-hub/)

\(^{13}\) [https://www.cbi.org.uk/uk-transition-hub/](https://www.cbi.org.uk/uk-transition-hub/)
Uncertainty and the impact of COVID-19

A key consideration for business has been preparing for Brexit and either a new relationship or no-deal. Given the lack of clarity about what a new deal may look like, businesses face a challenge in preparing for the end of the transition period. In addition, the impact of the COVID-19 pandemic is likely to have impacted on businesses preparations for the end of the transition period. According to the CBI:

“But since the outbreak of the COVID-19 pandemic, 58% of firms have been unable to progress their Brexit preparations. 21% of firms feel their level of preparedness has fallen, increasing to 27% for manufacturers.”14

According to Allie Renison, Senior Policy Advisor at the Institute of Directors:

“Few would doubt that getting ready for no deal in the middle of a pandemic will be a Herculean task for many businesses. Our figures show that most directors think that Covid will magnify the impact of no deal. It’s tied their hands throughout the year and put immense pressure on cashflow, and will continue to limit bandwidth in the months ahead.”

A summary of the responses to the IoD survey of company directors on Brexit preparedness showed the following:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully prepared</td>
<td>21%</td>
</tr>
<tr>
<td>More preparation to do - we will be prepared by the end of the year</td>
<td>21%</td>
</tr>
<tr>
<td>More preparation to do - not sure if we will be prepared by the end of the year</td>
<td>24%</td>
</tr>
<tr>
<td>Brexit will not affect our organisation</td>
<td>28%</td>
</tr>
<tr>
<td>Don't know</td>
<td>7%</td>
</tr>
</tbody>
</table>

Importance of a deal over no-deal

As a result of the potential double impact of a no-deal Brexit alongside dealing with the COVID-19, most businesses will favour some sort of deal between the UK and the EU to come in once the transition period ends. The IoD has “urged both sides of the negotiations to work constructively towards a deal”15.

What kind of deal?

The CBI has set out the details of what it would like to see in any deal emphasising that the nature of the UK’s trading relationship with the EU “will determine how future generations live and work in the UK for decades to come” adding that “in the wake of the coronavirus pandemic, business and the economy need an ambitious trade deal

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14 [https://www.cbi.org.uk/uk-transition-hub/](https://www.cbi.org.uk/uk-transition-hub/)
that supports international competitiveness”\textsuperscript{16}. In terms of the new relationship, the CBI called for:

“A future relationship that safeguards jobs, growth and prosperity is vital to competitiveness. The agreement must support the UK’s world-leading services firms, free UK exporters’ hands from red tape, and facilitate simpler customs procedures. That’s why we’re asking the government to build a future economic relationship that truly works for UK firms.”\textsuperscript{17}

In terms of specifics the CBI called for:

- an ambitious trade deal with the EU which ensures comprehensive coverage of services trade, cooperation on regulation, and makes customs simple
- a deal which will Minimise disruption and avoid unnecessary costs and barriers to trade by reducing red tape

Iain McIver
SPICe Research

\textsuperscript{16} https://www.cbi.org.uk/our-campaigns/an-eu-trade-agreement-that-works-for-business/
\textsuperscript{17} https://www.cbi.org.uk/our-campaigns/an-eu-trade-agreement-that-works-for-business/
Financial Services and Brexit

Context

Given the importance of the financial services economy to the UK, a good deal in this area is likely to be a priority for the UK government. According to a report by the Centre for European Reform “it is estimated that 67% of UK financial services (not including insurance) supplied to the EU are delivered cross border from a UK base.”

As a result of EU membership, and also during the transition period, UK service providers (including for financial services) have been able to take advantage of the right to provide services across the EU either from a UK base or by establishing themselves in another EU member state.

In financial services, this is facilitated by a process called passporting which is based on a common EU-wide rulebook allowing financial service providers to operate across the EU under the same rules and regulations. Passporting is only available to EU members and as such at the end of the transition period, UK financial providers will no longer be able to take advantage of passporting to provide services in EU member states.

After Brexit – Equivalence or WTO rules

For non-EU countries the EU operates a system of equivalence agreements which are described by the UK in a Changing Europe in the following way:

“An equivalence agreement refers to a financial services agreement negotiated between the EU and a third country, which recognises the regulations of the third country as in compliance with, and therefore equivalent to, the EU’s own. This recognition allows firms from both the EU and the third country to operate within the territories of both.”

The key disadvantage of equivalence agreements compared to passporting is that an equivalence decision can be withdrawn at short notice (just 30 days) potentially leaving a third country’s financial service providers in a state of limbo. A further disadvantage is that equivalence doesn’t usually have the same breadth as passporting arrangements as generally relates to only limited types of financial services.

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18 Centre for European Reform Brexit and services How deep can the UK-EU relationship go?, December 2018: https://www.cer.eu/sites/default/files/brexit_trade_sl_pbrief_6.12.18.pdf
19 UK in a Changing Europe: https://ukandeu.ac.uk/fact-figures/what-is-an-equivalence-agreement/
services including particular aspects of insurance, certain banking activities and portfolio management.

The UK government initially sought an enhanced equivalence agreement based on its longstanding position as an EU member state. However, in response the EU position is that the UK will be entitled to seek an equivalence agreement in the same way as any other third country. As a result, the UK has proposed an equivalence agreement but is seeking a system of “structured withdrawal” of equivalence decisions. In other words, the UK wants to secure a process whereby the EU, should it want to withdraw a certification previously granted to UK operators, would be subject to a predictable procedure, involving consultations.

In the event the UK and the EU fail to reach an agreement encompassing financial services, trade in financial services would be regulated by World Trade Organisation rules. According to the Institute for Government:

“Trading on WTO terms entails significant limitations on cross-border trade compared to passporting, and stricter regulatory requirements and supervisory oversight of the EU branches of UK banks. Both sides are also able to impose measures for ‘prudential reasons’ such as ensuring the stability of the financial system, which can lead to further restrictions.”  

Free movement and freedom to provide services

In the Single Market, providers and consumers are free to travel and establish their business abroad: the freedom to provide and consume services and the freedom of movement of EU citizens and firms support each other.

As the UK has ended freedom of movement with the EU it is likely that the ability of UK financial services providers to provide services in the EU will be at best compromised and possibly blocked depending on the nature of the future relationship.

EU financial services agreements with other countries

In written evidence submitted to the Committee, Professor Sarah Hall from the University of Nottingham set out what the UK is proposing in the area of financial services and how that compares with what is provided for in the EU’s trade agreement with Canada (CETA). She highlighted a similar system of equivalence and also the presence of a most favoured nation clause (MFN):

“CETA also includes a most favoured nation (MFN) clause (and the UK’s draft text includes the provision for the UK to include the same). The fact that this is in CETA is likely to limit the degree of bespoke single market access the UK may be able to negotiate since if the EU offered the UK a more favourable deal, it would have to offer this to Canada alongside other countries with whom it has trade deals including an MFN provision.”

21 Professor Sarah Hall, evidence to the Committee: https://parliament.scot/S5_European/Inquiries/CTEEA_S5_20_FR_005_ProfSHall.pdf
Professor Hall also set out where the UK proposal goes beyond what is included in CETA:

“Beyond the question of equivalence and passporting, there are a number of areas where the UK’s draft text goes beyond the market access provided for in CETA in small but important ways. For example, the UK’s draft agreement seeks to essentially future proof the definition of what counts as a financial services supplier by including individuals or business who supply or ‘wish to’ supply financial services. The draft is also seeking greater collaboration on things like consumer protection through ‘innovation’ in financial services. Both of these differences might be read as an attempt to ensure that the fintech sector, which the UK has developed global leadership in, is protect by the proposed UK deal.

The UK draft is seeking the establishment of a Financial Services Committee that would meet once a quarter to oversee the implementation of the agreement. The importance the UK attaches to financial services is reflected in the fact that the equivalent committee under CETA usually meets once a year.

The UK is therefore seeking a slightly modified version of CETA in financial services. However, crucially it wants to secure this enhanced degree of market access without the level of regulatory alignment that would be typical of EU enhanced market access. This reflects the government’s position that given the unique size and importance of financial services in the UK, it should not become a ‘rule taker’ from Brussels.”

Financial Services on the move?

At the end of the transition period the UK will leave the EU’s passporting system and will instead operate under a less beneficial equivalence agreement or WTO rules. In her written evidence, submitted in June 2020, Professor Sarah Hall suggested that this outcome has already led to financial services companies beginning to leave the UK. She wrote that companies are starting to:

“Transfer assets and/or employees to European hubs including Frankfurt, Dublin, Luxembourg, Amsterdam and Paris in order to maintain single market access. Estimates suggest that over 320 firms may have already undertaken relocations of some kind to date.”

The Economist recently considered the impact of Brexit on financial services employments in the City of London and noted that—

According to EY’s Brexit Tracker, which monitors announcements by large banks and other financial firms, as of October 1st at least 7,500 jobs had left

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22 Professor Sarah Hall, evidence to the Committee: https://parliament.scot/S5_European/Inquiries/CTEEA_S5_20_FR_005_ProfSHall.pdf
23 Professor Sarah Hall, evidence to the Committee: https://parliament.scot/S5_European/Inquiries/CTEEA_S5_20_FR_005_ProfSHall.pdf
the City for the EU since the referendum. On top of this, firms have added, or plan to, over 2,800 new roles in EU subsidiaries.

These lost jobs add up to around 4% of the total in the City—hardly a devastating blow. But the actual number moving is higher; EY tracks only the 222 largest firms. And there is more to come. Some firms have been waiting to see the outcome of the trade talks before moving more staff.”

In terms of the impact to date on where assets are managed, the Economists stated that—

“As for assets, banks have announced the shifting of £1.2trn-worth, equivalent to 14% of British-based banks’ total assets, in preparation for Brexit; more may have been moved unannounced”.

With regard to specific examples of assets being transferred, the Economist noted that—

“Barclays is transferring £150bn—over 10% of its domestic balance-sheet—to Ireland, making it the largest bank there. JPMorgan Chase is moving €200bn ($237bn), over 7% of its global assets, to Germany”.

_Iain McIver_
SPICe Research

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25 Ibid.

26 Ibid.
Universities and Brexit

Introduction

Brexit will have a significant impact on Scotland’s higher education sector, with uncertainty remaining around the future of research funding and student mobility programmes. The UK Government has not yet confirmed whether the UK will participate in EU funding schemes as a ‘third country’ and therefore Scotland’s involvement from 2021 and beyond is unclear.

EU Programmes: participation and access to market

The Scottish Government and the higher education sector have expressed concerns about the status of Scotland’s future participation in Horizon Europe (the successor scheme to Horizon 2020) and Erasmus+ once the UK transition period comes to an end. Universities Scotland has described uncertainty around future participation in Horizon 2020 and Erasmus+ as the “main issues” facing the higher education sector. In an October 2020 briefing for MSPs, Universities Scotland repeated it wishes to see the UK continue to be a “full and active member of both Horizon Europe and Erasmus+”.

EU proposals for Erasmus+ and Horizon Europe programmes for the period 2021-27 include a framework for third country participation for non-member states. A January 2020 SPICE briefing on Access to EU funding as a third country states that the UK would need to agree to criteria for joining each funding programme and that this will require:

"a prior commitment to contribute financially to the programme. A House of Commons library briefing paper on the EU budget noted that the amount will "be linked to the EU’s budget for the programme."

If the UK does continue to participate in either programme, it is unclear whether this will be as an associated third country with full participation but no voting rights or a non-associated third country without full participation.

Horizon Europe

The Horizon 2020 programme has been important to Scotland’s universities, as the Minister for Further Education, Higher Education and Science Richard Lochhead told Parliament on 29 October 2020:
“Since Horizon 2020 began in 2014, Scottish organisations have won 711 million Euros.”

The Minister repeated that the Scottish Government wished to see continued membership of the programme, with a guarantee of no funding gaps and full funding for continued participation of all elements open to third countries.

The UK Government has not ruled out continued participation. The Future Relationship with the EU: The UK’s Approach to Negotiations paper published in February 2020 stated:

“The UK is ready to consider standard third country participation in certain Union programmes where it is in the UK’s and the EU’s interest that we do so.”

This document also stated that the any agreements around third country participation should contain “fair terms” for the UK, including: “...a fair and appropriate financial contribution”.

Following this, the Department for Business, Energy and Industrial Strategy (BEIS) published its UK Research and Development Roadmap in July 2020. Regarding funding arrangements in the event the UK does not take part in programmes, the document states:

“If we do not associate to programmes such as Horizon Europe, we will meet any funding shortfalls and put in place alternative schemes.”

Most recently, this was repeated in a Written Answer published on 20 October 2020. This stated that if the UK does not associate to Horizon Europe, the UK Government: “will implement alternatives as quickly as possible from January 2021 and address the funding gap.”

While the consequences of not taking part in the programme are not yet known for Scotland, the January 2020 SPICe briefing states the impact of Switzerland’s temporary exclusion in 2014:

“As reported in an article on the Science|Business website, the President of the research council of the Swiss National Science Foundation revealed in September 2019 that the: “number of research projects its scientists participated in "dropped from 4,300 to 300 and we're still catching up and suffering".”

**ERASMUS +**

The Erasmus+ programme promotes education, training, youth work and sport across Europe. The proposed Erasmus+ budget for 2021-27 is €21.2bn – a significant increase on the past seven years. Universities Scotland’s October briefing states Erasmus+ has given over 2,700 students at Scottish universities the

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27 European Union funding in Scotland, SPICe (2018)
experience of outward mobility in 2017/18, and funded 164 projects and 17 strategic partnerships in Scotland between 2014 and 2018, to the value of €50.2m and €5.4m respectively.

The Scottish Government wants Scotland to remain a member of Erasmus+ and has made representations to the UK Government on this issue, however no confirmation of whether the UK will associate to the scheme has been given. The UK Government’s February 2020 Future Relationship document stated that:

“The UK will consider options for participation in elements of Erasmus+ on a time-limited basis, provided the terms are in the UK’s interests.”

**Implications for students and staff**

**Mobility**

Following the transition period, immigration arrangements with the UK will vary by country. The sector has raised concern about the loss of EU staff and the need to ensure successor schemes are attractive to them and in January 2020, Universities Scotland, UCU Scotland and NUS Scotland wrote to EU staff and students to assure them they remain welcome.

The July 2020 BEIS UK Research and Development Roadmap outlined plans for a new Office for Talent to attract science, research and innovation talent to the UK. The Global Talent Visa was launched in February 2020 and the eligibility criteria has since been extended to allow highly skilled scientists and researchers to apply without a job offer. However, an October 2020 Wellcome Trust report found the cost associated with coming to the UK may make it a less attractive option:

“From October 2020, the Immigration Health Surcharge will increase to £624 per year — meaning an upfront cost of more than £13,000 for a family of four on a five-year Global Talent Visa. In contrast, the French Talent Visa is approximately £1,000 for the same family.”

**Tuition fees**

Earlier this year the Minister for Further Education, Higher Education and Science announced that from 2021-22, universities will be able to charge international fees to EU students. During a statement to Parliament on 9 July, he said that from 2021-22 and additional £19m funding will be available for places for students in Scotland.

Lynne Currie
SPICE Research

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28 The report states: “Based on Wellcome’s calculations: cost of a five-year Global Talent Visa for a researcher will be £3,728 (application cost £608 and IHSC cost £624 annually). For a researcher, their partner and two children the total cost will be £13,372 (IHSC cost for children is £470 annually). This represents a significant increase from the current level of £10,432.”