

SUBMISSION FROM NFU SCOTLAND

- NFU Scotland (NFUS) welcomes the Finance and Constitution Committee's inquiry into the UK internal market.
- NFUS represents over 8,500 agricultural businesses across Scotland who are the primary producers of Scotland's renowned food and drink offering. Scottish food and drink is growing its export offering in international (non-EU) markets, which is an excellent opportunity for the farmers, crofters, and growers of Scotland. However, the UK market remains the primary market for Scottish agricultural produce.
- As NFUS has outlined in previous evidence to this Committee, for Scottish farmers, crofters and growers to continue to operate within the UK internal market, commonly agreed regulatory frameworks are vital so as to ensure a level playing field for producers across the UK.
- This submission examines the importance of the UK internal market to Scottish agriculture and the key areas of challenge and consideration as the UK transitions out of the EU internal market.

Scottish agriculture's role in UK internal market

1. As demonstrated in Table 1, according to the Scottish Government's export statistics¹, by far the largest market for agricultural produce (raw materials that are exported out of Scotland, potentially to be processed at a later date) is the rest of the UK (rUK) market.
2. When examining export statistics for exports of food and drink (Scottish agricultural produce that has been processed to the end product) from Scotland, the importance of the rUK, EU and rest of world markets are less pronounced.

¹ <https://www.gov.scot/publications/export-stats-scotland-2018/>

3. The reason for this is that due to a significant lack of processing capacity within Scotland, a large amount of agricultural produce is processed and manufactured elsewhere in the UK.

4. Common regulations across the UK for the rearing and growing of agricultural produce, plus regulations on the processing of that produce, are vital in order for produce to be able to flow throughout the UK effectively. Much of these common regulations have come from the agreed frameworks set at EU level as members of the EU. Further detail is elaborated below.

Table 1: Value of Scottish food and drink and agriculture exports

Total exports	Food and drink	£10.1 billion
	Agriculture	£1.5 billion
Exports to UK	Food and drink	£3.8 billion
	Agriculture	£855 million
Exports to Rest of World	Food and drink	£4 billion
	Agriculture	£300 million
Exports to EU	Food and drink	£2.3 billion
	Agriculture	£350 million

Policy divergence within UK internal market

5. As per previous evidence to the Committee, NFUS has always maintained that whilst it is absolutely right and proper that there is devolved development and delivery of future agricultural policies across the UK after the UK’s exit from the EU, what will be essential is processes that allow the four nations of the UK to *commonly agree* frameworks that will avoid regulatory divergence, preserve the integrity of UK internal market and enable frictionless trade with the EU27 and third countries. NFUS has also acknowledged the potential risks to intra-UK trade by unconstrained policy divergence. Measures cannot be so perpendicular across the UK as to cause internal market distortions.

6. NFUS therefore supports common frameworks, commonly agreed, in the policy areas necessary to enable internal UK markets to function effectively, via minimum common standards that also ensure that the UK is best placed to enter

into and implement new trade deals that are to the benefit of the agricultural industry. The examples of policy areas which NFUS believe would be sensibly governed by a common framework would be pesticides, organic farming, fertilisers, animal health and traceability, marketing standards, food and feed safety, and food labelling.

7. Thus, beyond these minimum common standards, there must be clear flexibility to develop and implement appropriate agricultural and rural policy measures within each devolved administration.
8. The Scottish Government has introduced the Agriculture (Retained EU Law and Data) Bill ('the Scottish Bill'), which is progressing through the Scottish Parliament. In tandem, the UK Government's Agriculture Bill ('the UK Bill') is progressing through the UK Parliament. Both Bills will give respective Scottish and UK Ministers to continue to make payments to the agricultural sector once the UK exits the Common Agricultural Policy (CAP) at the end of the transition period on 31 December 2020, and give respective ministers the powers to make changes to agricultural policy in order to better fit the differing profiles of agriculture across the UK. The devolved approach in this respect is completely sound.
9. Within the context of parallel parliamentary processes, and at face value, it would appear that both Bills may give respective UK and Scottish ministers similar powers in relation to certain issues (specifically livestock traceability, marketing standards, carcass classification, aid for fruit and vegetable producer organisations). Where such policy areas are devolved, it is essential that application and operation is consistent and always co-ordinated with the other UK legislatures. What is critical is whether the parallel Bill process could establish a theoretical possibility for one legislature to override the other if there were specific policy divergence. Such a situation would be untenable for NFUS, which is why decision-making processes for agreeing common frameworks between the UK and devolved administrations is so vital.
10. One example relates to the Scottish Bill referring to powers for Scottish ministers to 'collect' data in order to ensure the traceability of livestock. Likewise, the UK

Bill suggests that the Secretary of State would have powers in relation to England, Wales, Northern Ireland or Scotland in the context of 'processing' data.

11. The livestock sectors in Scotland and the UK, working with their respective governments, have developed two separate systems for traceability (ScotEID and the Livestock Information System, respectively) and these systems are complementary to one another due to consensus between the governments at the current time. Going forward, it is essential that powers are not overlapping. What is needed are different powers, rather than parallel powers, to enable (where appropriate) differentiated approaches across the UK that are also sufficiently co-ordinated to handle the likes of cross-border movements of livestock.

Commonly agreed frameworks to preserve the UK internal market

12. The above issues are of significant interest to NFUS due to the fact that the vast majority of Scottish produce is processed, marketed and sold within a UK-wide single market. Whilst NFUS wholly appreciates that policy divergence is not the intention of the current government(s), the possibility of conflict is a concern.
13. As NFUS has outlined in previous evidence to this Committee, the governance of common frameworks is an extremely complex constitutional issue which is also increasingly political. NFUS understands that UK and devolved ministers are at an advanced stage in discussions on the governance of UK-wide frameworks on issues such as those identified above. However, NFUS believes it is a valid query as to why the parallel bills will at face value legislate for the same issues, before a formalised structure has been put in place to ensure that commonly agreed frameworks on these issues are agreed, not imposed, and regulatory divergence is avoided.
14. Farming Ministers across the UK and agricultural departments must establish and maintain regular, formal and cooperative arrangements to manage policy, legislation and delivery of regulation across the UK economic area. A guiding principle should be that no single country determines or curtail UK policy in the rest of the UK. To do otherwise would jeopardise the integrity of UK internal

market and/or create conflict between the governments on issues to do with legislative competence – at the agricultural industry’s loss.

15. In its consideration of this important issue, NFUS has engaged with the authors of, and subsequently has drawn heavily from, academic and independent analysis published by the Centre on Constitutional Change² and the Institute for Government³ on the operation of devolution and EU competences after Brexit.
16. NFUS strongly recognises the challenges that have been identified by the Institute for Government in its 2018 report, *Devolution after Brexit: Managing the environment, agriculture and fisheries*, and lends its support to the conclusions and recommendations of that report.

Scottish food and drink within the UK internal market

17. The time, effort and care which Scottish farmers and crofters take to produce food over a vast range of landscapes and challenging farming systems forms a significant part of image of Scotland as a ‘Land of Food and Drink’.
18. Food and drink is a significant growth area for the Scottish economy. In addition to growing the value of Scottish exports abroad, there are major opportunities in new and emerging international markets, with the Scotland Food and Drink Partnership identifying 120 potential overseas buyers as priority targets. NFUS recognises that there is an interest in foreign markets for a premium product and an appreciation of the provenance inherent within Scotland’s diverse food and drink offering.
19. The very positive progress over the last 15 years in building a Scottish brand has all been possible within regulatory frameworks as members of the EU and will continue to be possible outside of the EU within a commonly agreed UK regulatory framework. NFUS understands that similar initiatives have been undertaken within Wales and Northern Ireland to celebrate and showcase the

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<https://www.centreonconstitutionalchange.ac.uk/sites/default/files/papers/Keating%20Agriculture%20Report.pdf>

³ <https://www.instituteforgovernment.org.uk/sites/default/files/publications/IFGJ6070-Devolution-After-Brexit-180406-FINAL-WEB-FINAL.pdf>

value of regional produce. The UK internal market should therefore be under no threat by the development of distinct regional brands in overseas markets, so long as governments and industry continue to work with one another pan-UK.

20. It is the view of NFUS that building brands should primarily be the role of commercial companies and industry partnerships, such as the Scotland Food and Drink Partnership. For example, within the red meat sector, Quality Meat Scotland (QMS) assures and promotes several specific brands (Scotch Beef PGI, Scotch Lamb PGI, Specially Selected Pork) which deliver higher value and production standards.
21. Where NFUS does see a role for governments is in building relationships with buyers and trade partners around the world, in order to 'open the door' for Scottish and UK suppliers who already possess the knowledge about standards and integrity within supply chains.
22. Outside of the EU, the UK Government must also proactively facilitate trade flows and the expansion of brands overseas by significantly scaling up capacity to deal with export certification and documentation to allow the free-flow of products. It will be extremely important in the post-Brexit landscape for governments and industry exporters to work much closer together, with governments taking a facilitative role in solving trade problems, and industry leading on promotion.
23. This ambition must be met with the appropriate level of logistical and technical expertise to ensure certification, veterinary checks and insurance are accounted for. Delivering quantity to new countries is a laudable ambition for the future, but it must be logistically viable and both governments must work together to ensure that appropriate resource is dedicated to these challenges.

24. Whilst there are significant opportunities overseas, NFUS has concerns with the possibility of new trade deals being negotiated which trade off agriculture by allowing the import of cheaper food produced to different standards to our own from third countries. Any outcome which would allow domestic producers to be undercut by cheaper products produced to inequivalent standards would be hugely damaging to the farming, food and drinks sectors within the whole UK internal market. Sucking in food imports also means exporting jobs and incomes in the domestic farming and food supply chain, as well as animal welfare and environmental responsibilities beyond our shores. Food production and consumption should never be based on price alone, but also provenance, quality and exacting standards.

25. NFUS challenges governments to ensure that export markets are not the only goal in the establishment of new strategies. Many small and medium enterprises in the UK food and drink industry exist that may not share the ambitions of governments to export. The UK is a net importer of agri-food, and there is a very large domestic market with significant opportunities for import substitution. NFUS considers that there is a role for both the Scottish and UK governments in assisting producers and industry to form effective and strong supply chains pan-UK which service the domestic market with home produced food.