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Scottish Affairs Committee

Scotland, Trade and Brexit

Seventh Report of Session 2017–19

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to the report*

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The Scottish Affairs Committee

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1 Introduction

1. Scotland has a proud history as a trading nation with its exports worth around a third of Scotland's GDP.¹ This performance is underpinned by Scotland's reputation for quality epitomised by globally renowned brands such as Scotch whisky and Scottish salmon. Through the UK's membership of the EU, the trade policy Scottish businesses currently operate under is set at EU level, with the European Commission responsible for negotiating trade agreements with other countries for all member states. This will change as the UK leaves the European Union, with the UK Government having stated that it will "seek opportunities to pursue an ever more ambitious global trade agenda, to maximise our trade opportunities globally and across all countries"² with the agreement of free trade agreements being "one important way" to "strengthen [the UK's] trade and investment relationships with partners across the world".³

Devolution settlement

2. Under the devolution settlement, international trade is reserved to the UK Government. The Scottish Government has no formal role in trade policy but is responsible for implementing international obligations which relate to devolved matters and for economic development, which includes promoting Scottish exports. The UK Government and the devolved administrations have agreed a Memorandum of Understanding which commits the two Governments to close cooperation on trade policy and trade promotion.⁴

Our inquiry

3. We launched this inquiry to identify Scotland's priorities for future trade policy post-Brexit; examine what role the devolved administrations should have in setting UK trade policy, and to look at how the two Governments work together to promote Scottish exports. We received 28 pieces of written evidence and held seven evidence sessions where we heard from academics, trade associations, business representatives, campaign groups, think tanks and UK and Scottish Governments Ministers. We also met with industry and sector groups, civil servants, MEPs and the Canadian Ambassador to the EU during a visit to Brussels and held a roundtable with farmers & landowners at the Royal Highlands Show in Edinburgh. We are grateful to everyone who contributed to our inquiry.

1 Scottish Parliament Information Centre, [Scotland's exports 2016](#), 2018

2 UK Government, [Trade White Paper: our future UK trade policy](#), October 2017, section 1.1

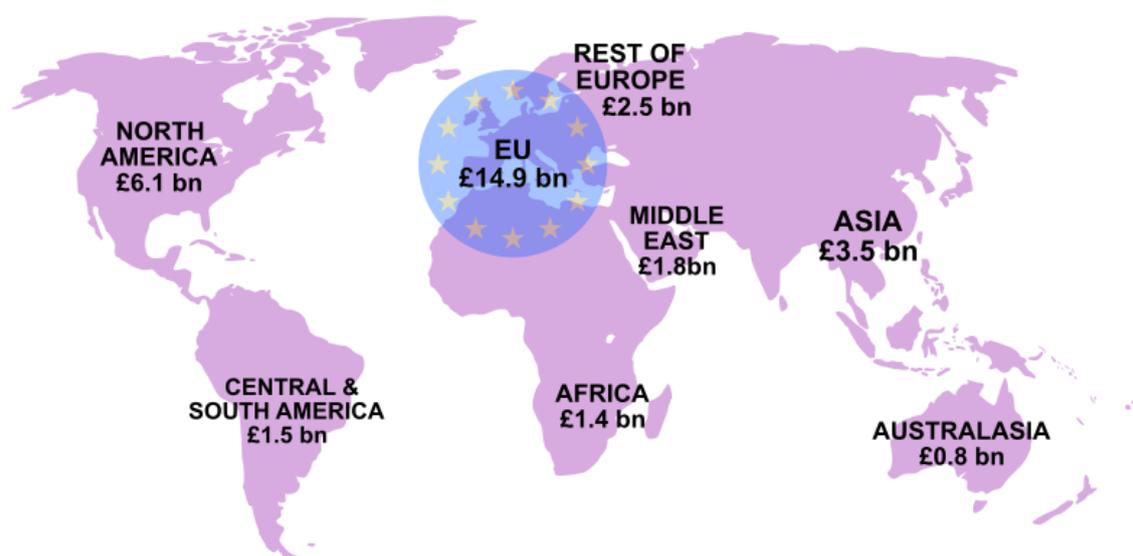
3 UK Government, [Trade White Paper: our future UK trade policy](#), October 2017, section 3.3

4 [Memorandum of Understanding and Supplementary Agreements](#), 2013

2 How Scotland trades with the world

Scottish export statistics

4. In 2017, total exports from Scotland (excluding oil and gas) were estimated to have been worth £81.4 billion to the Scottish economy.⁵ International exports made up £32.4 billion of this while trade with the rest of the UK was worth £48.9 billion.⁶ As shown below, the EU was Scotland's largest international export region accounting for 46% of all international exports, followed by North America at 17%.⁷



As would be expected as part of the UK, the rest of the UK remains Scotland's largest market and has grown by more than 70% between 2002 and 2017.⁸ The EU continues to be Scotland's largest international market, however trade with non-EU countries is growing at a much faster rate; Scotland's trade with non-EU countries grew by 96% between 2002 and 2017 compared to 30% for EU markets.⁹ This growth has been driven by an increase in service exports to non-EU countries; particularly in financial services and professional, scientific and technical activities.¹⁰ The UK Government estimates that 90% of global economic growth in the next two decades is set to come from outside the EU.¹¹

5. Scotland's trade with the rest of the UK relies more heavily on services compared with international exports. The two largest industries exported to the rest of the UK are financial services, and wholesale and retail trade. The other top export sectors to the rest of the UK in 2017 are shown in the graph below:¹²

5 Scottish Government, [Export Statistics Scotland 2017](#), 2019

6 Scottish Government, [Export Statistics Scotland 2017](#), 2019

7 Scottish Government, [Export Statistics Scotland 2017](#), 2019

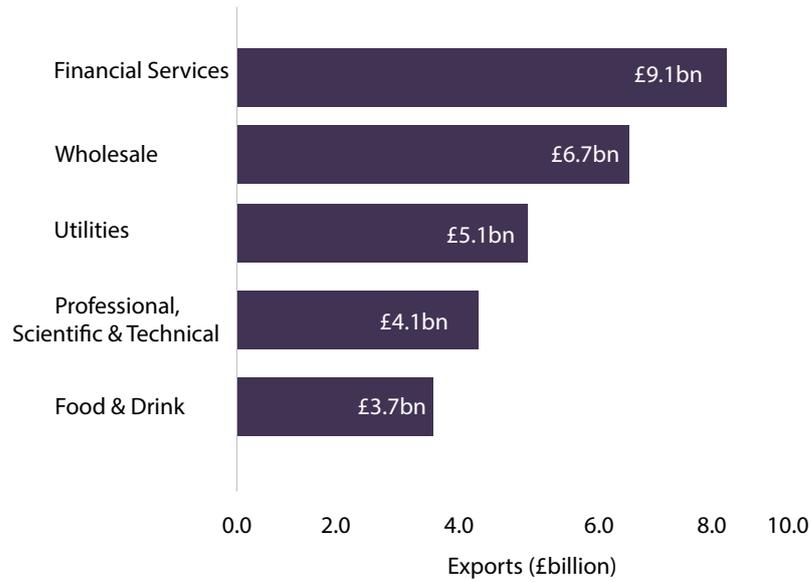
8 Scottish Government, [Export Statistics Scotland 2017](#), 2019

9 Scottish Government, [Export Statistics Scotland 2017](#), 2019

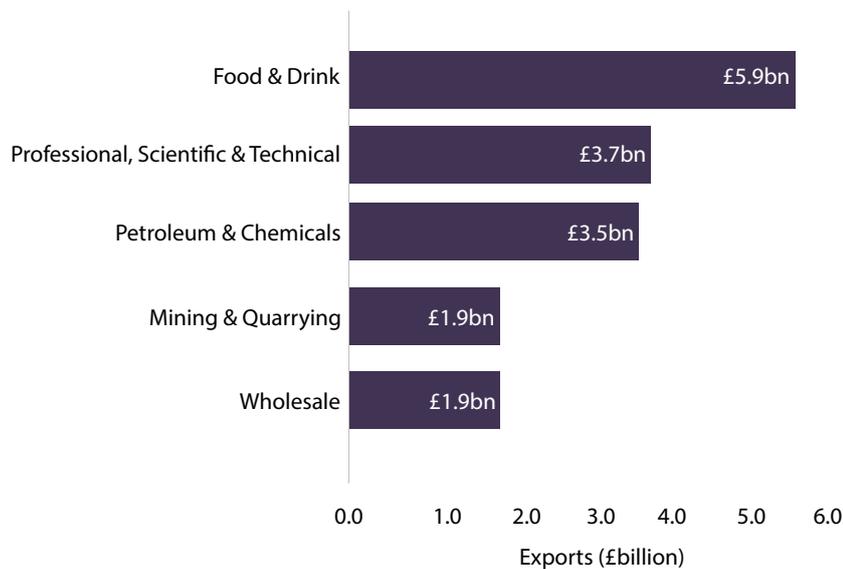
10 Scottish Government, [Export Statistics Scotland 2017](#), 2019

11 [Q514](#)

12 Scottish Government, [Export Statistics Scotland 2017](#), 2019



The two largest industries for international exports in Scotland are the food & drink manufacturing sector and the professional, scientific & technical sector, accounting for 29% of all international trade, these sectors were our primary focus during this inquiry. The other top exporting sectors from Scotland in 2017 are shown below:¹³



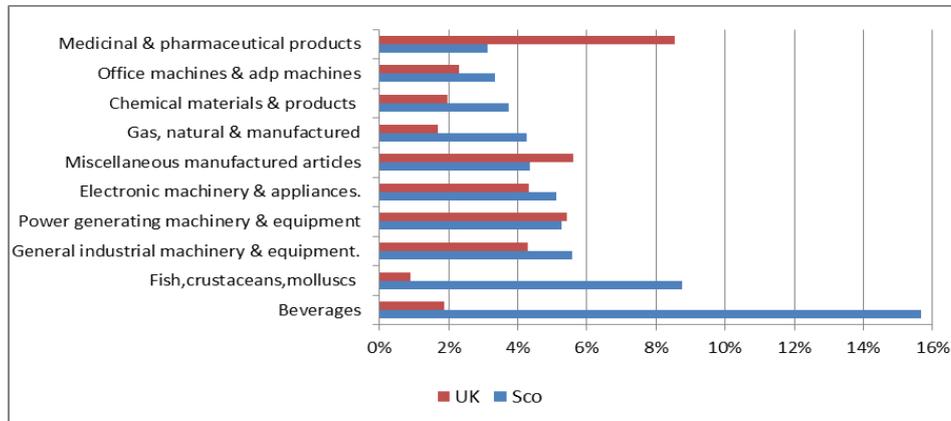
Comparison with rest of the UK

6. While Scotland has many similarities to the rest of the UK in its international exports, Professor Graeme Roy, Fraser of Allander Institute, told us there were a number of sectors which were of greater relative importance to Scotland than the rest of the UK.¹⁴ Notably

13 Scottish Government, [Export Statistics Scotland 2016, 2018](#)

14 [Q3](#)

the beverages, seafood and natural gas sectors make up a greater proportion of Scottish exports than they do for the UK as a whole; the graph below sets out these differences in more detail.¹⁵



James Withers, Chief Executive of Scotland Food & Drink argued that this was also reflected in the wider food and drink sector, with Scotland having built itself an identity as the “land of food and drink” at a time where the sector was not as high a priority UK-wide.¹⁶ The Scottish Government said these differences were “distinct”, and argued that the UK Government needed to consider the importance of these sectors to the Scottish economy when negotiating future trade deals.¹⁷

7. During the inquiry, we also heard concerns from representatives of Scotland’s main exporting sectors that they might lose out in future trade deals in favour of sectors that were of greater importance to the UK’s economy as a whole. Scotland Food & Drink, told us that there was a “real fear” amongst the industry in Scotland that the automotive, aviation and financial service sectors would be prioritised over them when the UK came to negotiate future agreements.¹⁸ Similarly NFU Scotland told us that the farming and food processing sectors must not be treated as “expendable” in future negotiations,¹⁹ with Jonnie Hall, their Director of Policy, saying he was concerned that UK agricultural standards could be “thrown away” in order to secure new free trade agreements outside the EU, which would be a “disaster” for the sector.²⁰ CBI Scotland told us it was important that the UK Government took a “whole UK” approach to future trade policy and ensure the “different economic strengths and weaknesses” of the devolved nations were reflected within it.²¹

Developing a UK-wide trade policy

8. When the UK Government published its Trade White Paper in October 2017, it stated that future UK trade policy would be developed in collaboration with the devolved administrations and would reflect the “needs and individual circumstances of all the

¹⁵ Scottish Government, [Scotland’s role in the development of future UK trade arrangements](#), 2018

¹⁶ [Q188](#)

¹⁷ [TFI0010](#)

¹⁸ [Q158](#)

¹⁹ [TFI0013](#)

²⁰ [Q158](#)

²¹ [TFI0014](#)

devolved nations”.²² However Dr Michael Gasiorek, UK Trade Policy Observatory expressed concern that the Government lacked a fully-formed UK trade strategy and had started consultations on individual free trade agreements without having reached a national consensus of what the UK wanted to achieve from these agreements.²³ The Law Society of Scotland argued that the Government’s Trade White Paper was “too general” and did not establish how it would address specific Scottish issues.²⁴

9. When we heard from the Rt Hon David Mundell MP, Secretary of State for Scotland, he sought to alleviate concerns that sectors of importance to Scotland would not be prioritised in future trade policy, telling us he was dedicated to ensuring future trade deals worked for the whole of the UK and reflected the needs of Scotland and its exporters. He added that the Government was in the process of engaging directly with Scottish stakeholders via recent consultations it had launched on future trade agreements.²⁵

10. While there are many similarities between the trading patterns of Scotland and the rest of the UK, there are differences in the relative importance of different sectors and markets. As the Government negotiates future trade agreements, it must ensure that sectors of vital importance to the Scottish economy such as the food, drink and fisheries sectors are not traded away to secure preferential agreements for other industries.

11. We welcome the Government’s commitment to establish a UK wide trade policy which reflects the needs and individual circumstances of all the UK nations. However, the Government needs to provide more clarity on how it will achieve this and what that will mean in practice. One way to achieve this would be to increase the involvement of the devolved administrations in setting UK trade policy. We explore how this can be done in the next Chapter.

22 Department for International Trade, [Preparing for our future UK trade](#), 2017

23 [Q383](#)

24 [TFI0023](#)

25 [Q505](#)

3 Role of the devolved administrations in trade policy

12. As a member of the EU, the UK's trade policy has been bound up with the EU's trade policy, with the European Commission responsible for negotiating trade agreements on behalf of all Member States. This will change when the UK withdraws from the EU, with Trade Minister George Hollingbery telling us that the UK would be "free to negotiate its own free trade agreement and [...] conduct our own independent trade policy" after we leave the EU.²⁶ During this inquiry we heard that repatriating trade policy presented an opportunity for the Government to improve its engagement with the devolved administrations.

Existing mechanisms for influencing trade policy

13. International relations, including the negotiation and ratification of treaties, is the exclusive responsibility of the UK Government. However, with the scope of modern trade deals focusing more on regulatory barriers to trade than traditional barriers such as tariffs, agreements can make commitments in devolved policy areas, such as setting food safety standards for exports, which the devolved administrations are responsible for implementing.²⁷ To reflect this, the two governments have agreed guidelines on how devolved administrations are involved in treaty agreements.²⁸ These state that the two Governments should cooperate by exchanging information during the negotiation of treaties and the implementation of treaty obligations. They also provide for devolved ministers to form part of the UK treaty negotiating team when invited by the UK Government.²⁹

14. Professor Michael Clancy, Law Society of Scotland, told us these existing measures provided inadequate scrutiny and needed to be revisited as part of the UK Government's review into intergovernmental relations.³⁰ This view was shared by the Scottish Government's Trade, Investment and Innovation Minister Ivan McKee MSP, who said the current arrangements would be "outdated" post-Brexit as they did not reflect the shift in responsibility of trade policy from the EU to the UK Government.³¹ Instead the Minister said a new consultation and decision-making process needed to be set up which guaranteed the devolved administrations a role in:

All stages of the formulation, negotiation, agreement and implementation of future trading arrangements.³²

15. The UK Government's 2017 White Paper stated that the devolved administrations would "have the opportunity to engage with and contribute" to our trade policy".³³ George Hollingbery MP, Minister of State for Trade Policy expanded on this when he gave evidence in December 2018, saying the Government was drafting a concordat which would clearly

26 [Q545](#)

27 [Dr Billy Melo Araujo, UK Post-Brexit Trade Agreements and Devolution](#), 2019

28 [Memorandum of Understanding and Supplementary Agreements](#)

29 [Memorandum of Understanding and Supplementary Agreements](#)

30 [Q371](#)

31 [Q371](#)

32 [Q425 & Q428](#)

33 Department for International Trade, [Preparing for our future trade policy](#), 2017

define the role of the Scottish Government and the other devolved administrations in future trade policy. We were told this would be shared with the Scottish Government “very shortly”.³⁴

16. We are pleased that the Government has committed to publish a concordat outlining the role of the devolved administrations in future UK trade policy. As the UK approaches the date of EU Exit, we ask the Government to provide an update on the status of this concordat in response to this Report.

Future role for the Scottish Government

17. Our witnesses supported the principle of a greater role for the devolved administrations in UK trade policy. Both the Scottish Chamber of Commerce and Scottish Council for Development and Industry said that it was in the interest of Scottish business for there to be close cooperation between governments when negotiating future trade agreements.³⁵ The Law Society of Scotland told us the best way to achieve this was through a formal framework setting out the role of the devolved administrations at each stage of the process. This, they argued, would “facilitate trade-related confidence-building and good-faith collaboration across devolved and Westminster administrations [and...] tie in with the “common frameworks” to be agreed as a result of the repatriation of EU powers.”³⁶

18. In the rest of this chapter we explore the options for the Scottish Government being more involved in trade policy; when negotiating mandates are being set, during the negotiations and in ratifying the final agreements.

Setting the mandate

19. Before entering formal trade talks with a country, the UK Government intends to publish an “Outline Approach”, setting out the high-level objectives and scope of a negotiation.³⁷ Aarti Shankar, Senior Researcher, Open Europe told us engaging with the devolved administrations during this process should be a “high priority” for the Government, arguing that it would only be able to deliver successful trade deals if the interests of the devolved nations had been taken into account.³⁸ Some witnesses felt that the existing Joint Ministerial Committee (JMC) structures could provide a route through which the devolved administrations could influence the Government’s mandate before trade talks commenced.

JMC Committee on international trade

20. The JMC is the main formal mechanism for ministerial discussions between the UK Government and the devolved administrations, it is a quadrilateral forum comprised of ministers from the UK and the three devolved administrations. The JMC’s remit includes considering non-devolved matters which intersect with devolved responsibilities, reviewing the relationship between the UK Government and devolved administrations,

34 [Q536](#)

35 [Q119 & Q120](#)

36 [TFI0023](#)

37 Department for International Trade, [Liam Fox delivers Parliament and the public a central role in post-Brexit UK trade agreements](#), 2018

38 [Q381](#)

and considering intra-UK disputes.³⁹ The JMC does not have a regular schedule of meetings, instead meeting when the UK Government chooses to; the UK Government is also responsible for setting the JMC's agenda. Sub-committees of the JMC have been established to discuss issues where there is a need for greater inter-governmental dialogue in greater detail. There are currently two active sub-committees - JMC Europe and JMC Europe Negotiations - which both focus on the UK's relations with the European Union.⁴⁰

21. The Institute for Government (IfG) and Trade Justice Scotland have argued that the creation of a JMC sub-committee on international trade could provide a suitable forum for "extensive consultation" with the devolved administrations when preparing the UK's negotiating mandate ahead of trade talks.⁴¹ The Welsh Government have also called for a Joint Ministerial Committee on International Trade to be created, telling the International Trade Committee it would:

Enable timely comprehensive consultation on overall trade policy and individual trade negotiations [... and provide] the governance structure needed to allow Ministers from the four administrations to agree on priorities for trade negotiations, particularly in respect of areas of devolved competence.⁴²

Maddy Thimont Jack, a researcher at the IfG, argued that any such sub-committee should be supported by a "properly resourced" JMC secretariat. This was to ensure the committee was a meaningful forum for engagement that met regularly and where all parties had input into the agenda, rather than the frequency and topics of meetings being entirely determined by the UK Government.⁴³

22. While the Scottish Government were not convinced that the current JMC mechanism was the most appropriate way to hold intergovernmental discussions on trade, they were supportive of the principle behind a sub-committee on international trade.⁴⁴ Trade, Investment and Innovation Minister Ivan McKee MSP told us the Scottish Government's preference however was to establish a statutory intergovernmental trade committee to oversee the process of negotiating and ratifying trade deals.⁴⁵ Unlike the JMC, the Minister said this proposed body would meet on a regular and planned basis and give "due weight and attention" to the needs and requirements of the devolved administrations by ensuring they were kept updated on all trade developments and invited to give input at each stage of the trade process.⁴⁶

23. When we discussed the possibility of creating a JMC sub-Committee on International Trade with UK Ministers, the Rt Hon David Mundell MP, Secretary of State for Scotland said it was worth consideration, adding that:

There is certainly a case to be made for that type of arrangement [...] I am not dismissing it.⁴⁷

39 [Memorandum of Understanding and Supplementary Agreements](#)

40 Institute for Government, [Devolution and the Joint Ministerial Committee](#), 2018

41 [Q379 & TFI0007](#)

42 Welsh Government, [Written evidence \(UTP0029\) to International Trade Committee](#), 2018

43 [Q380](#)

44 Scottish Government, [Scotland's role in the development of future UK trade agreements](#), 2018

45 [Q428](#)

46 [Q428,429 & 430](#)

47 [Q533 & 534](#)

24. *The Government should explore new options to facilitate extensive consultation with the devolved administrations when setting negotiating mandates in the future. One of these options should be the establishment of a JMC sub-committee on international trade. This should be supported by a fully resourced JMC secretariat responsible for ensuring the sub-committee meets regularly and that the devolved administrations have a role in setting the agenda for meetings.* We will be returning to the broader question of the JMC’s effectiveness in our inquiry into *The relationship between the UK and Scottish Governments*.

Representation during trade negotiations

25. Another proposal to increase the involvement of the devolved administrations in trade policy was for ministers from the devolved administrations to form part of the UK negotiating team for future trade agreements. Maddy Thimont Jack and Dr Michael Gasiorok were both supportive of such an approach, with Ms Thimont Jack saying it could be particularly helpful when negotiators discussed areas of devolved responsibility such as agriculture, where the devolved administration would be responsible for implementing commitments made in trade agreements.⁴⁸ Similar arrangements are currently in place for fisheries, where Scottish ministers are included in the UK delegation at the EU Fisheries Council.⁴⁹ Trade Justice Scotland said extending this to trade agreements was not a “radical” suggestion, adding that there were many examples of countries including regional and provincial representatives in trade talks which the UK could emulate.⁵⁰

26. One international example frequently cited during our inquiry was the approach taken in Canada during the CETA trade deal negotiation with the EU. During these negotiations the Canadian provinces were closely involved in setting the Federal Government’s mandate and were invited to be present during the negotiations as observers. This process was explained to us by former Canadian trade official Dr Kristen Hopewell:

The provinces played a particular large role. They were involved in crafting the mandate for the negotiations; they provided inputs on their issues of interest and expertise; they had access to the confidential negotiating documents and they were extensively consulted throughout the negotiations. The provinces [also] nominated their own chief negotiators to join the Canadian delegation.⁵¹

Professor Hopewell argued that this involvement of provincial representatives helped the Canadian delegation in the negotiation room, as the provincial administrations tended to be closer to the sectors and industries in their provinces and provided a better sense of how potential trade provisions would affect them than the federal government.⁵² Professor Andrew Scott, Edinburgh University said the UK could learn from the approach taken during the CETA talks, arguing that the inclusion of Scottish Government Ministers in future UK delegations could provide similar benefits.⁵³

48 [Q378 & Q379](#)

49 Scottish Affairs Committee, [Oral evidence: Fisheries Bill, HC 1787 Question 56](#), 2019

50 [TFI0007](#)

51 [Q55](#)

52 [Q61](#)

53 [Q61](#)

27. The Scottish Government have said it “makes sense” for them to have a presence in trade talks when commitments are made which impact devolved areas of policy, arguing that it would help build consensus for final agreements and provide reassurance to future trading partners that the UK negotiating position was supported by all of the UK’s governments.⁵⁴ This would be particularly relevant when trade agreements covered contentious areas such as procurement in devolved public services.⁵⁵ The Welsh Government have also called for Welsh Government officials to be “part of the negotiations”, telling the International Trade Committee that they could be “in the room” or “in the room next door.”⁵⁶

28. When asked in July 2018 if devolved ministers could be included in future UK trade delegations, Secretary of State for International Trade, Rt Hon Dr Liam Fox MP said the existing Memorandum of Understanding already allowed for devolved ministers to attend international talks concerning devolved matters.⁵⁷ However, this was conditional on them abiding by the UK negotiating position, adding:

We would not go into negotiations with someone sitting on the British side of the table who took a different view from the Government.⁵⁸

29. ***We recommend that the Government commit to including representatives from the devolved administrations in the UK negotiating team for future trade agreements where commitments are being sought that will impact on devolved competencies. This would have to be done with the understanding that devolved ministers would not deviate from the UK Government’s negotiating position.***

Ratifying trade deals

30. As well as being involved in setting negotiating mandates and taking part in the negotiations themselves, we heard arguments about what role the devolved administrations should have in ratifying any final trade deal. In their policy paper, *Scotland’s role in the development of future UK trade arrangements*, the Scottish Government set out proposals to extend their role in trade agreements and establish a:

Statutory requirement that the agreement and participation of the Scottish Government and Scottish Parliament [be] required where new UK trade agreements would have devolved content, or touch on devolved issues. Given the scope of modern trade agreements, in practice, this would certainly mean all such agreements.⁵⁹

When we asked the Scottish Government for more detail, Minister Ivan McKee told us he wanted to avoid describing this as the Scottish Government seeking a “veto”, arguing that he saw this as a “mature and considered” approach to trade policy that allowed for the inclusion of the devolved administrations in each step of the process rather than an isolated vote at the end of the process.⁶⁰ A similar argument was advanced by Dr Billy Melo Araujo, Queen’s University Belfast, in a recent paper *UK post-Brexit trade agreements and*

54 Scottish Government, [Scotland’s role in the development of future UK trade arrangements](#), 2018

55 Scottish Government, [Scotland’s role in the development of future UK trade arrangements](#), 2018

56 Welsh Government, [Written evidence \(UTP0029\) to International Trade Committee](#), 2018

57 HC Deb 17, 16 July 2018, [col 50](#) (Commons Chamber)

58 HC Deb 17, 16 July 2018, [col 50](#) (Commons Chamber)

59 Scottish Government, [Scotland’s role in the development of future UK trade arrangements](#), 2018

60 [Q448](#)

devolution, where he said that a “consultative and participatory” approach to the process could foster a sense of “ownership” amongst devolved ministers and increase the chances of them supporting a final agreement.⁶¹

31. Dr Kirsty Hughes, Director of the Scottish Centre on European Relations, said the idea of the Government requiring the consent of the devolved administrations was worth considering, telling us that the model used by the EU to require the consent of some regional parliaments (e.g. Wallonia) had not stopped the progression of any trade agreements as had been feared.⁶² However, the proposal was not welcomed by all our witnesses, with Dr Michael Gasiorok of the UK Trade Policy Observatory saying:

I would argue that there should be a strong element of consultation, that the devolved administrations should certainly be involved in the formulation of trade policy [...] but I would not go as far as to say that if, for example there was an element in some putative future trade agreement [...] which the Scottish Government was not happy with, that that would give them the right of veto; in other words the ability to block such a deal.⁶³

32. When we put the idea before the UK Government, George Hollingbery MP, Minister of State for Trade Policy said the concept of the Government requiring the consent of the Scottish Government was:

not on the table and never will be on the table. The UK is tasked with looking after UK free trade agreements abroad and we will continue to do so.⁶⁴

33. The Scottish Government must have a meaningful role in future trade negotiations including in the setting of negotiating mandates and participation in the negotiations themselves. We believe a model based on cooperation and trust would be preferable to one of formal consent of the Scottish Government on a final deal, but it will require goodwill from both Governments to make it work. We recommend that the Government, in response to this Report, set out the steps it will take to involve the devolved administrations in every step of the trade negotiation process.

61 Dr Billy Melo Araujo, [UK Post-Brexit Trade Agreements and Devolution](#), 2019

62 [Q383](#)

63 [Q378](#)

64 [Q508](#)

4 Scotland's trade priorities for future trade deals

34. During this inquiry we asked witnesses to set-out what Scotland's priorities should be for its future trade with the EU, and the rest of the world, after Brexit. We have not sought to recommend any specific type of trading relationship but have instead set out some priorities which are compatible with a range of approaches to the UK's future relationship with the EU. These priorities include:

- Minimising disruption and providing continuity in trade with Scotland's largest international market the European Union;
- Ensuring that there are no barriers to trade between Scotland and the rest of the UK;
- Providing certainty and stability for businesses which rely on the EU's existing Free Trade Agreements by ensuring they are rolled over, and
- Maintaining high regulatory standards which have allowed Scottish businesses to build a reputation for exporting high quality products, including protecting Scotland's geographical indications.

Minimising disruption and providing continuity in UK-EU trade

35. As discussed in Chapter 2, the European Union is Scotland's largest single international destination for exports accounting for 46% of international trade in 2017.⁶⁵ Both the Scottish Chamber of Commerce and Scottish Council for Development and Industry told us that maintaining as friction free access to the EU as possible was important for their members, with businesses being concerned about how a new UK-EU trading arrangement would impact them.⁶⁶ Providing this continuity would depend on the UK & EU minimising the emergence of two main barriers to trade:

- Tariffs: A state levy imposed on goods crossing from one customs territory to another, usually paid by importers, and
- Non-tariff barriers: Measures other than a customs tariff that act as a barrier to trade such as technical regulations & rules of origin.⁶⁷

Tariff-free trade

36. At the moment the UK's trade with the EU is tariff free, due to the UK's membership of the EU Single Market. Without the UK and EU reaching a deal on their future trading relationship, trade would revert to World Trade Organisation (WTO) rules with both the UK and EU having to apply the same tariffs on goods for each other as they do countries

65 Scottish Government, [Export statistics Scotland 2017](#), 2019

66 [Q107 & Q129](#)

67 Rules of origin are rules requiring products to be able to demonstrate in which country they were produced, often so that it can be determined whether the good can benefit from preferential access under a free trade agreement or whether tariffs should be imposed.

with whom they do not have a trade agreement.⁶⁸ The Scottish food sector was particularly concerned about the risk of this outcome as 70% of their exports go to the EU, and the EU's WTO tariffs on food range from 10% for fruits and vegetables, to 35% on dairy products and up to 50% for certain red meats.⁶⁹ Sarah Baker, Strategic Insight Manager at the Agriculture and Horticulture Development Board (AHDB), warned that this could result in Scottish industries such as the red meat sector becoming uncompetitive in the EU overnight:

There are not many products that could take a 40% tariff and still remain competitive, so at the stroke of a pen a lot of those industries will really struggle.⁷⁰

When we visited crofters in the Outer Hebrides we heard concerns that the introduction of tariffs on the lamb they export to the EU would have devastating consequences for crofting and the wider island economy. John Anderson, Chief Executive, Scottish Fishermen's Organisation told us that the introduction of the EU's WTO tariffs would increase the cost of importing Scottish fish into the EU by £40 million.⁷¹

37. Under this scenario UK tariffs would also be imposed on goods being imported from the EU, the Scotch Whisky Association told us that this would increase overheads for distilleries which rely on imports of products such as glass and closures⁷² from the EU.⁷³ Cat Hay, Policy Manager, Food and Drink Federation Scotland, warned this increase in overheads for manufacturers would also impact consumers, as a proportion of these price increases were likely to be passed on to them.⁷⁴

38. While most organisations we heard from had a pessimistic view of the introduction of tariffs, Scotland Food & Drink and NFU Scotland did identify some potential benefits for certain parts of the agri-food industry such as the dairy and pig sectors, where they felt tariffs on EU imports could lead to Scottish producers increasing their share of the domestic market.⁷⁵ However, both organisations said these were the exceptions to the overall trend, and that their preference was for an agreement between the UK and EU which delivered tariff-free access to the EU for all goods.⁷⁶

39. When the Government published its White Paper on the future relationship with the EU in July 2018, it proposed that tariffs be eliminated for goods traded between the UK and the EU.⁷⁷ Since then, the Government and European Commission have published the Political Declaration on the future relationship which outlines that there will be no tariffs or charges across all sectors.⁷⁸ The declaration is not legally binding and is subject to the ratification of a Withdrawal Agreement between the UK & EU.

68 Department for International Trade, [Classifying your goods in the UK trade tariff if there's no Brexit deal](#), 2018

69 [Q150](#) & Exiting the European Union Committee, [EU Exit Analysis: Cross Whitehall Briefing](#), 2018

70 [Q163](#)

71 [Q249](#)

72 [The caps on the tops of the bottles.](#)

73 [TFI0001](#)

74 [Q149](#)

75 [Q164](#)

76 [TFI0013](#) & [Q164](#)

77 HM Government, [The Future Relationship between the UK and the EU](#), 2018

78 [Political Declaration setting out the framework for the future relationship between the EU and the UK](#), 2018

40. We are encouraged that the Political Declaration commits to no tariffs on goods being the basis of the future trading relationship between the UK and EU. Maintaining tariff-free trade is crucially important for the food and drink sector in Scotland which would be most susceptible to the EU's WTO tariffs, with some sectors' exports to the EU likely to become uncompetitive overnight.

Non-tariff barriers for goods

41. Unlike tariffs, non-tariff barriers are used to maintain the quality of trade entering a country, by ensuring that any imports meet certain standards before they are allowed into a market. For goods examples can include; sanitary and phytosanitary measures to ensure products meets food safety standards, and labelling rules which require products entering a market to have certain labels for consumers. These are usually enforced through custom checks. Scottish exports of goods currently face very few non-tariff barriers when entering the EU⁷⁹ due to the Single Market which eliminates many regulatory barriers to trade through the harmonisation of standards⁸⁰ and mutual recognition of standards.⁸¹

42. Without a comprehensive deal with the EU on regulatory alignment in goods, the UK would be treated as a "third country" with exports needing to pass customs and regulatory procedures to enter the EU.⁸² While the UK will be fully aligned with EU rules after Brexit that will not in itself prevent new regulatory barriers. As the Institute for Government explain in their report on the options for the UK's relationship with the EU after Brexit:

There is a difference between having the same rules and having those rules legally enforced as being the same as the EU's. In the absence of formal recognition of the UK's regulations as being equivalent to the EU's, the EU would still be required by its own laws to treat the UK as a third country and impose checks equivalent to any other third country with no deal. That means UK firms would face regulatory barriers and customs checks in doing business with the EU.⁸³

Sarah Baker, AHD told us that preparing for non-tariff barriers would be "equally important" as tariffs for most exporters, as it would be the first time they had encountered technical barriers to trade with the EU.⁸⁴

Custom Checks for goods

43. The British Veterinary Association told us that the agri-food sector would be most exposed to non-tariff barriers outside the EU due to the biosecurity concerns about their

79 Despite single market integration, some non-tariff barriers do remain in trade between EU Member States. These can include differences in national tax systems and different national regulations for certain services sectors which companies must comply with to provide that service.

80 In some areas the EU replaces national legislation with harmonised rules. These are common standards which exist in areas such as technical regulations and food safety.

81 Where rules are not harmonised, the Single Market guarantees that products and services can be sold irrespective of their differences because member states recognise each other's standards are being equivalent.

82 [TFI0024](#)

83 Institute for Government, [Trade after Brexit: Options for the UK's relationship with the EU](#), 2017

84 [Q167](#)

exports.⁸⁵ These custom checks would include sanitary and phytosanitary checks⁸⁶ at the border and could result in the number of products requiring veterinary health certifications to increase by up to 325%.⁸⁷ NFU Scotland told us this would have a huge impact on the red meat industry in Scotland, which would require 170,000 export certificates if current export levels to the EU were maintained.⁸⁸ They argued this would be most challenging for SMEs who may not have the resources or experience to deal with large numbers of EU export certifications.⁸⁹ To help prepare exporters for these changes the Scotch Whisky Association suggested the Government issue guidance on how to navigate new customs arrangements post-Brexit.⁹⁰

44. Most witnesses agreed that any increase in custom checks at the border would lead to delays, with James Withers, Chief Executive of Scotland Food and Drink warning that just a small increase of custom checks at the border could lead to 10 to 20-mile tailbacks which would have a serious impact on businesses which traded perishable products, most of which relied on “just in time” supply chains.⁹¹ This concern was emphasised to us by representatives from the fishing sector, most of whom traded live or perishable products. John Anderson Chief Executive of the Scottish Fishermen’s Organisation told us that “harmonisation” of standards with the EU would be a vital step in avoiding delays at the border in the future:

Harmonisation is vital [...] there are things like catching export certificates, heavy administrative burdens that we would have to deal with if we did not have that. That all induces time delays [particularly] for live and perishable products, that is a major concern and something that we would want to avoid.⁹²

Allie Renison, Head of Europe and Trade Policy, Institute for Directors (IoD), told us that when offered the option of remaining aligned to the EU or realigning with other standard setters such as the United States, the majority of IoD manufacturing members said they would rather maintain alignment with the EU to maximise market access to one of their largest markets.⁹³

45. The UK Government and European Commission published the Political Declaration on the future relationship in November which outlined that the “future economic partnership” would consist of a “comprehensive free trade area” which will ensure there are provisions in place to “promote regulatory approaches that are transparent, efficient” and promote avoidance of unnecessary barriers to trade in goods.⁹⁴ While agreed by both sides, the declaration is not legally binding and is subject to the ratification of a Withdrawal Agreement between the UK & EU.

85 [TFI0024](#)

86 These can include documentary, identity and physical checks of live animals and products of animal origin to ensure animal health, animal welfare and food standards are met.

87 [TFI0024](#)

88 [TFI0013](#)

89 [TFI0013](#)

90 [Letter from Scotch Whisky Association to the Committee](#), November 2018

91 [Q160](#)

92 [Q210](#)

93 [Q127](#)

94 [Political Declaration for the future relationship between the EU and UK](#), 2018

46. **Scottish manufacturers have benefited immensely from frictionless access to the EU Single Market and require assurances that trade with one of their largest international markets will not be disrupted in the future. We welcome the Political Declaration’s ambition for a “comprehensive” free trade area, but this must minimise non-tariff barriers for goods and provide continuity for businesses which rely on EU supply chains and perishable products. *If the Government, no longer wishes to align with an EU standard in the future it should clearly state its rationale for diverging and provide businesses with ample opportunity to comment on the proposed changes before they are agreed.***

New export support schemes

47. Following the concern about the impact of non-tariff barriers on Scottish goods exports with the EU post-Brexit, we asked witnesses what new measures the Government could introduce to help traders prepare. Dr Michael Gasiorek suggested the Government follow the example of the Republic of Ireland and the Netherlands and establish a UK voucher scheme.⁹⁵ Under the voucher schemes operating in the Republic of Ireland and the Netherlands, SMEs which trade with the UK can apply for a monetary voucher (up to €2250 in the Republic of Ireland and €2500 in the Netherlands) which can be spent with accredited companies to get advice on specific trade issues arising from Brexit, such as the movement of goods and customs paperwork in addition to support on currency management, movement of labour and legal matters.⁹⁶ Dr Gasiorek felt a similar scheme in the UK would incentivise more businesses to engage in Brexit preparations.⁹⁷

48. Since we concluded taking evidence, the UK Government has announced a one-off investment of £8 million to fund two new grant schemes to help UK businesses and custom intermediaries prepare for customs declarations post-Brexit. This is narrower in scope than the Brexit voucher schemes referred to above, as they can only be used to fund customs training for staff and make IT improvements related to the automation and productivity of customs paperwork.⁹⁸

49. **Whilst we welcome the announcement from the Government that small and medium sized businesses will now be able to apply for two new grants to help them prepare for post-Brexit customs declarations, they are narrow in scope focusing on training and IT improvements only. *The Government should urgently look to extend the remit of the grants to cover additional areas of export support for businesses such as the movement of labour, goods, currency management and legal advice as is the case for the Brexit voucher schemes operating in the Republic of Ireland and the Netherlands.***

Non-tariff barriers for services

50. Unlike trade in goods, services are not usually affected by financial barriers to trade. Instead non-tariff barriers to trade arise from companies needing to meet domestic standards to trade in a particular market, such as demonstrating compliance with another country’s regulatory regime. Scottish service exporters currently face limited barriers

95 [Q420](#)

96 InterTradeIreland, [Brexit: start to plan vouchers](#) and Business.gov.nl, [Brexit vouchers](#)

97 [Q420](#)

98 HM Treasury, [£8 million funding scheme for customs intermediaries and traders open](#), 2018

in the EU due to the harmonisation and mutual recognition of standards through the Single Market. Scottish service trade with the EU accounts for 41% of the sector's total international exports.⁹⁹

51. Most service providers we heard from were positive about their experiences of trading with the Single Market, with ScotlandIS, representing Scotland's digital sector, telling us that the Single Market offered the "best trading conditions" for Scottish firms due to the free flow of data.¹⁰⁰ This view was shared by Scottish Financial Enterprise (SFE), who told us that the success of Scotland's financial industry was based on its ability to access and service all customers within the EU.¹⁰¹ This is because of the EU "passporting" system, which authorises' all UK firms to trade freely in any EU or EEA state and avoid non-tariff barriers.¹⁰²

52. UK Finance said the sector's priority for the post-Brexit trading relationship with the EU was to secure an agreement with the EU which maintained market access to a similar level of passporting.¹⁰³ Alistair Ross, Association of British Insurers (ABI), warned that without such an agreement, it might not be possible for insurers to honour contracts with obligations extending beyond the date of Brexit.¹⁰⁴ This could impact the sector in Scotland, with some of the ABI's Scottish members having started the process of establishing subsidiaries in the EU to ensure they can continue servicing existing contracts after Brexit.¹⁰⁵

53. Outside the EU the UK would no longer have access to financial passporting. The EU has an equivalence regime for third countries which allows businesses to operate in certain areas of the Single Market without checks. This would mean the EU acknowledging that the legal, regulatory and supervisory regimes of the UK are equivalent to its own. Conor Lawlor, UK Finance said this would not be ideal for the sector:

[That] would be incredibly minimalistic and get you absolutely nowhere near the current level of cross-border trade or trade in general of services that is granted under the current single market and passporting system.¹⁰⁶

There were two reasons for this, first that equivalence had a narrow scope, and did not cover certain financial services such as banking, debt issuance and deposit taking.¹⁰⁷ The second was that the EU can revoke the equivalence agreement after giving just 30 days' notice.¹⁰⁸ SFE told us this would not be acceptable to the industry and called for a "stronger and more robust equivalence regime" which would provide businesses with confidence that they could make long-term decisions.¹⁰⁹

54. The Government's White Paper on the future trading relationship with the EU proposed an expanded version of the EU's existing equivalence regime. This would allow both the UK and EU to retain autonomy over access to their markets and legislation but

99 Scottish Government, [Export Statistics Scotland 2017](#), 2019

100 [Q327](#)

101 [TFI0026](#)

102 [Q294](#)

103 [Q300](#)

104 [Q314](#)

105 [Q300](#)

106 [Q304](#)

107 [Q304](#)

108 [Q304](#)

109 [Q304](#)

create a bilateral framework of commitments. Central to this would be an understanding that the UK and the EU avoid adopting regulations that produce divergent outcomes in relation to cross-border financial services, with processes setup to discuss future regulations and a structured withdrawal process established to provide safeguards should either side revoke its equivalence decision.¹¹⁰

55. For digital providers, the EU offers an adequacy framework for third countries, which allows countries recognised as having equivalent standards to send data to the EU without further safeguards being necessary. The EU currently has 12 adequacy agreements with non-EU countries.¹¹¹ ScotlandIS told us that a future arrangement needed to ensure the free movement of data within the EU, failure to maintain this would impact data-intensive service industries such as accounting, banking and telecommunications, which could become uncompetitive in Scotland as a result.¹¹²

56. The Government's White Paper stressed the importance of maintaining frictionless trade in digital services between the UK and EU. To facilitate this, it proposed an "ambitious" policy on digital trade with the EU covering telecommunications and digital infrastructure. The Government suggested that this be based on the EU's existing adequacy arrangement for third countries.¹¹³ Since we heard from the services sector, the Political Declaration on the future relationship has been published, which commits the UK and EU to explore provisions related to services that:

- Deliver a level of liberalisation of trade in services well beyond WTO commitments;
- Provides substantial market access coverage to all sectors, and
- Establish equivalence and adequacy systems to allow each party to declare the other's system as regulatory equivalent.¹¹⁴

57. Scotland's service sector has benefited from its ability to freely offer services to customers in the EU, which accounts for 41% of service sector's trade. We were told that any agreement to provide the sector with continued market access to the EU needed to go further than the EU's existing equivalence regimes. We therefore recommend that the Government ensure that any new equivalence regime covers the broadest range of activity conducted by Scotland's service's sector. This agreement must not be vulnerable to sudden revocation, instead a dispute resolution mechanism should be established to resolve disagreements about whether the two regimes are equivalent, which would need to be followed before either side could withdraw from the agreement. This should provide confidence to businesses that they can make long term decisions with the knowledge that their access arrangements will not suddenly change.

110 HM Government, [Future relationship between the UK and EU](#), 2018

111 European Commission, [Adequacy of the protection of personal data in non-EU countries](#)

112 [Q327 & 328](#)

113 HM Government, [Future relationship between the UK and EU](#), 2018

114 [Political Declaration setting out the framework for the future relationship between the UK & EU](#), 2018

Mutual recognition of professional qualifications

58. Another priority for the service sector was to ensure the continued mutual recognition of professional qualifications with the EU.¹¹⁵ At the moment there is a reciprocal framework which enables professionals from the European Economic Area (EEA) and Switzerland to work, in countries other than the one in which their qualification was obtained.¹¹⁶ In the absence of an agreement post-Brexit, this will no longer apply to UK nationals in a number of professions including law, accountancy and medicine, who will instead need to comply with the national policies of Member States.¹¹⁷ While the scheme covers multiple professions, the evidence we heard focussed on the legal and financial services sectors.

59. Both the Law Society of Scotland and Scottish Financial Enterprise (SFE) told us mutual recognition of qualifications was an important commercial asset to Scotland, as it allowed professionals to work throughout the EU with little restriction and have greater access to the EU market than professionals from third countries.¹¹⁸ SFE said this was crucially important to the financial sector which relied on qualified accountants and lawyers to perform services such as auditing and providing legal counsel across the UK and EU without restriction.¹¹⁹ All the witnesses we heard from stressed the importance of mutual recognition being maintained post-Brexit, with SFE saying the UK would lose many of the rights mentioned above if it was not incorporated into a future trade deal between the UK and EU.¹²⁰

60. In the event of mutual recognition of professional qualifications not being extended post-Brexit, Michael Clancy, Law Society of Scotland, told us that without an agreement professionals would have to comply with local work permit and immigration requirements as well as requalifying.¹²¹ Carolyn Thurston Smith, Law Society of Scotland, said this would cause problems in countries that required citizenship to qualify, such as in Austria.¹²²

61. The Chartered Insurance Institute told us that there were also inconsistencies amongst the educational requirements of different Member States, which could cause difficulty for professionals trying to requalify in some countries. They cited Belgium as an example:

[In Belgium] the regulator sets the bar for qualification recognition at a very high level, stipulating that a senior manager or any member of staff responsible for the distribution of insurance in a Belgian intermediary must be qualified to MA level or have a specialist Bachelors degree [in insurance ...] this means that at present, for any firm looking to establish post-Brexit in Belgium, any senior staff would need to sit and obtain a qualification via the [Belgian] Financial Services and Market Authority.¹²³

115 Known as the Mutual Recognition of Professional Qualifications Directive (MRPQ)

116 Department for Business, Energy and Industrial Strategy, [Providing services including those of a qualified professional if there is no Brexit deal](#), 2018

117 Department for Business, Energy and Industrial Strategy, [Providing services including those of a qualified professional if there is no Brexit deal](#), 2018

118 [Letter from Scottish Financial Enterprise to Committee](#), 2019 & [Q351](#)

119 [Letter from Scottish Financial Enterprise to Committee](#), 2019

120 [Letter from Scottish Financial Enterprise to Committee](#), 2019

121 [Q366](#)

122 [Q352](#)

123 TFI0029

62. The Government's White Paper on the future relationship with the EU proposed that a new recognition agreement be established to enable UK and EU professionals to continue to provide services across the UK and EU.¹²⁴ Since then, the Government and European Commission have provided an update through the Withdrawal Agreement and Political Declaration. The Withdrawal Agreement says that during the Implementation Period UK professionals working in the EU and vice versa will continue to have their professional qualifications recognised.¹²⁵ The declaration on the future relationship states that both parties will:

Develop appropriate arrangements on those professional qualifications which are necessary to the pursuit of regulated professions, where in the Parties interest.¹²⁶

63. The Law Society of Scotland welcomed the short-term continuity which would be provided by the Withdrawal Agreement, but were concerned that the Political Declaration lacked ambition and was not specific enough to provide service sectors with assurance that they would maintain the same access to the Internal Market as present.¹²⁷

64. Scotland's service sector currently benefits from its ability to operate throughout the EU due to the mutual recognition of professional qualifications within the single market. We heard this was particularly important for the legal and financial services sectors. However there remains uncertainty as to the future recognition of UK professional qualifications in the EU post-Brexit. We welcome the provisions included in the Withdrawal Agreement which will provide continuity, but the Government must confirm and deliver on its intention to negotiate a long-term agreement with the EU which maintains similar market access for UK qualifications. This will provide clarity about what the future arrangements will be for Scottish professionals operating in the EU after Brexit.

Preserving trade within the UK

65. The second priority that came up during our inquiry was the importance of maintaining Scotland's trade with the rest of the UK. As discussed in Chapter 2, in 2017 60% of Scotland's exports went to the rest of the UK.¹²⁸ NFU Scotland told us that the rest of the UK market was particularly important for the Scottish food and drink industry, with the rest of the UK accounting for 61% of all Scottish food and drink exports.¹²⁹ This sentiment was shared by representatives from Scotland's financial services sector which exported more to the rest of the UK than any sector in 2017.¹³⁰

66. When he appeared before us, the Secretary of State for Scotland argued that it was important not to neglect Scotland's largest trading market when discussing Scotland's future trade priorities.¹³¹ During this inquiry we raised with witnesses the importance

124 HM Government, [The future relationship between the UK and EU](#), 2018

125 Department for Exiting the European Union, [Withdrawal Agreement](#), 2018

126 Department for Exiting the European Union, [Political Declaration on the future relationship](#), 2018

127 [Letter to Committee from Law Society of Scotland](#), 2019

128 Scottish Government, [Export Statistics Scotland 2017](#), 2019

129 [TFI0013](#)

130 Scottish Government, [Export Statistics Scotland 2017](#), 2019

131 [Q514](#)

of this trade and the need to ensure that whatever arrangements were put in place after Brexit did not risk introducing any barrier to the flow of exports between Scotland and the rest of the UK.¹³²

67. As the UK leaves the EU, power currently held in Brussels will return to the UK and in some cases the Scottish Parliament, this could potentially allow policy differentiation within the UK in areas where EU law has previously provided a common legal framework.¹³³ As outlined in the discussion of non-tariff barriers, different approaches to issues such as food safety, product safety and services regulation can introduce barriers to trade. As powers are devolved post-Brexit some witnesses said it would be important to ensure that Scotland and the rest of the UK remain broadly aligned in these areas, both to ensure that there are no barriers to trade within the UK and to allow the UK Government to make commitments on these non-tariff barrier issues in their discussions with other countries when negotiating new trade deals.¹³⁴

68. The potential impact of divergence amongst the UK nations in repatriated EU law was recently highlighted in the UK Agriculture Bill. While delivering agricultural support is a devolved policy, the Bill contains provisions for the UK Government to set levels of domestic farming support across the UK in order for the UK to comply with World Trade Organisation limits on farming subsidies.¹³⁵

69. With most future UK trade agreements likely to impact devolved competencies, Professor Andrew Scott, Edinburgh University said mechanisms would be required to reconcile the views of the devolved administrations and manage regulatory convergence within the UK.¹³⁶ This does not mean that there could be no flexibility for Scotland to approach these issues in a way that meets its own needs, but it does suggest that there may need to be a limit to such divergence or agreement of some common principles of rules that underpin the approach taken on a UK wide basis. Both the Secretary of State and the Scottish Trade Minister Ivan McKee agreed that alignment between Scotland and the rest of the UK was important in maintaining trade within the UK.¹³⁷ To address this, both governments have agreed that UK-wide common frameworks will be established where they are necessary in order to:

- Enable the functioning of intra-UK trade, while acknowledging policy divergence;
- Ensure compliance with international obligations & allow UK negotiators to enter into and implement new trade agreements, and
- Enable the management of common resources and safeguard the security of the UK.¹³⁸

These frameworks will consist of common goals, minimum or maximum standards, harmonisation, limits on action or mutual recognition, while respecting the devolution

132 [Q24](#)

133 Institute for Government, [Brexit, devolution and common frameworks](#), 2017

134 [Q295, Q384 and Q386](#)

135 House of Commons Library, [The Agriculture Bill \(2017–19\) briefing paper](#), 2018

136 [Q24](#)

137 [Q440](#) & [Q514](#)

138 Joint Ministerial Committee, [Policy paper: Joint Ministerial Communique](#), 2017

settlements and the democratic accountability of the devolved legislatures.¹³⁹ The UK Government expects all common frameworks to be in place by the end of the Implementation Period in 2020.¹⁴⁰

70. Scotland exports more to the rest of the UK than it does to the rest of the world and ensuring free and frictionless trade with Scotland's largest trading partner will be important to its future economic prosperity. We welcome the UK Government's commitment to protecting Scotland's trade with the rest of the UK and recommend that the UK Government ensures that as powers currently held in Brussels return to the UK and Scottish Parliaments, every effort is made to ensure no new barriers to trade between Scotland and the rest of the UK are introduced. Establishing UK-wide common frameworks is one way to address this, as it will allow all of the UK's governments to agree where the same rules should apply across the UK and how to manage areas where flexibility for the UK's four nations is desirable.

Rolling over of EU trade agreements

71. Through membership of the European Union, the UK currently participates in around 40-free trade agreements (FTAs) with over 70 countries.¹⁴¹ Under these agreements, Scottish businesses are eligible for a range of preferential market access opportunities including:

- Preferential duties for goods (e.g. reductions in import tariff rates and quotas for reduced or nil rates of payable duties);
- Enhanced market access for service providers;
- Access to public procurement opportunities across a range of sectors, and
- Improved protections for intellectual property.¹⁴²

72. While these existing agreements account for only 12% of total UK trade,¹⁴³ AHDB told us they were integral to certain sectors of the Scottish economy such as the potato industry, which enjoyed zero-tariff access to their two biggest markets: Egypt and Morocco.¹⁴⁴ Strategic Insight Manager, Sarah Baker said without these FTAs, exporters would face a 10% & 40% tariff respectively.¹⁴⁵ The Scotch Whisky Association meanwhile told us that the EU's FTAs had helped spread the recognition of Scotch Whisky around the world and accounted for 10% of their £4.37 billion in exports.¹⁴⁶

73. The UK Government's policy has been to rollover these agreements so that the UK and other third countries can continue to trade on the same terms as now until a new Free Trade Agreement can be negotiated. The Rt Hon David Mundell MP, Secretary of State for Scotland, told us that the Government's priority was to have:

139 Joint Ministerial Committee, [Policy paper: Joint Ministerial Communique, 2017](#)

140 Department for Environment, Food and Rural Affairs, [Agricultural framework progress update: September 2018, 2018](#)

141 HM Government, [Existing free trade agreements if there's no Brexit deal, 2018](#)

142 HM Government, [Existing free trade agreements if there's no Brexit deal, 2018](#)

143 HM Government, [Existing free trade agreements if there's no Brexit deal, 2018](#)

144 [TFI0002](#)

145 [Q158 & Q176](#)

146 [TFI001](#)

continuity in our trade and investment relationships with third countries, including those covered by existing EU free trade agreements and other EU preferential arrangements.¹⁴⁷

The European Commission has agreed that once the UK-EU Withdrawal Agreement has been ratified it will write to all relevant third countries asking them to roll-over the existing arrangements.¹⁴⁸

74. If it is not possible to roll-over these agreements trade between the UK and these third countries will take place under World Trade Organisation rules, which prevent countries offering preferential tariffs to countries they do not have an FTA with. As a result, goods from the UK would face a higher tariff in these countries as they currently do, and vice versa.¹⁴⁹ Nearly all our witnesses agreed that it was important for the UK to avoid this scenario, with Matthew Lancashire, Scottish Council for Development and Industry, telling us that failure to rollover the existing agreements would have ramifications for the Scottish economy.¹⁵⁰

75. However, some commentators have raised concerns about how easy this process will be. Dr Michael Gasiorek, UK Trade Policy Observatory, warned that some countries may be unwilling to commit to an agreement with the UK until they know the terms of the UK-EU future relationship:

Part of the difficulty here is that, although many of the countries with which the EU has FTAs have expressed some willingness to extend existing trading arrangements, at least for the transition period. Until they know what the form of deal is between the UK and EU, it is hard for them to commit to rolling over the existing agreements on a long-term basis.¹⁵¹

76. We also heard from Dr Kristen Hopewell, Edinburgh University, that there was no guarantee all third countries would agree to roll-over the existing deals in their current form unamended, citing Japan as an example:

It looks increasingly like most countries will want to renegotiate, that they will not be willing to let the UK just replicate, copy and paste agreements. Another example is Japan, which has already come out and clearly stated they will not be willing to just replicate the EU-Japan free trade agreement. They are going to demand more from the UK [on labour mobility & visas].¹⁵²

Allie Renison, Institute of Directors expressed concern that delays in rolling over these agreements could leave businesses with limited time to prepare for new trading arrangements.¹⁵³

147 [Q505](#)

148 The Times, [Brussels refuses to extend UK trade deals during Brexit transition](#), 2018

149 HM Government, [Existing free trade agreements if there's no Brexit deal](#), 2018

150 [Q135](#)

151 [Q400](#)

152 [Q51](#)

153 [Q136](#)

77. When we asked George Hollingbery MP, Minister of State for Trade Policy for an update on the rollover of these agreements, he said that while good progress had been made on a “large number of deals”, there were some that were being “problematic” and likely not to be rolled over by the UK’s exit. This he said was due to:

- Countries trying to renegotiate terms in light of the UK having a smaller market than the EU;
- Countries not wishing to incentivise the UK leaving the EU without a deal;
- Difficulty finding unanimity within trade deals which cover groups of countries, and
- Countries being in the middle of national/local election cycles.¹⁵⁴

Since then, the Government has signed agreements with Switzerland (the largest agreement in terms of UK trade flow representing more than 20% of the value of all existing EU trade agreements), Chile, the Faroe Islands, Israel, the Palestinian Authority and the Eastern and Southern African Economic Partnership Agreement states.¹⁵⁵ It has also signed Mutual Recognition Agreements with Australia, New Zealand and the United States.¹⁵⁶ In February the government published an update on the status of outstanding EU trade agreements, this showed that discussions were still ongoing with 32 agreements. The Government has said that four of these agreements; Japan, Turkey, Algeria and Andorra and San Marino, would not be rolled over in time for the UK’s withdrawal from the EU.¹⁵⁷

78. We are disappointed that some existing trade agreements will not be rolled over by the time the UK leaves the EU. While we welcome the government’s publication of a register outlining the status of outstanding agreements, this does not offer practical advice to businesses on the steps they should be taking to minimise disruption. We recommend that the government outline the practical steps it will take to support Scottish exporters who rely on these agreements.

Maintaining high standards and quality

79. Throughout this inquiry we heard that Scotland’s reputation for high quality was an important factor behind the success of its top exports in the food & drink sector. As Jonnie Hall, Director of Policy, NFU Scotland put it, Scotland’s strength as a trading nation was not based on the volume it produced but on “what we do and how we do it.”¹⁵⁸ This reputation for quality does not just apply to goods, we heard from the digital, financial, legal and education sectors that Scotland’s services also traded on a world class reputation for quality.¹⁵⁹ Professor Richard Williams, Universities Scotland told us it was:

154 [Q571](#)

155 Comoros, Madagascar, Mauritius the Seychelles, Zambia and Zimbabwe

156 HC Deb, 13 February 2019, [col 891](#)(Commons Chamber) & Department for International Trade, [UK and USA agree to continue Mutual Recognition Agreement](#), 2019

157 Department for International Trade, [Existing trade agreements if the UK leaves the EU without a deal](#), 2019

158 [Q158](#)

159 [Q272 & 337](#) & TFI0026

So critical that we retain that quality and that reputation because that opens doorways to us in many countries in the world. That is the critical factor that enables us to have access and, beyond that, the explicit skills that we have in our sector.¹⁶⁰

80. Tim Allan, President, Scottish Chamber of Commerce, told us this reputation for quality was built on the foundation of EU regulatory standards, which were trusted around the world. He warned that divergence from these could impact on the saleability of products in non-EU markets.¹⁶¹ This was echoed by Cat Hay, FDF Scotland, who said international markets such as China were looking for authentic safe products, and by maintaining high standards, there was an opportunity to “capture” the market.¹⁶²

81. However during this inquiry, we heard concerns that UK standards could be lowered in order to negotiate new free trade agreements with other countries such as the US.¹⁶³ This concern has been highlighted in a recent consultation from the US Department of Trade, asking American industry what its objectives would be for a future US-UK Free Trade Agreement. Proposals included:

- The mutual and comprehensive recognition of US food safety and dairy standards, potentially allowing chlorinated chicken and hormone treated beef and milk into the UK;
- The removal of mandatory labelling and traceability requirements for products containing biotech ingredients, allowing genetically-modified food to be sold unlabelled, and
- The removal of the EU’s “precautionary principle” for food and chemical safety, which allows the UK to take a “safety first” approach to regulation and refuse access to the UK market for certain exports which could be dangerous when scientific evidence is uncertain.¹⁶⁴

82. Most witnesses said there would be a cost to the UK if it lowered standards to secure new trade agreements with new markets. NFU Scotland’s Jonnie Hall said such a decision:

Would be shooting ourselves in both feet. We need to conform to the highest possible standards [...] we will never be an agricultural economy that can stack it high and sell it low and compete on world markets. Our beef sector, in particular, would be blown away in comparison with production from South America, North America and Australasia.¹⁶⁵

Dr Michael Gasiorek, UK Trade Policy Observatory, argued that protecting consumers and regulating markets should be the primary focus of regulatory policy and that “changing regulations simply to try become more competitive is probably a really bad principle.”¹⁶⁶

160 [Q272](#)

161 [Q124](#)

162 [Q158](#)

163 [Q447](#)

164 Huffington Post, [Here’s What US lobbyists want Donald Trump to get from a post-Brexit trade deal](#), 2019

165 [Q153](#)

166 [Q412](#)

83. George Hollingbery MP, Minister of State for Trade Policy, sought to alleviate concerns about lower standards, stating that the Government had no intention of lowering standards to secure new trade agreements with new markets:

My Secretary of State has made it absolutely plain, time and time again, that we will not be lowering our standards [...] It would be commercial madness for us to [do so]. The brand for the UK overseas is about quality [...] we would be very foolish commercially, internationally, to lower our standards. It would do untold damage.¹⁶⁷

84. **Scotland's success in trading with other countries is based on its reputation for high quality and high standards. We welcome the absolute commitment from the Minister that the UK's future trading arrangements will not lead to any undermining of these standards.**

Protecting Geographical Indications

85. One way in which Scotland's reputation for high quality produce is currently promoted is through geographical indications (GIs), which apply to 15 iconic Scottish food & drink products including Scotch Whisky, Scotch Beef and Stornoway Black Pudding.¹⁶⁸ A geographical indication is a name that can only be used on products that have a specific geographical origin and possess qualities or a reputation due to that origin. As the UK is subject to the EU's GI system, Scottish GIs receive legal protection against imitation throughout the EU and some third countries the EU has agreements with.¹⁶⁹ This is enforced through national authorities who can take civil and criminal action against offending manufactures, which witnesses told us was a more robust form of enforcement than other intellectual property, such as trademarks, where it is the responsibility of the trademark owner to challenge violations via the courts.¹⁷⁰

86. Throughout this inquiry witnesses highlighted how important GIs were to the Scottish economy, with products such as Scotch Whisky (£4.36bn) and Scottish Salmon (£600m) being two of Scotland's most successful food & drink exports.¹⁷¹ Lindsey Low, Deputy Director of Legal Affairs, Scotch Whisky Association, told us that products with GI status benefited producers, consumers and local communities:

- **Producers** benefited by protecting the reputation and quality of their product and preventing lower quality imitations being sold either under the same name or by invoking a similar reputation; e.g. putting a bagpipe on a whisky bottle which was not classified as Scotch Whisky.
- **Consumers** benefited by having confidence that the product they purchase is of a high quality and has been produced in a traditional way in a traditional place.

167 [Q529 & Q530](#)

168 The full list of Scottish Geographical Indications is- Native Shetland Wool, Shetland Lamb, Orkney beef, Orkney Lamb, Bonchester Cheese, Traditional Ayrshire Dunlop, Orkney Scottish Island Cheddar, Stornoway Black Pudding, Scottish Wild Salmon, Scotch Whisky, Scottish Farmed Salmon, Scotch Lamb, Scotch Beef, Arbroath Smokies and Teviotdale Cheese.

169 Scottish Parliament Information Centre, [Geographical Indications and Brexit](#), 2018

170 TFI0015

171 Scottish Government, [record levels of salmon and whisky exports](#). 2018

- **Local communities** benefited by receiving the revenue from premium GI products, which can be around 150% higher than non-GI products.¹⁷² This can lead to job creation and investment in the community and can promote tourism.¹⁷³

Establishing a domestic GI regime

87. Once the UK leaves the EU, the UK will need to pass legislation to establish its own GI regime, if it wishes to continue to use GIs as a way of protecting iconic products. The Government has said it recognises the economic and cultural importance of GIs and will use the EU (Withdrawal) Act to establish a domestic GI scheme and automatically register all existing UK GIs to ensure they remain protected in the UK.¹⁷⁴ When we wrote to the Government in December 2018 requesting an update on when this scheme would be established, we were told that legislation would be laid either before the end of the Implementation Period in 2020, or in the case of “no-deal” in early 2019 so the scheme can be established before EU Exit.¹⁷⁵ As of the writing of this report, no domestic legislation to establish a UK GI scheme has been published.

88. The European Union’s system of geographical indications has been crucially important in protecting the provenance and quality of many high-profile Scottish products, and we support the Government’s decision to establish a domestic scheme. However, with Exit Day fast approaching we recommend that the Government bring forward this legislation as a matter of urgency to assure businesses that their products will remain protected in all Brexit scenarios.

Enforcing UK GIs in other countries

89. Creating a domestic regime would only be a first step, the UK would also need to have this scheme recognised by other countries if the UK’s GIs are to be a useful tool in promoting and protecting iconic Scottish brands in foreign markets. Without this recognition, Lindsey Low told us that Scottish GIs would be protected via the international standards on intellectual property as outlined in the WTO’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).¹⁷⁶ This offers less protection with manufacturers having to take civil action themselves against offending traders.¹⁷⁷ Lindsey Low described this as an “unsatisfactory situation” which would be more time consuming and expensive than protecting GIs under the existing EU system.¹⁷⁸ Dr Gail Evans, an expert in GIs at Queen Mary University of London told us that a second problem with TRIPS was that it established “two tiers” of protection with wine and spirits having greater provisions than food.¹⁷⁹ This difference is that countries only need to protect food GIs from imitations which may mislead the public and create unfair competition, meanwhile wine and spirits are protected from imitating products even if there is no danger of them misleading the public and creating unfair competition.¹⁸⁰

172 [TFI0002](#)

173 [Q68 & 78](#)

174 Department for Environment, Food & Rural Affairs, [Protecting food and drink names if there’s no Brexit deal, 2019](#) & Office for the Secretary of State for Scotland, [Letter from Secretary of State for Scotland to the Scottish Affairs Committee, 2018](#)

175 Office for the Secretary of State for Scotland, [Letter from Secretary of State for Scotland to the Scottish Affairs Committee, 2018](#)

176 [Q96](#)

177 UK Trade Forum, [What are geographical indications and what do they mean for post-Brexit UK, 2018](#)

178 [Q99](#)

179 [Q98](#)

180 UK Trade Forum, [What are geographical indications and what do they mean for post-Brexit UK, 2018](#)

90. For these reasons, many of our witnesses called on the Government to negotiate a mutual recognition agreement with the EU which maintained protection of UK GIs in the EU market and vice versa. We were told this was essential for high profile products such as Scottish Farmed Salmon and Scotch Lamb which had built strong reputations across the EU based on their GI status.¹⁸¹ AHDB said there was precedent for this with 23 non-EU products registered for GI protection in the EU.¹⁸²

91. When the Withdrawal Agreement was published in 2018, the UK and European Commission agreed that UK and EU GIs would remain protected in each other's markets through the Implementation Period until an agreement is reached on the future relationship.¹⁸³ The Government confirmed to us that this protection would be extended to new GIs registered during the Implementation Period.¹⁸⁴ However, when we asked the Government to set out its proposals for a future UK-EU GI arrangement, the Government did not confirm it would negotiate a long-term reciprocal agreement, stating:

The Government understands the importance of GIs to both UK and EU producers. To help ensure a smooth transition to the future economic partnership, the UK has committed to maintain the protection of all existing EU GIs until the future economic partnership supersedes the Withdrawal Agreement. The long-term protection of EU GIs in the UK will be determined as part of the negotiations under the future economic partnership.¹⁸⁵

92. The Government argued that ongoing protection in the EU for existing GIs was not dependent on reaching an agreement on the future relationship beyond the implementation period. This was because current EU legislation made EU GI protection indefinite unless specific grounds for the cancellation of GIs from the EU were met.¹⁸⁶ As this did not include the removal of a former EU Member State, the Government argued that further EU legislation would be required to remove any UK GIs from the EU register.¹⁸⁷ This assessment was challenged by the Scottish Government, who told us that:

While it is correct for the UK Government to say that there is currently no process for the EU to remove the UK GIs, if that asymmetry continued it would be very likely that the European Union would move to remove the UK GIs. Our preference [...] is for continued mutual recognition, at the very least, of the existing GIs between the UK and EU.¹⁸⁸

93. Concern was expressed that the Government's reluctance to commit to a future agreement on GIs with the EU was linked to its intention to negotiate new trade agreements with countries opposed to the EU model of GIs, such as the United States

181 [Q260 & TFI0022](#)

182 [TFI0002](#)

183 European Commission, [Brexit Negotiations: What is in the Withdrawal Agreement](#), 2018

184 Office for the Secretary of State for Scotland, [Letter from Secretary of State for Scotland to the Scottish Affairs Committee](#), 2018

185 Office for the Secretary of State for Scotland, [Letter from Secretary of State for Scotland to the Scottish Affairs Committee](#), 2018

186 Office for the Secretary of State for Scotland, [Letter from Secretary of State for Scotland to the Scottish Affairs Committee](#), 2018

187 Office for the Secretary of State for Scotland, [Letter from Secretary of State for Scotland to the Scottish Affairs Committee](#), 2018

188 [Q495](#)

and Australia. NFU Scotland and Trade Justice Scotland told us the EU had struggled with this obstacle when negotiating its own trade agreements, with negotiators unable to extend GI protection for certain products such as Scotch Beef in recent trade deals with Canada, Japan and Mexico.¹⁸⁹ Lindesay Low and Dr Evans told us that the main objection these countries had with GIs was that they protected what they saw as generic products names such as feta cheese, which some countries felt were no longer linked to one specific geographic origin.¹⁹⁰

94. NFU Scotland’s Jonnie Hall warned that it would be a “naïve and backward” step for the UK to trade away GI protection in the EU to secure trade agreements with other countries.¹⁹¹ This view was shared by James Withers, Scotland Food and Drink, who said it should be a “red line” for the UK in future negotiations.¹⁹² Dr Evans highlighted to us the importance of the UK maintaining a “strong GI” system like the EU, but said it was possible to be flexible to suit countries who had grievances about GIs.¹⁹³ One model she suggested the UK emulate was that of the Trans Pacific Partnership:

I had a look at chapter 18 of the Trans-Pacific Partnership because [...] a lot of the Asian countries who are members of the current Transpacific Partnership support GIs, the system that is similar to the EU model. It is possible to embrace both the GI and the trademark. There is some realpolitik trade-off, but personally I think that is worth it. They have not been publicising it, but Brussels has been doing that in their free trade agreements with the Pacific region. As long as we can maintain the strength of our European model GI protection within the United Kingdom and Scotland.¹⁹⁴

95. ***Creating a UK GI register will not protect iconic Scottish products in foreign markets unless those countries agree to recognise and protect these GIs. In negotiating the UK’s future relationship with the EU, the Government must ensure that it agrees a comprehensive mutual recognition agreement which protects existing and future Scottish geographical indications indefinitely. The Government should also ensure that its trade agreements with other countries include robust protection for these products. Ensuring Scottish producers enjoy the protection of GI status must be a red line in all the UK’s future trade negotiations.***

189 [TFI0013 & TFI0007](#)

190 [Q102 & 103](#)

191 [Q182](#)

192 [Q182](#)

193 [Q90](#)

194 [Q91](#)

5 Promoting Scottish Exports

96. During this inquiry we heard that, despite some extremely successful exporting sectors, there remained more to do to encourage more Scottish business to become exporters. At the moment just 70 companies account for 50% of Scotland's international exports.¹⁹⁵ As the UK prepares to exit the EU, CBI Scotland told us it was more important than ever to promote the value of exporting to businesses and look at new ways to support and promote Scottish exports.¹⁹⁶

97. Improving both Governments' trade promotion effort was identified as one way to address this gap, with both the UK and Scottish Government having their own marketing campaigns supporting Scottish exports.¹⁹⁷ This was coordinated by the Department for International Trade for the UK Government and Scottish Development International for the Scottish Government. During this inquiry we explored how well the two governments work together and where there might be potential for more collaboration.

Coordination of policy

98. While the UK and Scottish Government run their own export promotion activity, they have agreed a Memorandum of Understanding that commits both Governments to consulting each other on policy developments and activities to "avoid duplication of effort, including double funding activities, and to avoid contradictory actions."¹⁹⁸ CBI Scotland told us this model worked well for Scottish businesses as they benefited from having two different trade promotion structures in place to champion them abroad.¹⁹⁹ This was echoed by the Scottish Chamber of Commerce (SCC) and Scottish Council for Development and Industry who both agreed that the UK and Scottish Government were providing effective support for businesses through their individual campaigns.²⁰⁰

99. While most witnesses were supportive of the promotional work of both governments, we heard concern that overlapping initiatives were creating duplication between the two governments which could create confusion for business. One example of this was in food, where NFU Scotland told us they were unsure how the UK Government's new *Food is GREAT campaign*, which advertises products under British branding, sat alongside *Scotland Food and Drink*, an existing campaign between the private sector and the Scottish Government to promote Scotland as a Land of Food and Drink.²⁰¹ The question of duplication was also raised by the Scotch Whisky Association and Scottish Salmon Producers Organisation who said they were unclear how the two governments' campaigns aligned strategically.²⁰²

100. Chief Executive of Scotland Food and Drink, James Withers, went further blaming this duplication on the GREAT campaign which he said were using the British brand to "run roughshod" over existing promotional efforts in Scotland that had been going for

195 Scottish Government, [Global Scotland's Trade and Investment Strategy](#), 2016

196 [TFI0014](#)

197 [Devolution Memorandum of Understanding and Supplementary Agreements](#), 2013

198 [Devolution Memorandum of Understanding and Supplementary Agreements](#), 2013

199 [TFI0014](#)

200 [Q138 &139](#)

201 [TFI0013](#)

202 [TFI0001](#) & [TFI0025](#)

some time.²⁰³ He argued this was particularly relevant for food promotion, where Scotland had built its own reputation for quality at a time when food and drink was “not a priority” at UK level.²⁰⁴ This view was shared by Ruth Watson, Founder of Keep Scotland The Brand, who told us that the GREAT campaign was damaging the value and reputation of the Scottish brand.²⁰⁵

101. However, we heard from other groups that in some cases UK branding added value to Scottish products. SCC said that Chinese consumers were more receptive to the global branding provided by the UK Government which carried the “British kitemark of quality”.²⁰⁶ Wendy Alexander of Universities Scotland meanwhile argued that different branding suited different products, telling us that what Scottish exporters needed was flexibility in the trade promotion available to them:

It is the case that there are occasions where you will use a global brand; there are occasions when you will use the city brand; and there are occasions when you will use your institutional reputation, such is the complexity of operation on a global stage.²⁰⁷

This view was shared by Allie Renison, of the Institute for Directors, who argued that trade promotion stop being framed as a competitive narrative. Instead she urged both governments to use Brexit as an opportunity to look at how collaboration in trade promotion could be improved.²⁰⁸ Both the UK and Scottish Government agreed that choice of branding should be a decision for businesses, with different brandings suitable for different markets.²⁰⁹

102. Scottish business benefit from having two Governments able and willing to promote their products in overseas markets. While many businesses felt they benefited from this arrangement there is room for the two Governments to improve how they work together. We recommend that the UK and Scottish Governments redouble their efforts to coordinate their trade promotion activities, so they can complement rather than duplicate each other. This could be achieved by arranging regular meetings at ministerial and official level to discuss ongoing and future campaigns and to identify where joint-working may be possible. We ask that the Government provide us with an update on what steps it has taken to improve this coordination in response to this Report.

103. How Scottish products are branded was an issue that a number of our witnesses felt strongly about, and we heard passionate arguments about the benefit of both Scottish and British branding in promoting products abroad. It is clear to us that there is a benefit in Scottish businesses having access to both British and Scottish branding. The choice of branding must be a commercial decision for companies to make based on what they feel will most benefit their products.

203 [Q188](#)

204 [Q188](#)

205 [Q84 & Q91](#)

206 [Q140](#)

207 [Q289](#)

208 [Q139](#)

209 [Q467 & Q513](#)

Joint Trade Missions

104. Another way in which Scottish exports are promoted is through trade missions, which help build business links in new markets.²¹⁰ Between 2017–18 the Rt Hon David Mundell MP, Secretary of State for Scotland led ten trade missions for the UK Government which included visits to Chile, Hong Kong and Japan.²¹¹ Similarly, the Scottish Government coordinates its own missions through Scottish Development International, with Trade, Investment and Innovation Minister Ivan McKee MSP recently visiting Germany and Poland.²¹² We explored with the Secretary of State whether joint trade missions could be a practical way to improve collaboration between the two governments. While the Secretary of State assured us he worked closely with the Scottish Government ahead of UK missions, he was open to the Scottish Government directly participating in future missions saying:

I would certainly very much welcome an approach where we could move to more joint delegations. That would be a much better way to get the best value for taxpayers in Scotland.²¹³

105. We welcome the comments from the Secretary of State that he would be supportive of organising joint trade missions with the Scottish Government. *The Government should publish a list of Joint-Trade Missions it expects to undertake with the Scottish Government for the rest of the year and report back to us on how successful they have been.*

210 Office of the Secretary of State for Scotland, [Annual Report and Accounts 2017–18](#), 2018

211 Office of the Secretary of State for Scotland, [Annual Report and Accounts 2017–18](#), 2018 & [Correspondence from Secretary of State for Scotland to Chair, 2018](#) & [Q515 & Q516](#)

212 Scottish Government, [Scotland remains open for business](#), 2018 and Energy Voice, [Potential Polish partners in offshore wind, Scottish trade minister reveals](#), 2019

213 [Q519](#)

Conclusions and recommendations

How Scotland trades with the world

1. While there are many similarities between the trading patterns of Scotland and the rest of the UK, there are differences in the relative importance of different sectors and markets. *As the Government negotiates future trade agreements, it must ensure that sectors of vital importance to the Scottish economy such as the food, drink and fisheries sectors are not traded away to secure preferential agreements for other industries.* (Paragraph 10)
2. We welcome the Government's commitment to establish a UK wide trade policy which reflects the needs and individual circumstances of all the UK nations. However, the Government needs to provide more clarity on how it will achieve this and what that will mean in practice. (Paragraph 11)

Role of the devolved administrations in trade policy

3. We are pleased that the Government has committed to publish a concordat outlining the role of the devolved administrations in future UK trade policy. *As the UK approaches the date of EU Exit, we ask the Government to provide an update on the status of this concordat in response to this Report.* (Paragraph 16)
4. *The Government should explore new options to facilitate extensive consultation with the devolved administrations when setting negotiating mandates in the future. One of these options should be the establishment of a JMC sub-committee on international trade. This should be supported by a fully resourced JMC secretariat responsible for ensuring the sub-committee meets regularly and that the devolved administrations have a role in setting the agenda for meetings.* (Paragraph 24)
5. *We recommend that the Government commit to including representatives from the devolved administrations in the UK negotiating team for future trade agreements where commitments are being sought that will impact on devolved competencies. This would have to be done with the understanding that devolved ministers would not deviate from the UK Government's negotiating position.* (Paragraph 29)
6. The Scottish Government must have a meaningful role in future trade negotiations including in the setting of negotiating mandates and participation in the negotiations themselves. We believe a model based on cooperation and trust would be preferable to one of formal consent of the Scottish Government on a final deal, but it will require goodwill from both Governments to make it work. *We recommend that the Government, in response to this Report, set out the steps it will take to involve the devolved administrations in every step of the trade negotiation process.* (Paragraph 33)

Scotland's trade priorities for future trade deals

7. We are encouraged that the Political Declaration commits to no tariffs on goods being the basis of the future trading relationship between the UK and EU.

Maintaining tariff-free trade is crucially important for the food and drink sector in Scotland which would be most susceptible to the EU's WTO tariffs, with some sectors' exports to the EU likely to become uncompetitive overnight. (Paragraph 40)

8. Scottish manufacturers have benefited immensely from frictionless access to the EU Single Market and require assurances that trade with one of their largest international markets will not be disrupted in the future. We welcome the Political Declaration's ambition for a "comprehensive" free trade area, but this must minimise non-tariff barriers for goods and provide continuity for businesses which rely on EU supply chains and perishable products. *If the Government no longer wishes to align with an EU standard in the future, it should clearly state its rationale for diverging and provide businesses with ample opportunity to comment on the proposed changes before they are agreed.* (Paragraph 46)
9. Whilst we welcome the announcement from the Government that small and medium sized businesses will now be able to apply for two new grants to help them prepare for post-Brexit customs declarations, they are narrow in scope focusing on training and IT improvements only. *The Government should urgently look to extend the remit of the grants to cover additional areas of export support for businesses such as the movement of labour, goods, currency management and legal advice as is the case for the Brexit voucher schemes operating in the Republic of Ireland and the Netherlands.* (Paragraph 49)
10. Scotland's service sector has benefited from its ability to freely offer services to customers in the EU, which accounts for 41% of service sector's trade. We were told that any agreement to provide the sector with continued market access to the EU needed to go further than the EU's existing equivalence regimes. *We therefore recommend that the Government ensure that any new equivalence regime covers the broadest range of activity conducted by Scotland's service's sector. This agreement must not be vulnerable to sudden revocation, instead a dispute resolution mechanism should be established to resolve disagreements about whether the two regimes are equivalent, which would need to be followed before either side could withdraw from the agreement. This should provide confidence to businesses that they can make long term decisions with the knowledge that their access arrangements will not suddenly change.* (Paragraph 57)
11. Scotland's service sector currently benefits from its ability to operate throughout the EU due to the mutual recognition of professional qualifications within the single market. We heard this was particularly important for the legal and financial services sectors. However there remains uncertainty as to the future recognition of UK professional qualifications in the EU post-Brexit. We welcome the provisions included in the Withdrawal Agreement which will provide continuity, but the Government must confirm and deliver on its intention to negotiate a long-term agreement with the EU which maintains similar market access for UK qualifications. This will provide clarity about what the future arrangements will be for Scottish professionals operating in the EU after Brexit. (Paragraph 64)
12. Scotland exports more to the rest of the UK than it does to the rest of the world and ensuring free and frictionless trade with Scotland's largest trading partner will be important to its future economic prosperity. We welcome the UK Government's

commitment to protecting Scotland's trade with the rest of the UK and recommend that the UK Government ensures that as powers currently held in Brussels return to the UK and Scottish Parliaments, every effort is made to ensure no new barriers to trade between Scotland and the rest of the UK are introduced. Establishing UK-wide common frameworks is one way to address this, as it will allow all of the UK's governments to agree where the same rules should apply across the UK and how to manage areas where flexibility for the UK's four nations is desirable. (Paragraph 70)

13. We are disappointed that some existing trade agreements will not be rolled over by the time the UK leaves the EU. While we welcome the government's publication of a register outlining the status of outstanding agreements, this does not offer practical advice to businesses on the steps they should be taking to minimise disruption. *We recommend that the government outline the practical steps it will take to support Scottish exporters who rely on these agreements.* (Paragraph 78)
14. Scotland's success in trading with other countries is based on its reputation for high quality and high standards. We welcome the absolute commitment from the Minister that the UK's future trading arrangements will not lead to any undermining of these standards. (Paragraph 84)
15. The European Union's system of geographical indications has been crucially important in protecting the provenance and quality of many high-profile Scottish products, and we support the Government's decision to establish a domestic scheme. *However, with Exit Day fast approaching we recommend that the Government bring forward this legislation as a matter of urgency to assure businesses that their products will remain protected in all Brexit scenarios.* (Paragraph 88)
16. *Creating a UK GI register will not protect iconic Scottish products in foreign markets unless those countries agree to recognise and protect these GIs. In negotiating the UK's future relationship with the EU, the Government must ensure that it agrees a comprehensive mutual recognition agreement which protects existing and future Scottish geographical indications indefinitely. The Government should also ensure that its trade agreements with other countries include robust protection for these products. Ensuring Scottish producers enjoy the protection of GI status must be a red line in all the UK's future trade negotiations.* (Paragraph 95)

Promoting Scottish Exports

17. Scottish business benefit from having two Governments able and willing to promote their products in overseas markets. While many businesses felt they benefited from this arrangement there is room for the two Governments to improve how they work together. *We recommend that the UK and Scottish Governments redouble their efforts to coordinate their trade promotion activities, so they can complement rather than duplicate each other. This could be achieved by arranging regular meetings at ministerial and official level to discuss ongoing and future campaigns and to identify where joint-working may be possible. We ask that the Government provide us with an update on what steps it has taken to improve this coordination in response to this Report.* (Paragraph 102)

18. How Scottish products are branded was an issue that a number of our witnesses felt strongly about, and we heard passionate arguments about the benefit of both Scottish and British branding in promoting products abroad. It is clear to us that there is a benefit in Scottish businesses having access to both British and Scottish branding. The choice of branding must be a commercial decision for companies to make based on what they feel will most benefit their products. (Paragraph 103)
19. We welcome the comments from the Secretary of State that he would be supportive of organising joint trade missions with the Scottish Government. *The Government should publish a list of Joint-Trade Missions it expects to undertake with the Scottish Government for the rest of the year and report back to us on how successful they have been.* (Paragraph 105)

Formal minutes

Wednesday 6 March 2019

Members present:

Pete Wishart, in the Chair

Deidre Brock

Christine Jardine

David Duguid

John Lamont

Hugh Gaffney

Ross Thomson

Draft Report (*Scotland, Trade and Brexit*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 105 read and agreed to.

Resolved, That the Report be the Seventh Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available (Standing Order No. 134).

[Adjourned till Tuesday 12 March at 10.00 a.m.]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Tuesday 5 June 2018

Professor Andrew Scott, Professor of European Union, University of Edinburgh, **Professor Graeme Roy**, Director of Fraser of Allander Institute, **Dr Maria Garcia**, Senior Lecturer, University of Bath, **Dr Kristen Hopewell**, Senior Lecturer in international political economy, University of Edinburgh

[Q1–63](#)

Tuesday 3 July 2018

Ruth Watson, Keep Scotland The Brand, **Dr Gail Evans**, Queen Mary University London, **Lindesay Low**, Law Society of Scotland, **Tim Allan**, President, Scottish Chamber of Commerce, **Matthew Lancashire**, Director of Policy, Scottish Council for Development and Industry, **Allie Renison**, Head of Europe & Trade Policy, Institute of Directors

[Q64–147](#)

Monday 10 September 2018

Jonnie Hall, Director of Policy and Member Services, NFU Scotland, **Sarah Baker**, Strategic Insight Manager, Agriculture and Horticulture Development Board, **Cat Hay**, Policy Manager, Food and Drink Federation Scotland, **James Withers**, Chief Executive, Scotland Food & Drink, **Georgina Wright**, Head of Sales, Scottish Salmon Producers, **Andrew Charles**, Chairman, Scottish Seafood Association, **John Anderson**, Chief Executive, Scottish Fishermen's Organisation

[Q148–268](#)

Monday 15 October 2018

Wendy Alexander, Universities Scotland, **Richard Williams**, Universities Scotland, **Alastair Ross**, Association of British Insurers, **Conor Lawlor**, UK Finance, **Richard Normington**, Investment Association, **Polly Purvis**, ScotlandIS, **Svea Miesch**, ScotlandIS, **Michael Clancy**, Law Society of Scotland, **Carolyn Thurston Smith**, Law Society of Scotland

[Q269–374](#)

Tuesday 23 October 2018

Aarti Shankar, Senior Researcher, Open Europe, **Maddy Thimont-Jack**, Researcher, Institute for Government, **Dr Kirsty Hughes**, Director, Scottish Centre on European Relations, **Dr Michael Gasiorek**, Director, UK Trade Policy Observatory

[Q375–424](#)

Wednesday 14 November 2018

Ivan McKee MSP, Minister for Trade, Investment and Innovation, **Steve Sadler**, Head of Trade Policy Team, **George Burgess**, Head of Trade Policy, Food and Drink Division

[Q425-504](#)

Tuesday 4 December 2018

George Hollingbery MP, Minister of State for Trade Policy, Department for International Trade, **David Mundell MP**, Secretary of State for Scotland

[Q505-582](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

TFI numbers are generated by the evidence processing system and so may not be complete.

- 1 Agriculture and Horticulture Development Board (AHDB) ([TFI0002](#))
- 2 Association of British Insurers ([TFI0027](#))
- 3 British Veterinary Association ([TFI0024](#))
- 4 Brown, Ms Valerie ([TFI0004](#))
- 5 CBI Scotland ([TFI0014](#))
- 6 Chartered Insurance Institute ([TFI0029](#))
- 7 City of London Corporation ([TFI0012](#))
- 8 FDF Scotland ([TFI0017](#))
- 9 Hands Off Scotland ([TFI0019](#))
- 10 Keep Scotland The Brand ([TFI0009](#))
- 11 The Law Society of Scotland ([TFI0023](#))
- 12 Martin, Anne ([TFI0018](#))
- 13 Mr Leslie Mackay & Mrs Patricia Mackay ([TFI0005](#))
- 14 National sheep association Scotland ([TFI0022](#))
- 15 NFU Scotland ([TFI0013](#))
- 16 Quality Meat Scotland ([TFI0020](#))
- 17 Ramsay, Mrs Agnes ([TFI0008](#))
- 18 The Scotch Whisky Association ([TFI0001](#))
- 19 Scotch Whisky Association- Supplementary written evidence ([TFI0015](#))
- 20 Scottish Centre on European Relations ([TFI0028](#))
- 21 Scottish Financial Enterprise ([TFI0026](#))
- 22 Scottish Government ([TFI0010](#))
- 23 Scottish Salmon Producers Organisation ([TFI0025](#))
- 24 Shetland Islands Council ([TFI0021](#))
- 25 St Andrews TTIP Action Group ([TFI0003](#))
- 26 Trade Justice Dundee ([TFI0006](#))
- 27 Trade Justice Scotland coalition ([TFI0007](#))
- 28 Universities Scotland ([TFI0011](#))

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	European Union (Withdrawal) Bill: Implications for devolution	HC 375
Second Report	The future of working practices in Scotland	HC 449 (HC 1067)
Third Report	Royal Bank of Scotland branch closures	HC 682
Fourth Report	Immigration and Scotland	HC 488
Fifth Report	Digital Connectivity in Scotland	HC 654
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