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Dear Alison and Lorne,

I wanted to thank you and the other members of the National Council for Rural Advisers once again for producing your Interim Report on the potential implications for rural Scotland of the UK leaving the EU. Can I also apologise for not having responded to you more fully before now. The report has been helpful in guiding us on where our priorities should be, not least in putting people foremost. I am sure you will agree with me that Brexit will have an impact on communities and businesses across Scotland, and in particular those people and families who have come to live and work here from other parts of the EU.

Our report **Scotland's Place in Europe: People, Jobs and Investment** confirms that leaving the single market and customs union will significantly weaken our economy compared to continuing EU membership **and that a hard brexit** could lead to a loss of 8.5% of GDP in Scotland by 2030. Outside the single market we would miss out on the huge benefits of new measures in services and digital, for example, estimated to be worth an additional 2.4% of EU GDP.

As far as this Government is concerned you will no doubt be aware of our work to continue preparations here in Scotland as best we can in light of these uncertainties, including working with the UK Government on some aspects of key policy areas such as agriculture & food.

Labour & Skills

The above paper also highlighted the vital importance to Scotland of EU migration, which as you outlined in your report is also vital to a thriving and vibrant rural economy. – retention of local services, diverse economy etc.

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The Scottish Government response to the Migration Advisory Committee call for evidence sets out in great detail the benefit of EU migration to Scotland, and in particular the very significant contribution that people who come from Europe to live and work in rural communities in Scotland can make. Migrant workers, and the families they bring, not only help with employment growth in the rural economy, but also help sustain public services and community cohesion.

We have now published a discussion paper on new powers on migration, which includes new economic modeling of the impact of reduced migration to Scotland. This shows that the 'Brexit effect' on migration alone will cost the Scottish economy almost £5 billion per year by 2040 in lost GDP, proportionately more than the negative impact felt in the rest of the UK. It also shows that in the event of the UK Government achieving its policy objective of reducing net migration to the tens of thousands, the impact on GDP in Scotland would increase to more than £10 billion per year by 2040.

This impact assessment is further evidence of the need for a different approach to migration in Scotland, given the different demographic, economic and social considerations here. The discussion paper looks at how regional immigration systems could operate, highlighting examples in countries such as Australia and Canada where such approaches work well. The interim report of the National Council of Rural Advisers makes clear the need for a tailored approach to migration that supports entrepreneurship and innovation in the rural economy, which we would support; indeed, we have made clear in the discussion paper, in the evidence submitted to the MAC, and in *Scotland's Place in Europe* that the crucial role of migrants in rural Scotland is one of the key reasons why a one-size-fits-all approach to immigration is not appropriate for Scotland's needs.

In terms of business readiness for exit from the EU, we have established a Labour Market Group to advise on future developments in the labour market. As part of its deliberations the group has discussed the potential impact of Brexit on the labour market. Officials are currently developing approaches to establishing and supporting employer readiness for the impact of Brexit as well as encouraging the uptake of jobs in areas of skills gaps as part of an overall workplan.

Trade, Legislation & Standards

As far as your recommendations on trade, legislation and standards are concerned, this Government is clear that most appropriate way forward (if we are to leave the EU) is for Scotland to remain in the EU single market as well as continuing to enjoy the same trading relations with the UK, and so benefit from both markets. That means equivalence across the areas identified in your report, e.g. consumer rights, standards, procurement, state aid, exports, imports and customs procedures. Equivalence also means that we protect our SMEs from price volatility (by not being exposed to world markets)

Business Support

I agree that having the appropriate provision of high quality, targeted business support is essential. We are committed to ensuring that support be focussed on the user, with simple

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and quick access to the right support at the right time that responds to the individual needs of the enterprises. I would welcome your views on how we might best achieve this in a rural context.

Funding

I would also welcome your views on funding arrangements. As you know, I am clear that we must hold the UK Government to the clear unequivocal pledges they made in the Brexit campaign that the EU funding for rural communities would be at least matched, to provide certainty for rural Scotland once the UK leaves the EU.

I note the UK Government's proposal of a Shared Prosperity Fund. Until we learn more about this proposal it is not possible to give a Scottish Government view on it and I remain deeply concerned that the details of UK Government thinking on successor arrangements to replace current EU funding programmes have yet to be shared with the Scottish Government. We are clear that future funding arrangements lie within the devolved competence of the Scottish Parliament and that it will be for Scottish Ministers to decide whether to be part of any UK-wide arrangement around a shared prosperity fund. With that in mind, early engagement with the Scottish Government on any such proposals would ensure that decisions can be taken in the best interests of the Scottish economy and Scottish people.

I agree with you that post 2020 we should have a coherent and proportionate framework that better meets the needs of applicants as well as the needs of our rural communities, businesses and environment. I would go further by saying that it is vital that the Scottish Parliament should have the powers to make decisions on any proposed arrangements on future funding as well as on the future framework in the best interests of rural Scotland.

Future collaboration & co-operation

I absolutely agree that regardless of what happens post 2020 with respect to Brexit, Scotland should be provided the means and opportunity to collaborate and network with the regions and countries across the EU in areas that are currently supported by EU funding programmes such as the Framework Programme for research and innovation (currently Horizon 2020), European Territorial Cooperation (Interreg), the SRDP and EMFF.

I welcome the commitment from both the UK Government and the EU to continue funding for Scottish and UK participation in current EU cohesion funding programmes and look forward to engaging with the UK Government on ensuring full access to the future Framework Programme, FP9, as part of the Brexit negotiation. Scotland's recently published response to the European Commission's consultation on FP9 underlines that we continue to value our European research collaborations. They are essential to maintain our academic excellence and support innovation, including in rural and environmental science.

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Conclusions

I want to conclude by restating my sincere thanks for your excellent interim report. I look forward to seeing how you develop your thinking in your more detailed set of recommendations in your discussion document and final report.

A handwritten signature in blue ink, appearing to read 'Fergus Ewing', written in a cursive style.

FERGUS EWING

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