

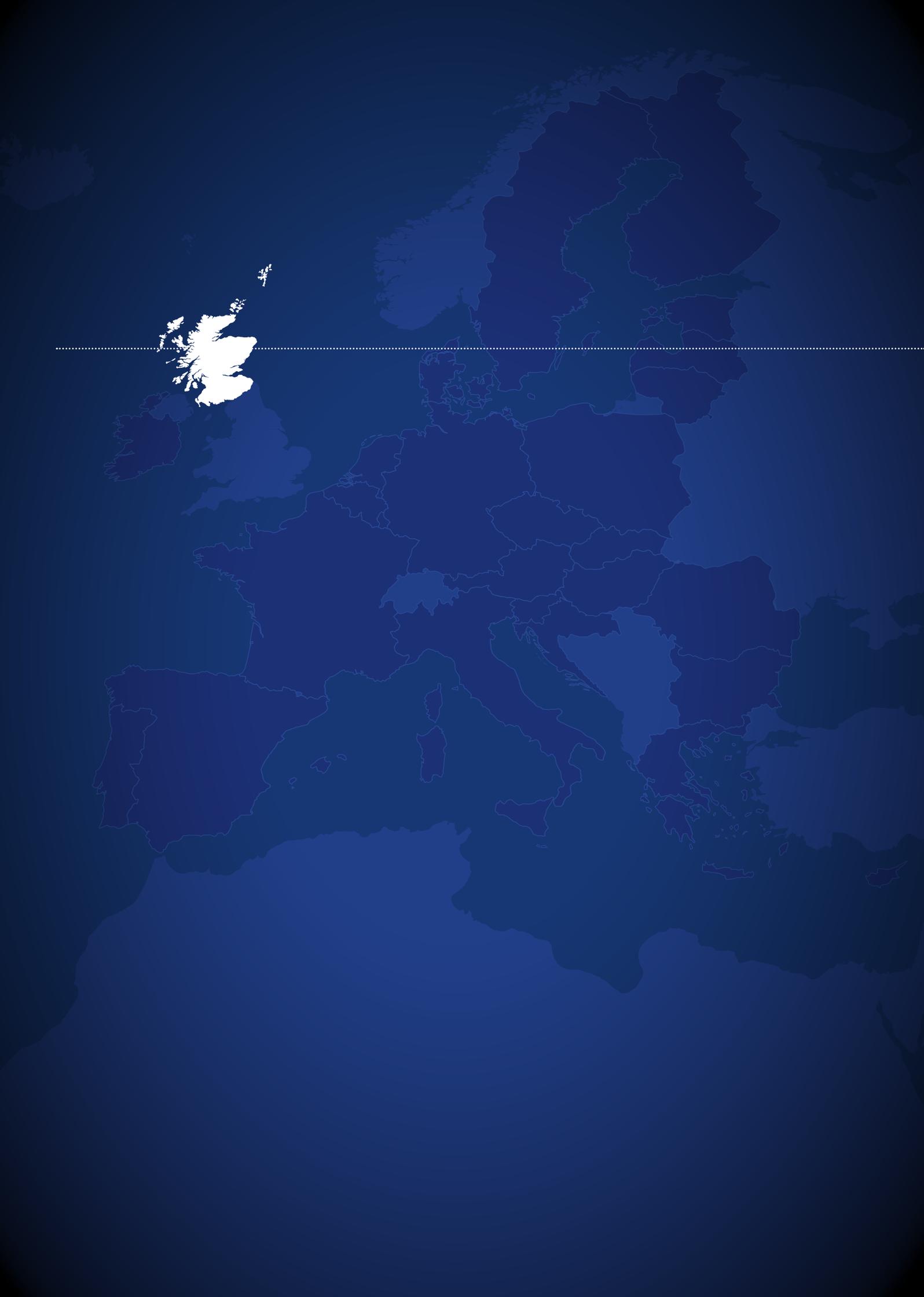


BREXIT:

what's at stake
for businesses



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BREXIT: what's at stake for businesses

Over the past year a great deal has been written about Brexit. Much of the debate has been characterised by jargon, economic theory and competing claims about gains and losses. This is perhaps inevitable given the complexity of the subject but that can make it very hard to see what's really at stake: for businesses, for individuals and for society as a whole. With only about a year to reach a deal, there is no time to lose. For many businesses, lack of certainty over the outcome is having a very real effect right now on decision making, investment and jobs.

The aim of this document is to look at the key issues from the point of view of businesses. It will be followed later in the year by material on what's at stake for individuals and families.

This document is focussed on real companies with real people and real issues. The examples given set out what companies are saying to us about what's at stake, in their own words. Those quoted aren't necessarily saying they agree with any particular answers. But they are saying that the negotiations between the UK and EU matter hugely and that they need urgent clarity on:



PEOPLE:

Being able to attract and retain the right staff



PROFIT:

Being able to minimise extra cost burdens and to maximise income



PRACTICALITIES:

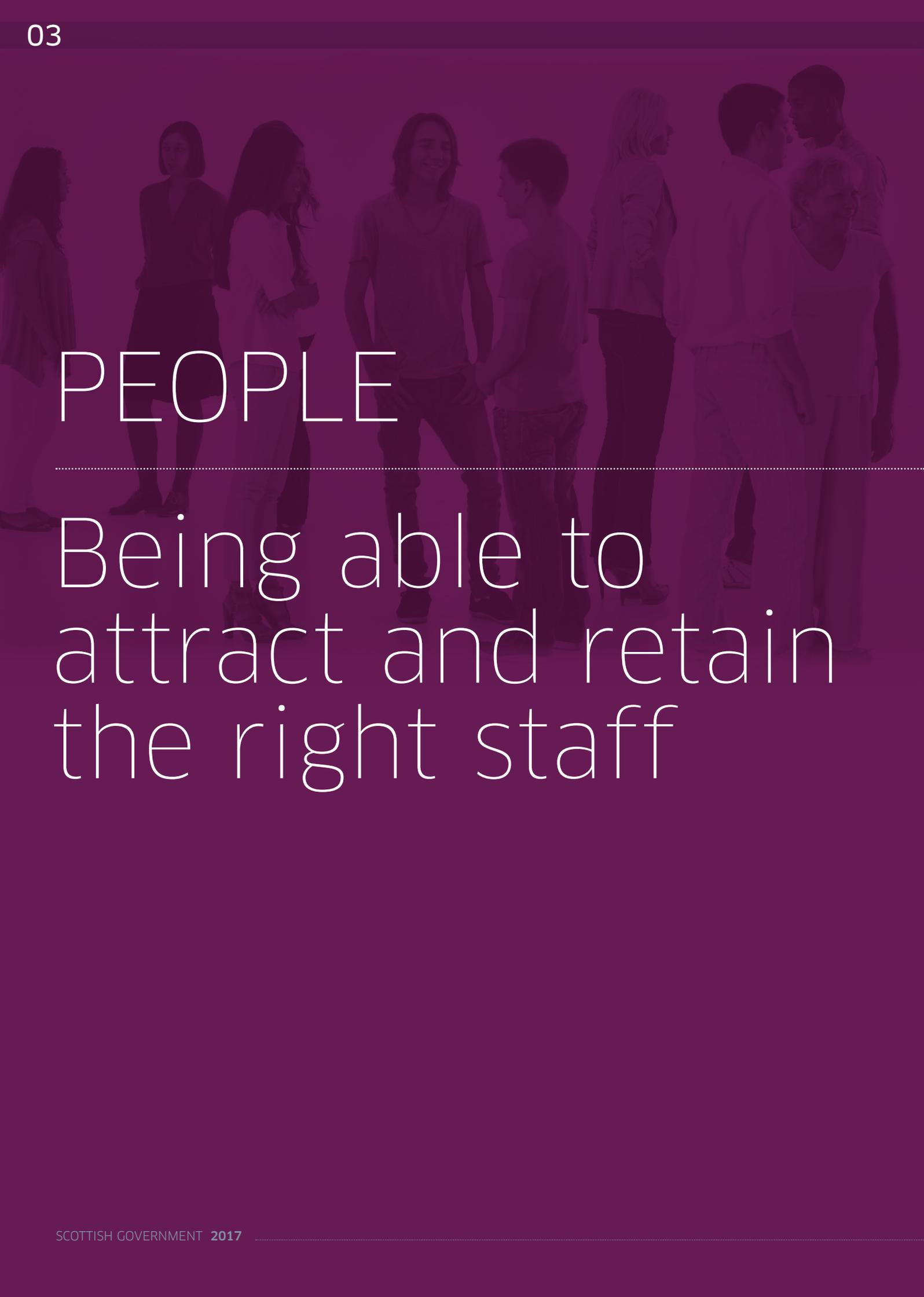
Being able to do business with certainty and minimum fuss



POSSIBILITIES:

Being able to avoid missing out as the single market grows

For many companies looking to invest, the clock is ticking at one minute to midnight. These real case studies highlight the urgent need for clarity on a range of issues.



PEOPLE

Being able to
attract and retain
the right staff

Having the right people in the right jobs is a must for any company. With Brexit looming, two thirds of Scottish small firms say they are concerned they won't be able to recruit enough skilled employees in the next few years.

Right now businesses in the UK can recruit whoever they want from throughout the EU, with no fuss, no delay and no additional complicated paperwork. They have for years planned on the basis that they will be able to do so for the foreseeable future: no wonder over a quarter of small businesses in Scotland (26%) employ EU nationals from outside the UK. In some areas such as the Highlands, this rises to over 40%¹.



WE DO NOT KNOW WHAT THE OUTCOME WILL BE. HOWEVER, BREXIT MAY MEAN:

- ★ a UK immigration regime, with quotas for certain professions/ industries and a cap on numbers, administered jointly by the state and industry. This could be based on skills or salary. There could be a similar regime for UK employees wanting to work in the EU; or
- ★ a similar system but with rules and numbers set at a regional level; or
- ★ a continuation of a system similar to the current arrangements.

No matter how open the system, its success will depend on the UK being attractive to potential employees. People

have to want to work here. That, in turn, will depend on things like high levels of workers' rights such as maternity pay and sick leave. It will also depend on the UK being, and being seen to be, a welcoming place for the talent we need and their immediate families.

The real life examples in this section show that companies of all shapes and sizes are very concerned about their access to people with the right skills when they need them. This applies in many sectors, at all skill levels and throughout the country. It is not just about today's hard-working fellow EU nationals but also about their successors we need to see coming to join or replace them. In many cases we see that companies have tried but been unable to recruit enough UK staff. The result therefore of new restrictions could be scaling back operations, relocation or closing down altogether.

¹ FSB (2017) A Skilfull Exit: What Small Firms want from Brexit. Scottish Summary. <https://goo.gl/16bq2L>



PEOPLE: WHAT BUSINESSES SAY

The examples below capture what companies are saying to us about what's at stake for them, in their own words, demonstrating the real issues they face.

Walkers of Aberlour, one of Scotland's most iconic and successful companies, is already feeling the impact of Brexit. The uncertainty is impacting on their relationships with buyers and others. Tariff free trade with EU markets is vital to their business, as is ready access to affordable ingredients. Crucially, Walkers employ around 1,700 people on a seasonal basis of whom 500 are EU nationals. The growth of the business has been reliant on these high quality workers, some of whom have advanced to hold senior positions. **The company's recent strong growth would have been impossible without EU workers, as would future investment plans.** The company are unable to identify many, if any, compensating opportunities which would emerge from leaving the single market.

The University of Edinburgh, one of Scotland's largest organisations, with a turnover approaching £1bn, is particularly concerned about free movement of people. **26% of university staff and 15% of students come from elsewhere in the European Union.** EU nationals are not only an irreplaceable asset to the intellectual life of the university, they also add hugely to the diversity of experience of all who work or study there. Anything – whether new procedures or a less welcoming atmosphere - which reduced the flow of people (in either

direction) would be very damaging. That flow is partly supported by EU funding - the University of Edinburgh is the biggest recipient of Erasmus+ funding for student mobility in the UK. It is also very successful in winning EU research funding. EU funding for student mobility and research has no equivalent within the UK - it makes possible international collaboration on a scale mirrored nowhere else. One example is the €64 million awarded over 5 years towards a unique pan-European project, led from Edinburgh, which aims to improve the testing of new treatments to prevent Alzheimer's dementia.

Bruce Farms has been a big player in rural Perthshire for many years, well known for high quality fruit and veg. They are very concerned about finding future staff, especially as they have tried in the past to recruit locally but with very little success. Taking farm and factory together, they employ 375 workers from elsewhere in the EU, largely on a seasonal basis. Treating these staff well, they have never before experienced any difficulties in attracting staff; rather the reverse. Not so this year. A combination of uncertainty - with rumours abounding about how EU nationals will be treated in the UK - and exchange rate changes - have had a dramatic impact on supply and meant that there is very real concern for the 2018 season. Existing plans to invest and expand have already been shelved; **if no solution is found soon for the future supply of seasonal workers then fruit and veg production will simply have to cease.**



Angus Soft Fruits says it accounts for around 60% of Scottish soft fruit sales, and 15% of total UK soft fruit sales, selling to nearly all major UK supermarkets. Angus Growers employ around 4,000 seasonal workers. There is already a 5-10% shortage of workers. Long term unemployment in Angus is low, and many of those without work would either not be physically able to pick or else based in the wrong location, so sourcing a local labour force is impossible. It is vital that future labour schemes are simple and unrestrictive. If not **Angus Soft Fruits may find themselves without a workforce.** Assured Produce, the Health and Safety Executive and the supermarkets determine the standards and rules which Angus Soft Fruits must abide by: in their own words “Anyone who suggests that leaving the EU will reduce red tape is deluded”.

Queensferry Hotels are particularly concerned about being able to secure the range of staff they need to continue to provide excellent service to their guests, north and south of the Forth. **Around a third of their payroll are from mainland Europe and they have already experienced both the departure of key members of staff and a marked increase in the difficulty of recruiting new ones.** They – like many of their fellow hotels and indeed of their suppliers – are sceptical about ever replacing this workforce from UK sources. The fall in the pound may have brought in more trade in the short term but that is likely to be more than offset by rising costs, in particular of food and of wine imports.

The Scottish Professional Football League (SPFL) state that the existing flexibility to employ **players from Europe and around the globe greatly benefits clubs within the Scottish Professional Football League.** Not only do these players add enormously to the standard of the game in Scotland, they also generate increased profile and much-needed revenue from the SPFL’s overseas broadcast contracts in over 150 countries. The SPFL is keen to ensure that any Brexit deal maintains this flexibility and doesn’t add to the costs of attracting overseas players, reflecting the fact that Scottish football makes a unique and valuable contribution to the sporting, social and economic fabric of Scotland. The SPFL is keen to ensure that any changes to the visa system for overseas players will enhance, or at the very least maintain, the flexibility currently enjoyed by SPFL clubs operating in the increasingly competitive worldwide market for players.

Camphill Scotland support more than 500 people with learning disabilities and other support needs, ranging from children to older people. Their survey found that **68% of the 251 short-term co-workers currently living and working in Camphill communities in Scotland are from other EU countries.** Of the 165 people working as **long term co-workers**, 53% are from other EU countries. Any future restrictions upon the future freedom of movement of EU nationals, and upon their current rights to live and work in the UK, could, therefore, have far reaching consequences for the Camphill communities in Scotland, placing in jeopardy the long-term sustainability of many of the Camphill communities, and of the education, care and support they currently provide for people with learning disabilities, and with other support needs.

PROFIT

Being able to
minimise extra
cost burdens and
to maximise
income

Everyone in business knows to keep a close eye on the bottom line. Running a company brings many responsibilities, including contributing to society. But in that context avoiding unnecessary cost burdens is crucial if a company is to grow and thrive. There is much at stake here, in terms of markets, costs and funding.

Right now UK businesses have unfettered and privileged access – free of tariffs and of non-tariff barriers – to a market of 500 million people. Business in the UK also currently benefits from EU trade agreements with over 50 countries, including those that are being finalised and implemented for example with Canada, with more to come. The same applies to the imports our industries and retail need.



As the EU single market grows and as more EU trade deals are struck, the value of this trade will also grow. The market access in turn attracts large scale foreign direct investment, crucial for getting businesses going and growing. Companies benefit too from funding which can reduce costs of employing people in disadvantaged areas or of benefitting from cutting edge research, which in turn feeds back into our development as a country and the creation of a fairer and more equal society.

BREXIT MAY MEAN:

- ★ goods can be sold in – and imported from – EU markets, but only once tariffs of up to 40% have been paid and provided EU-set standards are met; or
- ★ for some named products lower tariffs can apply for as long as a UK/EU agreement applies; or

- ★ as now, goods and services can be imported and exported without tariffs or other barriers, both in EU countries and in those with EU deals;
- ★ deals with some countries such as Brazil could allow some UK goods to be sold there and Brazilian goods to be sold here, in both cases with lower tariffs but some non-tariff barriers, if a deal is negotiated;
- ★ UK companies will no longer have quick access to cutting edge research achieved through collaboration with researchers from elsewhere in the EU.

The real life examples in this section show what is at stake here and explain why the Fraser of Allander Institute² has drawn attention to the impact that Brexit will have on the Scottish economy. GDP is expected to be up to 5% lower after 10 years than would otherwise be the case.

2 Fraser of Allander Institute (2016). Long-term Economic Implications of Brexit. A report for the Scottish Parliament. <https://goo.gl/ScPqRx>



PROFIT: WHAT BUSINESSES SAY

The examples below capture what companies are saying to us about what's at stake for them, in their own words, demonstrating the real issues they face.

A niche Trade Finance Bank with particular expertise in serving businesses trading with the Middle East and North Africa has its European Operations centred upon London with branches in Frankfurt, Paris and Milan. Their Scottish office is in Glasgow.

Many employees are necessarily fluent in Arabic and other European / Nordic languages with a wide diversity of nationalities represented on the staff complement. The Bank supports customers across the globe in a highly competitive industry, which attracts the best and brightest talent from all over the world. They need a highly- educated, diverse workforce with the ability to travel and conduct business seamlessly across borders. Therefore it is crucial that the status quo on passporting of financial services remains.

Operating from the UK and across the EU it is critical for their success, when transacting internationally on behalf of global corporations, that they are able to provide low cost, frictionless support for vital trade finance services. **If significant impediments to transacting business in support of their customers were to emerge then elements of business may be conducted elsewhere.** The Bank is increasing their investment in Frankfurt in order to prepare for possible outcomes of the Brexit negotiations. To conduct business in future in a form and substance similar to that at present, these requirements may include an enhanced legal and technical presence in the EU.

CirrusHQ is a managed IT services provider based in Livingston, specialising in Cloud Computing. They are a global business operating exclusively out of Scotland. They currently have 9 employees, 4 of which are originally from outwith the UK. **They are concerned about the changes in access to the European market for its services as well as their access to the talent pool within the EU.**





Loch Melfort Hotel on the coast of Argyll has two luxury suites, eight further bedrooms in the main house and a further 20 rooms in the Sea View Lodge. **The Hotel's main concern on Brexit is the severe cost implications of having to make herculean efforts to attract and retain staff.** Since the EU referendum several key members of staff have chosen not to return to the UK, primarily because it is no longer a good economic proposition. Whilst the hotel has, with much difficulty, found ways to cover these roles in 2017, this is becoming increasingly difficult. The issue is particularly acute in rural areas since it is much harder to charge premium rates for accommodation, food and drink to cover these cost increases (especially as they are accompanied by severe Brexit driven food and drink cost rises). Loch Melfort has noted that the more than 80% of their customers which are from the UK have reduced their discretionary spend (food & drink), behaving significantly more cautiously since the Brexit vote.

Brighter



Brightwork is a temporary recruitment agency with offices in Glasgow and Edinburgh. The company employs 70 people and typically has in excess of 2,000 temporary workers a week working on assignments for clients throughout Scotland. The tightening of the labour market over the past year or so with employment at record levels has made it increasingly challenging to find the right talent, particularly for entry level positions paying the national minimum wage. The burden of compliance is increasing year on year in terms of visa requirements, right to work etc. and **early indications suggest Brexit will add more bureaucracy into the mix.** If compliance becomes even more onerous this will impact on margins which may lead to cost increases for clients. Uncertainty is also impacting on business confidence and is having a knock on effect in investment and growth.

A Scottish company which designs, manufactures and distributes **highchairs** exports its products all over the world from both its European and Chinese hubs. Brexit offers significant uncertainty, for both the brand and its European customers, and has certainly not helped the cost of offshore production which has risen by 30% since the referendum. Safety is absolutely crucial. Irrespective of any new third country trade deals, the company would want to adhere to current EU driven safety standards which are seen as world class internationally and allow it access to key markets.



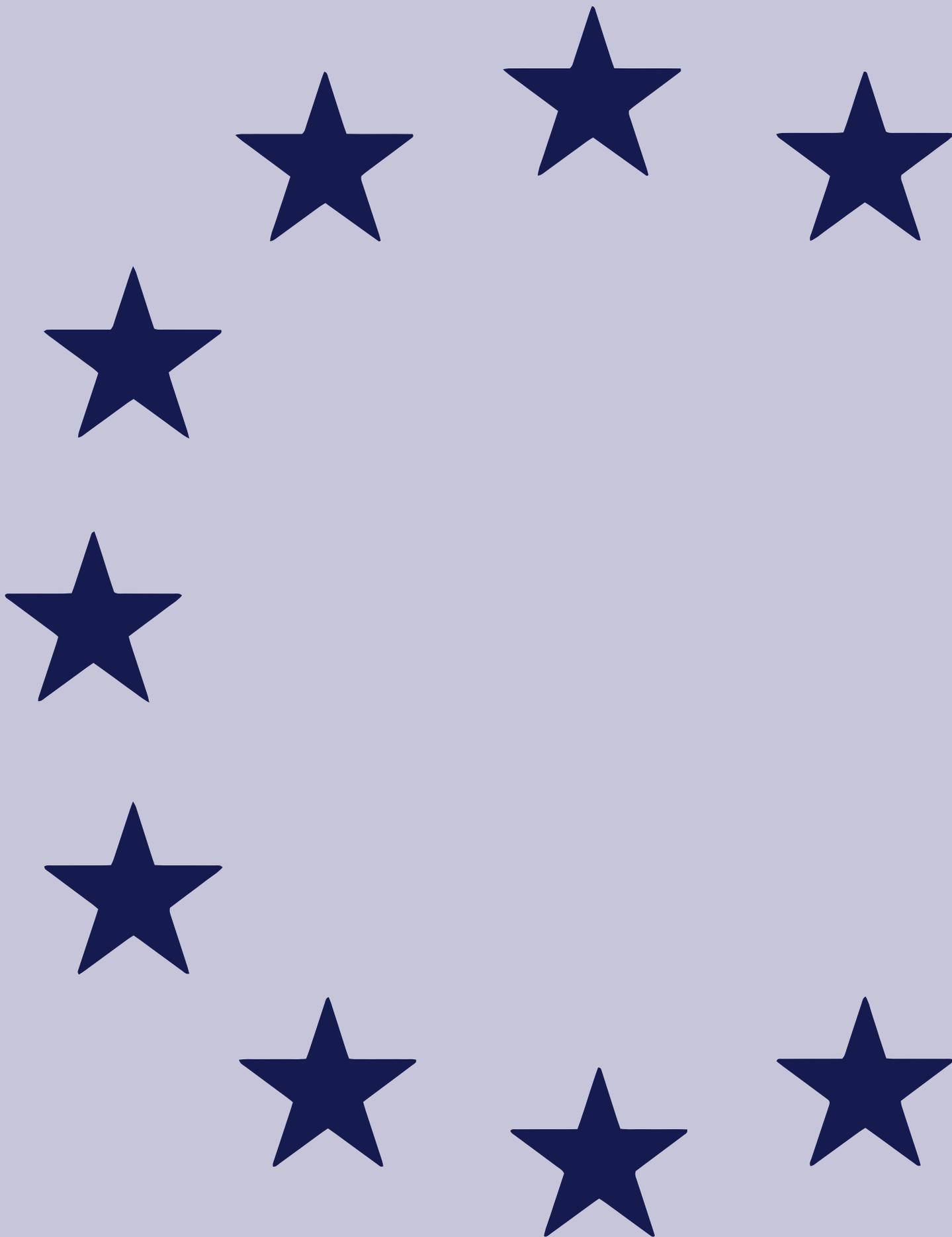
Springbank Distillers benefits greatly from operating within the European Union and Brexit will have a negative impact on their business.

Firstly, leaving the EU will result in an added administrative burden for the company as they conduct business with 27 countries compared to the Single Market. **This means extra work, extra staff costs (including training or re-training) and a number of logistical and practical issues such as the additional time these burdens will take.**

Furthermore, anything that may restrict or hamper the travel of citizens from EU nations to Scotland will have a detrimental effect on the company. Springbank, like many other distilleries

throughout Scotland, relies heavily on foreign visitors to sell their products - 10% of their turnover comes from money spent by customers from Europe. Also, increased restrictions regarding their visitors' ability to take whisky back to their homeland is deeply concerning and may impact on tourism in the area as the thousands of foreign guests that Springbank attracts to Campbeltown each year also benefits the local community.

The new difficulties faced by their family owned, independent distillery within a traditional Scottish industry will be acutely felt. Therefore it is vital for them that Brexit has as small an impact on the efficiency and ease of movement of Scotch Whisky as is possible.



PRACTICALITIES

Being able to
do business with
certainty and
minimum fuss

Companies, especially Small and Medium Enterprises (SMEs), long for simplicity and clarity. Nothing undermines business confidence more than unnecessary bureaucracy and rampant uncertainty.

Right now for the vast majority of goods, services and companies, one set of rules, clearly articulated and understood, apply both in the UK and throughout the EU (and in many cases beyond). For the most part these have been stable for many years. On that basis, goods and services sold here can go anywhere in the EU, with no need for separate packaging, production lines etc. The rules may not always be universally welcome (although they very often underpin the very qualities companies pride themselves in), but are a known and unifying factor. And they are increasingly driven by the reassurance provided by agreed and uniform rules on issues such as compensation, consumer rights and payment terms, with agreed processes for enforcement and final legal redress. Moreover, there are minimal, if any, checks at borders.



BREXIT MAY MEAN:

- ★ clear decisions before 29 March 2019 on the trajectory for all products and rules; or
- ★ many years of indecision and uncertainty as negotiations in a variety of forums drag on;
- ★ as now, the same rules and regulations apply in the UK as throughout the EU, updated together over time; or
- ★ a gap between rules applying for the EU and for the UK, widening over time and requiring separate production lines;
- ★ every product exported or imported will need country of origin paperwork and time-consuming checks as they leave or enter the UK; or
- ★ no border checks or country of origin requirements.

The real life examples in this section bring these theoretical points to life. Many companies say these issues matter more than tariffs and market access. If the talks don't get this area right, there will be complications and uncertainty for every company, bringing not only headaches but a severe dent to the bottom line.



PRACTICALITIES: WHAT BUSINESSES SAY

The examples below capture what companies are saying to us about what's at stake for them, in their own words, demonstrating the real issues they face.

Glasgow Airport – AGS Airports Ltd

Airlines plan their routes and flights six to twelve months in advance and so September 2018 is the key date for a Brexit date of March 2019. The UK aviation industry and the rest of the world are covered by deals involving 155 countries: 44 of these are through EU wide agreements, covering the majority of passengers.

Aviation is legally unique, it is separate from trade agreements and does not form part of the World Trade Organisation (WTO) system. The UK has access to the EU's external aviation agreements, most importantly the 2008 EU-US Open Skies Agreement that enables any EU or US airline to fly any transatlantic route.

Without new agreements on aviation being agreed pre-Brexit and in the absence of a transitional deal, airlines would lose the legal framework to fly their current EU routes and some long-haul ones, including to the US and Canada.

The uncertainty regarding the UK's future trading relationship with EU is already having an impact on the aviation industry. A number of airlines have stated they will scale back their UK growth plans, focusing instead on adding capacity at airports in the EU. Airlines have also reported a marked increase in their cost base due to the fluctuation in the exchange rate. Taken together, this has the very real potential to undermine Scotland's connectivity.

A Scottish Fish Processor, supplying products internationally. It is a significant employer and one of its biggest concerns is labour supply following Brexit. With a significant number of employees coming from European member states, it is concerned about the impact of Brexit on free movement.

There may be additional burden caused by export barriers and bureaucracy, such as increased documentation. The increased burden of further documentation could impact the sales of chilled products which have a short lead-time (often despatching within a few hours of receiving an order). Extensive time generated through documentation and handling could lead to a decrease in product quality and ultimately limit its ability to make international sales.

Trade tariffs could also impact the value of sales and competitiveness of its products. As a fish processor it is concerned about the impact of Brexit on fisheries science and regulation. Departing from the EU may lead to less investment in stock science which has long-term impacts for the health of stocks that this business is dependent upon.



eCom is an SME based in Dunfermline. They have a diverse workforce, including Chinese and Polish nationals. Many of their staff start as summer placements during university. eCom therefore relies on a steady stream of highly educated individuals with specific skills, mostly in coding at Honours or Masters level. Customers know that changes are coming and are setting aside their tech/innovation training budgets for when those changes take place. If customers' profits are hit by Brexit, training could be one of the first budgets hit. **eCom are specialists in innovative learning solutions and have noticed the impact in 2016 due to the delay of innovation projects now starting in 2017.** The possibility of needing different legal contracts for different markets is also causing uncertainty. Currently eCom have UK/US contracts and there are worries they will need to separate out UK and EU contracts. Changes in laws can and will increase overheads especially changes in VAT which is currently the same all over EU. Overall, the current slowing in the market does not encourage investment.



SnapDragon an Edinburgh-based company fights fakes online, helping brands to defend their intellectual property, reputation, income and customers. SnapDragon's proprietary algorithms monitor over 250 of the world's busiest ecommerce, social media and auction sites, identifying infringing links and sellers which are then removed, or closed down.

SnapDragon employs highly skilled digital analysts who represent 13 nationalities including, but not exclusively, EU territories. Due to the scope of the business, employees' language skills are critical and SnapDragon recruits from a wide talent base. Increasingly strict – and costly – immigration measures make the long term recruitment of an international team difficult, and the business is keen to see this made easier, rather than more difficult, particularly when trying to build a global business from Edinburgh.

Some of SnapDragon's clients are **particularly concerned about the changes in intellectual property which may result with Brexit** – particularly the loss of unregistered design rights which are stronger in Europe than in the UK. Added to this, many businesses have EU trademarks, but not UK trademarks and the costs of refiling are not insignificant.





Scuba Diving Scotland is Scotland's largest dive centre and the only one that sells courses online. They have customers coming from the EU to Scotland to participate in their courses, and sell their materials into the EU. **They are concerned about cost increases and extra bureaucracy for themselves and their customers, so have put on hold plans to expand the range of services they offer.** Additionally, they are concerned about extra "friction" for potential customers overseas visiting Scotland, who may opt to go to another EU country as there is less 'hassle' about healthcare concerns, roaming and even visas.

Bullet Express is a Glasgow-based company that has provided pallet distribution services for over 25 years, offering a comprehensive range of transportation and logistical services across the UK and internationally by land, sea and air.

Bullet Express is concerned about discussion of custom controls being set-up between the UK and the EU, which would cause additional delays in moving goods across the border. This would be highly impractical, not least due to the cost and time required to put these controls in place. **The focus of Brexit negotiations should be avoiding the need for any additional border controls rather than discussing what type of new border controls to put in place. Common sense must prevail.**

More generally Bullet Express is concerned that investment from outside the UK (such as infrastructure investment from the European Investment Bank) may decrease in the immediate future so long as there remains uncertainty over the UK's circumstances once it leaves the EU.



Shin-Etsu Handotai Europe is a high tech manufacturer of semiconductor grade silicon wafers integrated into the supply chain for computing equipment such as smart phones and cars. They employ 450 staff in Scotland as part of a wider conglomerate of 18,000 globally. They operate in the market they supply, and Scotland is their base for serving the wider European market. 80% of their business is in the EU with 5% of that in the UK.

In terms of future planning, the company needs to consider both their customers' plans and their own future plans. While the Brexit negotiations process is going on it is difficult to plan ahead. An example is in the vehicle supply chain. Customers have been forced to consider risks such as the stopping of supply or price increases, but **the company just can't provide answers.**

POSSIBILITIES

Being able to
avoid missing
out as the single
market grows

Nothing stays the same for long. The Brexit talks are not just about the single market as we know it in 2017; it is about what that market will look like in 2020 and beyond.

Right now Scottish businesses stand to benefit from the single market as it grows in the years ahead. The long-term potential gain from completing the single market in services, where Scotland and the UK have a comparative advantage, is of the order of 2.4% of EU GDP. To put this into context, a 2.4% boost to Scottish GDP in 2016 would be equivalent to £3.6 billion. There would also be great scope to capitalise on emerging and innovative sectors, for example digital and integrated energy markets, and to benefit from new EU trade deals already in discussion, such as with Japan and Indonesia.



BREXIT MAY MEAN:

- ★ UK companies missing out on single market growth and completion; or
- ★ UK companies being able to benefit as the single market grows for example in services and energy; or
- ★ UK companies gaining no benefits from future European funding.

The real life examples in this section illustrate just what we might be missing out on if we freeze ourselves out. And by definition we don't know what more will be at stake here: this could be the tip of a very big iceberg.



POSSIBILITIES: WHAT BUSINESSES SAY

The examples below capture what companies are saying to us about what's at stake for them, in their own words, demonstrating the real issues they face.

Atlantis Resources Limited (“Atlantis”) is a global developer of renewable energy projects with headquarters in Edinburgh. Atlantis's flagship project, MeyGen, is situated in the Inner Sound of Scotland's Pentland Firth and is the world's largest tidal stream array.

The European Union is an important source of financing for renewable projects, particularly tidal stream. Atlantis has been awarded both Horizon 2020 and NER300 funding from the European Commission as well as received offers of support from the European Investment Bank for future phases of their flagship MeyGen project. They believe that should the UK remain in the EU single market they will be extremely well positioned to continue this success and benefit from future rounds of EU funding. **Ease of movement and access to markets are as critical as access to EU funding.** Atlantis has strategic partners in Belgium and France as well as suppliers across Europe, and employs a number of EU nationals who are technical experts in marine technology and whose skills and experience would be difficult to replace.

Maramedia is Scotland's leading independent natural history TV production company. European connections and partnerships play an important role in the success of Maramedia. Based in Glasgow, Maramedia is behind the production of the critically-acclaimed BBC Scotland series Hebrides – Islands on the Edge and its sequel, Highlands – Scotland's Wild Heart, both narrated by Ewan McGregor. The two series have been sold in over 100 countries across the globe. They estimate that one third of their business is with European broadcasters: the overall EU audio-visual market is growing and set to grow more.

Maramedia is currently producing Wild Way of the Vikings, a documentary-drama considering the Vikings' place in European natural history. This series is a co-production involving French and Austrian partners alongside BBC Scotland and PBS in the USA. Funding has included contributions from Swedish, Danish and Croatian broadcasters. They have also secured grant funding through the EU's Creative Europe programme. Co-founder and Creative Director of Maramedia, Nigel Pope, says that **had they not been able to secure funding through the EU, which covers 20 per cent of the production's costs, they would struggle to maintain their highly-specialised production base in Scotland.**

EU funding and partnerships with European broadcasters have played an important role in ensuring Maramedia maintain their reputation as a producer of world-class wildlife films – Scotland's place in the European single market is vital to this. It helps them to develop and



maintain working relationships, supports the financing of productions and eases the complex logistical challenges of filming wildlife across Europe and the world.

World-leading tidal energy company Edinburgh-based **Nova Innovation** successfully deployed a third turbine at the Shetland Tidal Array, the world's first offshore tidal array, in February 2017 and achieved this with over 80% Scottish content, demonstrating genuine commitment to and confidence in the local supply chain.

Now employing more than 30 staff, Nova has more than doubled its workforce and recently moved into new larger premises to allow them to deliver their current order book. In July 2017, Nova won a major new €20 million European tidal energy project, Enabling Future Arrays in Tidal (EnFAIT) and will head a consortium of nine leading industrial, academic and research organisations from across the UK and Europe building on the existing project in the Bluemull Sound, Shetland. The project is a flagship initiative for the EU and marine energy, and aims to increase the commercial viability of tidal power.

Nova values scientific collaboration and enjoys excellent research relationships with other member states and regions. The EU energy union is due to be completed in the years ahead. **Without access to EU markets, supply chain and free movement of people, Nova will struggle to build on the tremendous success achieved to date and deliver success across a pan-European market and beyond.**

The Scottish Salmon Company (SSC)

The Scottish Salmon Company (SSC) is the leading producer of premium Scottish salmon with operations only in Scotland. Headquartered in Edinburgh, SSC has 60 sites along the west coast of Scotland and Hebrides and employs over 500 people. A global business, SSC produces 25,000 tonnes annually and exports to 26 countries. Overseas markets account for over 50% of sales and around 35% goes to the EU. SSC is focused on strategic international growth, particularly in the Far East and North America. **SSC believes remaining in the Single Market will allow important trade relationships to grow.** With a clear focus on growing the company internationally, SSC is harnessing the power of its Scottish provenance to position itself on the global stage and driving exports.

A global IT consultancy company with a Scottish base. As a global company, they liaise with clients and business in many countries. Free movement of labour is crucial to them as employees with specialised skills are highly mobile, working wherever their skills are required. Their graduate program currently attracts many highly skilled international applicants. They fear they won't continue to have access to applications from the EU due to Brexit. Brexit is unlikely to have an impact on dealings with the public sector but **with more private sector businesses moving their businesses to the EU, such as Dublin and Frankfurt, there is a likelihood that Brexit will impact dealings with the private sector.**

SECTORIAL CASE STUDIES

This section illustrates how the different issues come together in two very different sectors.

CASE STUDY ASSET MANAGEMENT SECTOR 1:

Scotland is the UK's 2nd largest financial cluster after London. 86,600 people are employed across Banking, Asset Management, Asset Servicing, Insurance and Life & Pensions. Scotland's Asset Management sector is one of the largest in Europe.

For asset management perhaps the largest problem is the **uncertainty** created by the current limbo. Firms simply do not know what the arrangements will be after March 2019.

Asset management firms, in common with all financial services firms in Scotland, are able to sell into Europe because, under the single market the UK Regulator, the Financial Conduct Authority, is accepted as competent to regulate UK businesses for their operations across the whole EU. This arrangement, known as '**passporting**', will cease to apply in March 2019 unless a specific agreement is reached.

The majority of Scottish firms have already established subsidiaries in other EU countries in the hope that they will be able to continue to do business through them after 2019. However, it is unlikely that regulators in other EU 27 states will be content for these offices simply to act as post-boxes whilst most of their work is done in what is effectively a third country. Therefore, Brexit will imply significantly **increased costs** for Scottish firms and the **transfer of some operating activities** from Scotland to other EU states.

There will also be implications for sales to customers outside the EU. Currently relations between the EU and the US, which

represents the most important non-EU market for Scottish asset management firms, are governed by the principle of regulatory equivalence. This means that, since both sides agree that their regimes are similar, cross-border transactions can be done on a relatively relaxed basis. After Brexit, it will be necessary to set up new regulatory agreements with both the EU and the US. Whilst future UK regulations are likely to be similar to those in place now, these agreements will have to be negotiated, which will take time. It is almost inconceivable that these will be completed before March 2019 as it is improbable that discussions with the US could make any progress until agreement has first been reached with the EU. Moreover the negotiations with the EU will be complicated by the fact that several member states will have a clear objective of obtaining new business at the expense of UK firms.

Maintaining regulatory equivalence on a continuing basis will constrain any future adaptation of financial regulation within the UK, and will require UK regulators to closely follow developments in regulation with the EU, without being able to influence them. Third country clients have become comfortable with the **regulatory protections** provided by the current EU arrangements. It will be necessary in future for Scottish firms to, either satisfy their clients that the protections they provide and the associated regulatory oversight are at least as strong as those that currently exist, or to allow these clients to invest through an EU authorised entity, based in some centre outside Scotland, such as Dublin or Luxembourg.

CASE STUDY FOOD AND DRINK

SECTOR 2:

The food and drink sector is very important to Scotland, worth around £14 billion annually. It has an enviable track record and an ambition to grow to £30 billion by 2030. There are many issues at stake. One of the biggest is **labour**. From fruit growers, to fish processors, to caterers and chefs, virtually all parts of the sector exemplify the key importance of attracting and retaining EU staff - both skilled and unskilled - often at very short notice. Even indirect effects may be severe: without the 98% of abattoir vets who are from elsewhere in the EU almost no meat could be processed in Scotland.

Trade in food is of great importance and complex. There is considerable concern about the potential loss of access to key EU export markets and real uncertainty about the fate of protected food names such as Scottish salmon. With EU tariffs traditionally highest for some food stuffs such as red meat and smoked salmon - up to 40% - the implications for costs on both exports and imports are potentially very significant, for both businesses and consumers. Even relatively low tariffs are likely to affect the viability of processing operations with low profit margins.

There may be some new export opportunities if the UK is ultimately able to deliver meaningful new free trade agreements over and above those negotiated by the EU. This may provide new opportunities for consumers, but may also come with other less welcome consequences, such as low cost/high volume imports of, for example, beef and lamb and the inability to resist products which do not meet current EU standards, such as chlorine washed chicken from the United States. Companies could also be subject to different rules for different markets, perhaps needing different production lines.

Food supply chains are complex, with ingredients and products crossing many borders, often just in time. One of the key

issues is the risk of adding to that complexity, with serious potential for **practical upheaval** such as considerable delays for checks at ports, causing real difficulties for perishable goods such as seafood. The nature of the trade deals agreed will determine how exports from the UK are managed in future. At present, depending on the needs of the importing country, each export consignment of a product of animal origin requires an export health certificate. This can often involve long round trips, as currently the authorisations are not issued electronically. On average the certificates cost £60 each. If these arrangements are mirrored for trade with the EU, this would place a tremendous resource burden on both local authorities and food businesses who would need to pay for a service that is already stretched. Similarly for our vital Scotch whisky exports, it is crucial that there should be an effective replacement from day one of the current export and import declaration system.

We will of course want to grasp any emerging opportunities to reform the means of support, such as the Common Agricultural Policy, and to determine our own fisheries management. But this would be far from a clean slate. In addition to World Trade Organisation constraints, we would want to retain high environmental, food safety and other standards and work within the rules of international agreements such as those which apply to the sustainable management of fish stocks. In addition, the UK Government have to date been unable to guarantee in the medium to long term the continuation of EU funding currently provided under the CAP, the Food Processing Marketing and Cooperation Scheme and the European Maritime and Fisheries Fund.

Above all the food sector is complex with a huge range of variables and potential pitfalls. The uncertainty and potential damage caused by Brexit has already affected confidence in the sector. Decisions and clarity are urgently needed.



CONCLUSION

Because of Brexit, many choices have to be made: such as how best to prepare my company; whether to cut back, invest or relocate; and, crucially, what the UK Government should negotiate for, both on the transition and beyond.

There are different views as to what is best for Scottish and UK companies. The Scottish Government strongly believes that in the short, medium, and long term, staying in the single market and customs union will be best for all aspects of businesses' wellbeing, whether people, profits, practicalities or new possibilities. Others may think otherwise. But what must be clear to everyone from this document is that:

- ★ there is a great deal at stake for every business;
- ★ the voice of business – individual companies and organisations, in Scotland and throughout the UK – must be heard and listened to before irreversible decisions are taken about our common future; and
- ★ with businesses already finalising plans for post 2019 – and indeed beginning to act on them – there is no time to lose.





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