

Potential Implications for Rural Scotland of the United Kingdom Leaving the European Union

Interim Report by the National Council of Rural Advisers

November 2017

Foreword

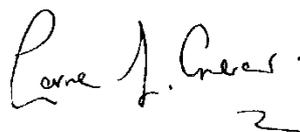
On the 22 June the Cabinet Secretary for the Rural Economy and Connectivity announced the setting up of the National Council of Rural Advisers. The remit of the National Council is to provide advice on the potential implications of Scotland leaving the European Union (EU) as part of the United Kingdom (UK), and make recommendations on future policy and support, with the aim of ensuring a vibrant, sustainable and productive rural economy. This report covers the former and the potential implications of Brexit on rural Scotland, with a focus on trade, labour & skills, funding, legislation & standards.

In preparing this interim report we have drawn upon a range of existing materials in addition to the knowledge and expertise of colleagues on the National Council. We thank colleagues for offering their valuable time to input to this paper.

We have not made any judgement on what may actually come to pass over the next few years. We understand that significant uncertainties remain, including any post Brexit arrangements within the UK and between the UK, the EU and the wider international community.

This report is not intended to be exhaustive, but rather it is intended to be a snapshot of rural Scotland and those aspects of rural that we think are key to informing the Scottish Government in its discussions with the UK Government on Brexit.

The report concludes with a number of key areas that should be taken forward by everyone as we prepare for Spring 2019 and beyond. For our part we will further explore some of the issues raised in this interim report as we work towards a more detailed set of recommendations to Ministers, due in Spring next year.

A handwritten signature in black ink that reads "Lorne J. Crerar." with a small flourish underneath.

Lorne Crerar

A handwritten signature in black ink that reads "Alison Milne" in a cursive style.

Alison Milne

Labour & Skills

Scotland has specific labour market and broader immigration needs with rural areas more reliant on European Economic Area (EEA) workers than non-rural areas. Many rural businesses are unviable without EEA workers, in particular those Small and Medium Enterprises (SMEs) operating from within the agricultural, food & drink, hospitality and tourism sectors. Leaving the EU will simply exacerbate the existing situation for businesses which already face real challenges in recruiting enough workers to meet their needs. The irony for the tourism sector in Scotland is that the current weak Sterling has resulted in a boom in tourists from abroad, however there is a real possibility that the labour may not be there to enhance the visitor experience and meet their needs without action.

Such workers are not necessarily seasonal. In the red meat sector for example, around 50% of staff and 95% of official vets in the processing plants are non UK nationals. These are skilled and, in the case of the vets, highly qualified permanent staff whose continued presence coupled with the availability of their replacements is essential to economic growth.

Shifts in the wider labour market as a result of Brexit may also impact on rural businesses in other ways. A smaller labour pool will increase competition and result in increased costs to business as wages rise. Micro/family owned businesses that are so dominant in more remote, rural areas could find it difficult to compete with their larger counterparts. All sectors from agriculture to service provision in areas such as health, education, research may also be potentially impacted by loss of free movement of people.

Local authorities are also concerned about their ability to secure key workers such as teachers, community support workers, care workers, particularly in areas where there is a smaller labour market and/or they are already experiencing depopulation. It is the most rural and peripheral parts of Scotland that could be worst affected by the shortage of workers.

In our view, a significant number of rural businesses and public services need to be prepared now for change post Spring 2019. We do not believe that this is currently the case.

Post Brexit we should:

- Consider how we can attract and retain home grown talent with the necessary mix of skills to meet the needs of rural businesses.
- Promote rural areas as centres of excellence for 'non-traditional' rural sectors such as; advanced manufacturing, digital technologies, e-commerce as part of wider Economic Strategy.

- Overcome connectivity barriers (public transport, roads, broadband, mobile internet and even mobile signal in many instances) to attract labour into (and retain young people) rural areas.
- Promote opportunities for people to work remotely and base more businesses in rural areas, for example through the use of shared space.
- Introduce greater flexibility in immigration rules to recognise that self-employed businesses in rural areas operated by non-UK nationals provide essential services to rural communities that are key to the local economy.
- Consider how we can build on talent attraction work to ensure that rural areas attract, retain and value a pool of skilled labour for career progression in their key industries, including the transition from free movement of labour in sectors historically reliant on EU workforce, particularly in areas such as agriculture, food & drink, hospitality and tourism.

Trade

A number of studies have explored how different future trade arrangements between the UK and the EU will affect parts of the UK and Scottish economies. In a rural context this has particular negative implications for Scotland's food & drink supply chain, regardless of the scenario.

The range of impacts is driven by the nature of any post-Brexit relationship between the UK and the EU – the stronger the economic integration with the EU, the smaller the negative impact. Under the scenario where World Trade Organisation (WTO) rules for international trade apply (i.e. if trade deals cannot be secured with other countries), then the impact is greater. For example, under WTO rules, farmers could face significant increased costs with sheep farms facing >30% tariff on exports; beef farms facing >50% tariff on exports and dairy farms facing >36% tariff on exports.

The EU is currently Scotland's most important overseas regional market for food and drink exports – worth approximately £2 billion annually, and accounting for 39% of Scotland's total overseas food and drink exports (69% of Scotland's total overseas food exports). Atlantic salmon, over 99% of which is farmed in Scotland, is the UK's largest food export with 50% going to the EU. In 2016 Scotland exported £604 million worth of seafood to the EU – 79% of its total seafood exports. It is also an important market for Scotch whisky exports, accounting for almost a third (31%) of Scotch exports (by value). EU tariffs protect Scottish products from cheaper third country competitors often with lower environmental and production standards. Being outside the EU without equivalence in tariffs could negatively impact on the seafood processing sector and impact heavily on the employment in Grampian in particular.

In addition to tariffs, outside of the EU Customs Union, businesses could face a number of non-tariff barriers and/or product quotas, for example the requirement to have a Certificate of Origin (COO) and an Export Health Certificate (EHC). Direct costs for the COO and EHC on average are around £100 per shipment (for each unique customer), plus an additional wage cost of around £12 per shipment. Exporters are also concerned that as well as the additional costs, complying with the customs procedures will lead to significant delays in getting their product to market, as the UK ports are not equipped to deal with the volume of declarations.

Any delays in the movement of goods (particularly fresh goods) could result in reductions in the price received by the exporter or removal of that market. The need to demonstrate that products have been produced to equivalent requirements could also make it more difficult or in some cases impossible to export products to the EU. This could result in markets for perishable goods, such as seafood, becoming unviable.

The continued uncertainty is already impacting on those businesses reliant on imports as part of their production process (such as raw materials, ingredients). The current depreciation in Sterling has pushed up import costs and therefore the general costs of production within the economy and so contributing to the general rise in inflation (and subsequent rise in interest rates).

Of course, businesses that rely heavily on exports may be benefitting from the depreciation in Sterling, increasing their competitiveness (or margins). The weakness of Sterling has also benefitted others, with tourism/ hospitality generally benefitting from increased numbers of non-UK visitors.

Post Brexit we should:

- Have a trade deal between the UK and the EU preserving access to the single market and free movement of people.
- Ensure that any changes to UK rules do not add restrictions to UK exports to the EU and that the UK is able to maintain regulatory equivalence with the EU.
- Simplify procurement rules (and state aid rules) to remove constraints on businesses, recognising that there may be a need to adhere to EU rules.
- Enhance provision of high quality, targeted business support, particularly for smaller businesses to increase productivity, profitability, to foster innovation and digital upskilling, e.g. access to skills development, training and mentoring, rural hubs, facilitation of clusters, horizontal/vertical business collaboration.
- Ensure imports of goods, particularly food, complies with Scottish environmental and production standards.
- Ensure Customs procedures meet the needs of rural Scotland's small and micro businesses and ensure that support is available to these businesses, enabling them to deal with new processes / procedures.

Funding

Perhaps not surprisingly the loss of EU funding (some £5 billion between 2014-20) to Scotland is a major concern to communities and businesses alike. Rural Scotland benefits from a number of EU funds, with investments supporting a range of activities across the rural economy, society and environment in areas such as local development, social inclusion, skills, collaboration, advice, knowledge transfer, capital investment, business efficiencies, environmental protection, technology and research and innovation.

Structural Funds including the European Regional Development Fund (ERDF) and European Social Funds (ESF) provide £800m of funding to support the EU2020 Strategy to deliver smart, sustainable, inclusive growth.

The importance of Common Agricultural Policy (CAP) funding to the Scottish agriculture sector must not be underestimated, with support payments in 2016 contributing over £490m of the £749m Total Income From Farming in Scotland. Reliance on financial support varies across farming sectors. In the Scottish dairy sector, CAP support payments made up 53 per cent of Farm Business Income (FBI) in 2014-15; whereas for the non-specialist Less Favoured Area sheep sector, CAP support was 230 per cent of FBI. The importance of EU CAP Pillar 2 funding through the Scotland Rural Development Programme (SRDP) was key in creating and safeguarding over 30,000 jobs as well as improving business efficiency, output, quality and competitiveness under the previous programme.

The European Maritime and Fisheries Fund (EMFF) provides crucial support for fisheries, aquaculture, the processing sector supporting communities and jobs that depend on them.

The LEADER approach (currently funded from EMFF and SRDP) also plays a unique role in enabling local partnerships to foster innovation and invest in their local development priorities, including local economies. LEADER funding also fosters collaborative working between Scotland and others across the UK and EU.

European Territorial Cooperation (ETC) Programmes are also crucial in meeting the specific needs of rural areas. Actions can include the promotion of resource efficiency and the shift towards a low carbon and climate resilient economy in the agriculture, food and forestry sectors, as well as restoring, preserving and enhancing ecosystems dependant on agriculture and forestry. The resilience of remote and rural communities to economic, environmental and social challenges like out migration, demographic change and reduced public service provision can also be addressed through ETC. Critically such programmes recognise that the challenges faced by nations and regions across Europe are shared ones, and that working collectively is essential to overcome these.

It is also worth highlighting that funds such as Horizon 2020 provide significant levels of funding for participation and collaboration in research and innovation projects by researchers, Small and Medium Enterprises (SMEs) and Non Governmental Organisations (NGOs) across the EU. The UK is a net beneficiary of H2020 funding, with Scotland benefitting most per head of population within the UK nations. Most H2020 funding is aimed at societal challenges, including issues important to rural areas and to sectors such as food & drink and agriculture. Scotland has secured significant funding from this pillar of H2020.

Whilst it is clear that EU funding has and continues to make a difference in many areas, some areas with challenging landscapes tend to still be found in the Northern/Western Isles, North West Highlands and Dumfries and Galloway with pockets found in for example former coalfield and heavy industrial areas of the Central belt, Fife, Ayrshire and Lanarkshire. There are two key issues in terms of accessibility remoteness (peripheral, insular, sparsely populated) and structural legacy (still needing to restructure their local economies). Such disparities suggests that regardless of the funding source there is an opportunity going forward to put in place a territorial policy and delivery framework (local and regional) that it is better targeted, better reflects the needs of rural Scotland and is better focused on outcomes. In terms of targeting resources, there is scope to learn from the application of the LEADER approach in Scotland for the 2014-20 programming period, which for the first time made funding allocations for Community Led Local Development.

Of course, loss of EU funding also presents Scotland with an opportunity to revise and simplify the rules and regulations governing the funding mechanisms, the application of which till now may well have hampered the achievement of the outcomes sought by the relevant funding programmes.

Post Brexit we should:

- Have a strong and adequately financed policy and delivery framework that supports the needs of Scotland's rural communities, businesses and environment with appropriate levels and types of funding support. Any future support proposals should be stress tested by sector and by region to fully consider implications to businesses and communities alike.
- Enhance and strengthen existing provision to support and promote collaboration and networking with the EU and other 3rd Countries in order to support the development of bids/initiatives from Scottish organisations and partnerships.
- Provide clear direction for businesses so that they know what support they will get during the period of transition after leaving the EU and thereafter, ensuring they are given adequate time to adapt.
- Protect rural SMEs from volatility in prices as a result of exposure to world markets.

Legislation & Standards

Closely linked to the issue of trade, is concern over the impact on regulatory requirements from the UK leaving the EU.

This is critical for rural areas, particularly with respect to natural capital as well as animal, plant and product standards. Effective transfer of all EU regulatory requirements to the UK in the immediate post-exit phase, including mutual recognition of systems between UK and EU should provide stability, continuity, avoidance of standards-based obstacles to the Single Market and maintain consumer confidence. This would require the UK to ensure continued regulatory equivalence in those areas relevant to trade. For example in order to have disease free status (essential for food exports), the UK would need to update their legislation to keep pace with any changes to EU legislation.

The UK has some of the highest farm animal welfare standards in the world and there is cross-sector support for maintaining high levels of farm animal health & welfare after Brexit. In order to achieve this we understand that the UK Government must transpose existing EU law on farm animal health & welfare into domestic law so as to be effective on day one after Brexit. Thereafter, the Scottish Government, or the UK Government or both, in consultation with the industry, consumers and other relevant stakeholders, will be able to consider whether to make appropriate and agreed changes to these standards.

A significant amount of attention has been focused on the potential for environmental protection to be “traded-away” during UK Government trade negotiations (with the EU and non-EU countries).

However, it has been recognised that many of the environmental rules adopted to facilitate the operation of the single market (such as product standards) will have to stay in place if the UK wants to trade with the EU irrespective of the outcome of Brexit.

Of course it may be the case that new trading relationships with states outside the European Union could lead to increased competition from countries with lower food standards, animal welfare standards and environmental protection. This risks putting UK food and drink supply chain at a competitive disadvantage, making it more difficult to agree and implement a strong future UK environmental policy. This is not just an environmental concern; soil health, animal welfare, plant health, veterinary, food quality and labelling standards are equally at risk of lower standard imports; together with eroded consumer confidence in the products.

From a consumer and competition perspective, UK law is currently consistent with EU legislation, which aims to provide everyone in Europe with better quality goods and services at lower prices, and applying a common set of rules to make sure companies compete fairly with each other.

Whilst this arrangement has largely benefitted consumers the distinct characteristics of rural Scotland (consumers living in rural, remote and island areas), means that even within current arrangements, issues in areas such as deliveries, transport, fuel, energy and particularly broadband provision continue to prevail.

Post Brexit we should:

- Ensure Scottish consumers and businesses continue to enjoy the same rights and protections as those in the EU.
- Ensure Scottish businesses are able to continue trading internationally without new obstacles caused by regulatory standards.
- Introduce a bespoke, distinctive and creative Scottish approach to consumer protection and competition that meets the needs of rural Scotland, recognising that there may still be a need to adhere to EU rules.
- Ensure that Scotland plays its part in the development of any bilateral trade agreements and in doing so ensure that same trading conditions (including standards) apply to our imports as to our exports.
- Ensure that any reframing of EU regulation and standards suit the Scottish context, is based on strong science and avoids unnecessary complexities and burdens for businesses and consumers.

Conclusions & next steps

We are clear that we all need to be adequately prepared for Brexit come March 29th 2019, and understand absolutely the sensitivities surrounding the ongoing UK negotiations on Brexit. We also need to better understand what Brexit really means for Scotland, for rural Scotland and for those communities and businesses across rural Scotland who have benefitted from EU membership for the past 44 years. Our view is that post Brexit, a trade deal between the UK and the EU preserving access to the single market and free movement of people would be the least worst option for rural Scotland.

We also appreciate that this moment in time offers us all an opportunity (regardless of Brexit or the form of Brexit) to take a step back and consider how policies, programmes and funding can better serve the needs of our rural society, rural economy, environment and the wider Scottish economy. How can we support the development of the rural Scotland we want to see? How can we work more collaboratively? How can we enable innovation? How can we protect key species and habitats? How can we increase productivity and drive inclusive growth effectively? How can we better support family owned, micro and social enterprises that so dominate rural areas? Some areas highlighted in this report need not await the outcome of Brexit negotiations as they could be usefully explored by this Council alongside the full breadth of rural stakeholders as we work towards establishing future principles and support for rural Scotland.

As stated earlier, we have identified the following key areas that we believe must be considered in advance of Brexit. They are by no means intended to be exhaustive, but trust they offer a meaningful contribution to the ongoing process and will aid the work of the relevant decision makers and key influencers as they prepare for the UK's exit from the EU.

Pre Brexit we should:

- Scope out future policy framework for rural areas including at regional / local level, e.g. application of inclusive growth at the local level to better meet the local circumstances.
- Explore potential for less complexity and greater coherence in future funding programmes with greater focus on clear set of outcomes that meet policy aspirations for rural areas post 2020.
- Explore potential for simplification of future funding programmes coupled with guarantees to maintain or increase on EU (including co-financing) funding levels from the 2014-20 programming period.
- Develop an appropriate framework (working with UK/EU partners during negotiations) to support co-operation through continued participation in EU programmes such as LEADER, Interreg, H2020.

- Press for early certainty on immigration policy, in particular scope for a Scottish migration policy coupled with clarity on rules on the future movement of workers (but not exclusively seasonal EU workers) to allow rural businesses to prepare for Brexit in good time (particularly in hospitality, tourism, food, drink, agriculture & fisheries). Early certainty should include the trialling of a permit system for Scotland.
- Commission analysis to understand gaps in knowledge on current deployment of EU nationals employed regionally and locally by sector to understand the full scale of the potential shortfall and options for mitigation. Engage with Gangmaster Licencing Authority registered agencies to find out what their impression is of EU/Non EU labour availability.
- Ensure business support services are well invested, informed and respected, providing appropriate assistance at the right time to prepare all rural businesses for Brexit.
- Commission a study to look at cost base of competing products to assess the competitive advantage or disadvantage at a range of different tariff levels and trade scenarios.

ANNEX A

National Council of Rural Advisers Remit:

The National Council of Rural Advisers will provide evidence based advice to Scottish Ministers. The group will specifically:

- provide advice on the implications of Scotland potentially leaving Europe as part of the UK (Brexit), and;
- provide advice and recommendations on future rural policy and support which can help create a vibrant, sustainable, inclusive rural economy.

Membership

The **Co-chairs are Lorne Crerar and Alison Milne.**

Lorne Crerar joined the Board of HIE in April 2008 and was appointed as Chair in March 2012. Lorne is a founding partner and Chairman of leading Scottish commercial law firm Harper Macleod LLP.

Alison Milne is a self-employed consultant, currently representing the Scottish Tenant Farmers Association on matters relating to agricultural policy. Alison also farms a mixed arable and livestock business, in partnership with her husband, mother and father-in-law. In this role Alison was a driving force in hosting the Fife HGCA arable Monitor Farm from 2013 to 2016.

Council Members:

Sarah Allison - Sarah Allison comes from an agricultural background having grown up and worked on her family's organic farm and food business. She worked with farmers in England and Scotland before joining the Soil Association Scotland in 2017. Sarah is a keen member of The Scottish Association of Young Farmers Clubs, recently retiring as Chair of SAYFC Agri and Rural Affairs Committee.

Jackie Brierton - Jackie Brierton is Enterprise Manager for GrowBiz – a community-based enterprise support organisation in rural Perthshire. She is also Chair of the Rural Perth and Kinross LEADER Local Action Group, and Founder and Vice-Chair of Women's Enterprise Scotland CIC. She has more than 30 years' experience in business, enterprise and policy development, including a period as adviser in the DTi's Small Business Service between 2002 and 2006. She developed the UK Government's first 'Strategic Framework for Women's Enterprise' in 2003 and managed two centres of enterprise expertise for young people and women in the West Midlands between 2007 and 2010. Until recently, Jackie was Chair of Community Enterprise Ltd, and is passionate about the role of local enterprise development in the strengthening of the rural economy in Scotland.

Willie Cameron - Willie was the Founding Director of the 'Cobbs' Group of Companies and is now their Business Development Director. He has 25 years' experience in financial services before establishing Loch Ness Marketing – a service company to film, TV and media. Willie went on to be the Director of Highland Feast Food and Drink Festival of the Highlands for 10 years, and Director of Highlands and Islands Tourism Awards. He also sat on the Board for the University of the Highlands and Islands – Inverness College. In 2005, Willie was voted Highland Ambassador of the Year for services to Tourism, and in 2016 was voted Highlands and Islands Food and Drink Ambassador.

Archie Gibson - Archie Gibson is Food & Drink Federation Scotland's Chair. He is also the Managing Director of Agrico UK Ltd, a subsidiary of a Dutch farmers' cooperative with 800 members. The company is a leading breeder and merchant of seed potatoes supplying more than 80 countries worldwide. Archie gained experience in a variety of land management roles producing store lambs and cattle before joining the food industry in 1999. He represented Scottish supply chain interests in a far reaching review on food defence and resilience led by the Centre for the Protection of National Infrastructure (CPNI) and British Standards Institute (BSI), resulting in the publication of PAS 96 Defending Food & Drink

Henry Graham - Henry Graham runs a 450-acre mixed farm in Midlothian in partnership with his wife, and is an experienced figure from the world of rural banking and agriculture. He has held senior roles in the Royal Highland Agricultural Society, Quality Meat Scotland, Scottish Agricultural College and banking, specialising in agricultural business. Henry is also a member of Forestry Commission Scotland's National Committee and is a Trustee of Lantra (U.K.) acting as National Chair for Scotland.

John Kinnaird - John Kinnaird is a partner in 240 hect. family arable and beef farm. Former NFUS President from 2003-2007, representing Scotland's farmers at a time of significant change. Since then John has taken on other challenges, including committee member of AgriScot, local Director of NFU Mutual, Director of the Moredun Research Institute, Chair of the Scottish Government's Scottish Appeals Procedure Panel, Chair of RSABI, Chaired a review of veterinary surveillance and Guardian member at Scotland Food and Drink. John is also the Vice president RHASS, Deputy Lieutenant - East Lothian and a Fellow of Royal Agricultural Societies.

Alan Laidlaw - Alan Laidlaw is Chief Executive of the Royal Highland and Agricultural Society of Scotland (RHASS) – a registered charity with a remit to promote and protect the interests of rural Scotland. Based at the Society's headquarters at the Royal Highland Centre, Ingliston, Alan was appointed to the role in August 2016 after spending 11 years with the Crown Estate Scotland, latterly as Head of Property. He is a trained chartered surveyor, a director of the Oxford Farming Conference and an Associate of the Royal Agricultural Societies (ARAgS).

Lynn Mann - Lynn Mann is the co-owner of Supernature Oils. The company is based in Midlothian and is a farming enterprise (cereals) which has diversified into a food product. Supernature Oils specialise in cold pressed rapeseed oil, which is the fastest growing sector of the oils category in the UK. Lynn is the driver behind the company and has recently been successful in getting listings in the UK and opening several export opportunities. Lynn is also an Ambassador for Women's Enterprise Scotland and on the Board of Interface.

Marion McCormick - Marion MacCormick previously worked for ALDI (Scotland); growing and developing a comprehensive Scottish fresh meat range, capitalising on a comprehensive local network to develop a fresh meat range with quality, freshness and the local customer at its heart. Marion also developed the strategy for marketing the Aldi brand in Scotland and building confidence in the brand.

Jim McLaren - Jim McLaren was appointed Chairman of QMS in April 2011. He runs a mixed arable and livestock business in Perthshire. The main arable enterprise is the production of spring malting barley, with the livestock side of the business including a pedigree Simmental herd. Jim was NFU Scotland President from 2007 to 2011.

Sarah Simpson - Sarah Simpson is a director of a dairy farm at Garlieston, near Newton Stewart in Galloway, together with her husband Peter. She also works as a consultant to a group of dairy farms within Dumfries and Galloway providing benchmarking advice and information. Prior to farming, Sarah was Director of Policy with NFU Scotland.

David Sulman - David Sulman is Executive Director of the United Kingdom Forest Products Association (UKFPA) which represents the technical and commercial interests of processors of British - grown timber and Secretary to the Scottish Timber Trade Association, the trade association which represents the interests of timber importers and merchants in Scotland. He is a member of various Forestry Commission expert groups/committees, is involved in skills development matters, is a member of the Timber Transport Forum and Chairman of its Technical Working Group and also Chairman of the Scottish Strategic Timber Transport Scheme's Assessment Panel. David is involved in the work of the Forest Industry Safety Accord.



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