

DISCUSSION GROUP 2

International Trade and Single Market Including EU Funding

**Discussion chaired by Karen Watt, Director of External Affairs, Scottish Government.
Business Co-hosts: Anne MacColl – Independent Trade Expert
David Thomson, Chief Executive - Scottish Food and Drink Federation.**

Executive Summary

- The reassurance provided to EU nationals and commitment to continued single market membership was welcomed, but Scottish Government challenged to do more to provide a positive vision.
- Exporters describe potential boost to exports resulting from depreciation of sterling offset by increased input costs.
- Scottish Government asked to consider investor guarantees or innovative funding models to preserve inward investment in light of uncertainty created by Brexit.
- Businesses are concerned about the prospect of regulatory divergence, but point out that some areas of the single market are more regulated than others.
- Businesses are concerned about the continued availability of EU funding in the medium to long term.

Introduction

Apologies were given on behalf of Minister for Minister for UK Negotiations on Scotland's Place in Europe, Michael Russell MSP, who was unable to attend.

The group were invited to consider how to secure the best deal in trade negotiations with the EU, how Scotland can protect its place within the single market, and how to balance trade negotiations with trade promotion. The group considered how it might be affected by changes to the existing arrangements governing EU nationals working in the UK, the availability of EU funding and the operation of EU Regulations.

Some considered that Scotland's "brand" internationally had been enhanced by the stance the Scottish Government has taken following the referendum result, particularly in relation to the reassurances offered to EU nationals living in Scotland. There was also widespread agreement that Scotland must continue to use its strong brand internationally as a calling card to promote Scotland's strengths that are less well known.

Attendees commented that they were pleased that Scottish and UK Governments are both hungry to hear from businesses about their views and concerns. Some also cautioned against the temptation to criticise any who expressed a positive view about the result and stressed the need to ensure an open and honest discussion about the challenges as well as potential opportunities.

The Scottish Government was encouraged to show positive vision of what it wants to happen following the EU referendum result, and to do more to understand why so many people (including Scots) voted to leave the EU.

In response it was put forward that unless the Scottish Government is involved in the UK government's analysis, it cannot hope to adequately represent Scottish interests, and therefore the immediate priority had to be agreeing a process that allows the Scottish Government to influence the UK Government's approach.

Single Market Membership

Voices from the food manufacturing industry raised concerns about future rules governing the free movement of persons, given the importance of non-UK EU labour to the sector, and about the introduction of tariffs, given the high rates applicable under WTO rules.

There were requests for greater clarity about where the 'red lines' are in relation to protecting Scotland's interests and relationship with Europe and when the option of independence may be considered. Scottish Government stated that priority at this stage was in first understanding the impact of Brexit on key sectors and in turn seeking to influence the UK Government.

When asked about their experience of exporting, the group described no increase in exports since the EU referendum, but noted higher import costs. However, for some sectors such as tourism, the views were that trade promotion was as important as trade negotiation because the sector may be less affected by tariffs.

Inward Investment

On discussing inward investment, attendees agreed that in general terms Scotland punches above its weight when it comes to attracting inward investment. However, the uncertainty created by Brexit is likely to present a considerable challenge. Some felt that the Scottish Government could mitigate that uncertainty by ensuring transparency and by providing clear information about the developing situation, as well as by striving to retain unrestricted access to the single market.

Some were of the view that the prospect of Scottish independence creates a comparative disadvantage when trying to attract investment into Scotland, and that the Scottish Government should provide some investor guarantees and use innovative funding models to offset that uncertainty and create a comparative advantage— albeit by accepting some contingent liability.

There were some stories of FDI projects that had been secured following the referendum result, in the health and IT sectors. In these cases it was infrastructure that had attracted the investment, but it was pointed out that in many cases the infrastructure was a result of EU funding. It was suggested that leaving the EU may provide opportunities to loosen state aid on procurement rules, allowing the Government to take a more interventionist approach. However, it was also pointed out that such rules would persist in some form under alternative arrangements such as the WTO.

Regulation

Clarity about the continued application of EU Regulations (at least on an interim basis) under the proposed 'Great Repeal Bill' would be welcomed.

Attendees from the energy and technology sectors described the need for close cooperation, intelligence and information sharing between businesses internationally, and the important role of governments in facilitating this. There were concerns about regulatory divergence making this more difficult, or preventing Scottish businesses from being able to exploit advantages internationally.

It was pointed out that the EU Commission sees separate single markets for different sectors. For example the digital single market is not very mature compared to some others.

The point was made that some parts of the single market are heavily regulated, while others are not and there may be opportunities in the post-Brexit landscape by focusing on those areas of the single market which are less regulated.

EU Funding

Attendees described the potential impacts of cuts to EU funding, including significant potential cost increases and the possible need for industry restructuring.

On the issue of R&D funding there was uncertainty as to whether EU funding would continue, and how to access current EU funds now and post 2020. There were also concerns that the softer side of collaboration, such as partnerships and business relationships, would be lost.