

Scotland's Vision for Trade Annual Report

March 2022



Scottish Government
Riaghaltas na h-Alba
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Ministerial Foreword



I am pleased to present this first annual report of the Scottish Government's Vision for Trade, and to outline the range of specific actions that we have taken over the past year in line with the approach we set out in January 2021.

The report underlines our continued ambition to make trade-related decisions based on the principles of inclusive growth, wellbeing, sustainability, net zero and good governance.

Scotland is part of a global trade environment and we need to recognise and react to global trends and developments as we seek to ensure that the trading environment for our businesses and consumers is supportive of our wider goals for our economy, people and the planet.

The Vision for Trade was published in a period of unprecedented economic disruption and uncertainty, as Scotland faced the dual shocks of Brexit and the COVID-19 pandemic. In that context, the Vision offered a longer term perspective and a coherent approach to trade, setting out the guiding principles that should underpin our trade decisions and relationships.

One year on, while the global economy begins to recover from the effects of the pandemic, Russia's invasion of Ukraine has brought a new global crisis, highlighting the potential fragility of our interdependent global trading systems. Trade and economic relationships with Russia have been a particular focus of the co-ordinated response to this crisis. In Scotland we have sought to be guided by our principles-based approach to trade, as we stand in solidarity with the Ukrainian people.

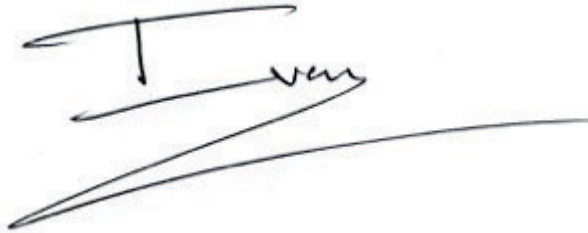
Earlier this month we published our National Strategy for Economic Transformation, which sets out the priorities for Scotland's economy, as well as the actions needed to maximise the opportunities of the next decade to achieve a wellbeing economy. Implementing our Vision for Trade is directly contributing to our aim to strengthen Scotland's position in new markets and industries, alongside generating new, well-paid jobs from a just transition to net zero.

This report meets our commitment to be transparent on progress in implementing the Vision for Trade, by assessing our own trade policy decisions and our contributions to those of the UK Government against our principles. Our progress shows that we are putting our words into action.

We have used the trade-related levers available to us to make tangible progress. This includes our use of trade to advance progress towards net-zero, for example, ending overseas trade support and promotion activities solely focused on fossil fuel goods and services by COP26. The range of steps we have taken to improve the trading environment are tangible examples of the benefits our approach to trade policy can bring to Scotland's businesses.

Where levers are currently reserved to Westminster, we have pressed the UK Government to act in a way that acknowledges the interests of Scotland and is supportive of our economy, people and the planet. However, the current constitutional arrangements and the reluctance of the UK Government to meaningfully engage with the Scottish Government on trade policy, notably the negotiation of new Free Trade Agreements, limits what we can do.

I look forward to continuing to engage with stakeholders in Scotland and beyond on this Vision for Trade, as we continue to position Scotland as a successful trading nation, known as much for how we trade as what we trade.

A handwritten signature in black ink, appearing to read 'Ivan McKee', with a long horizontal flourish extending to the right.

Ivan McKee MSP

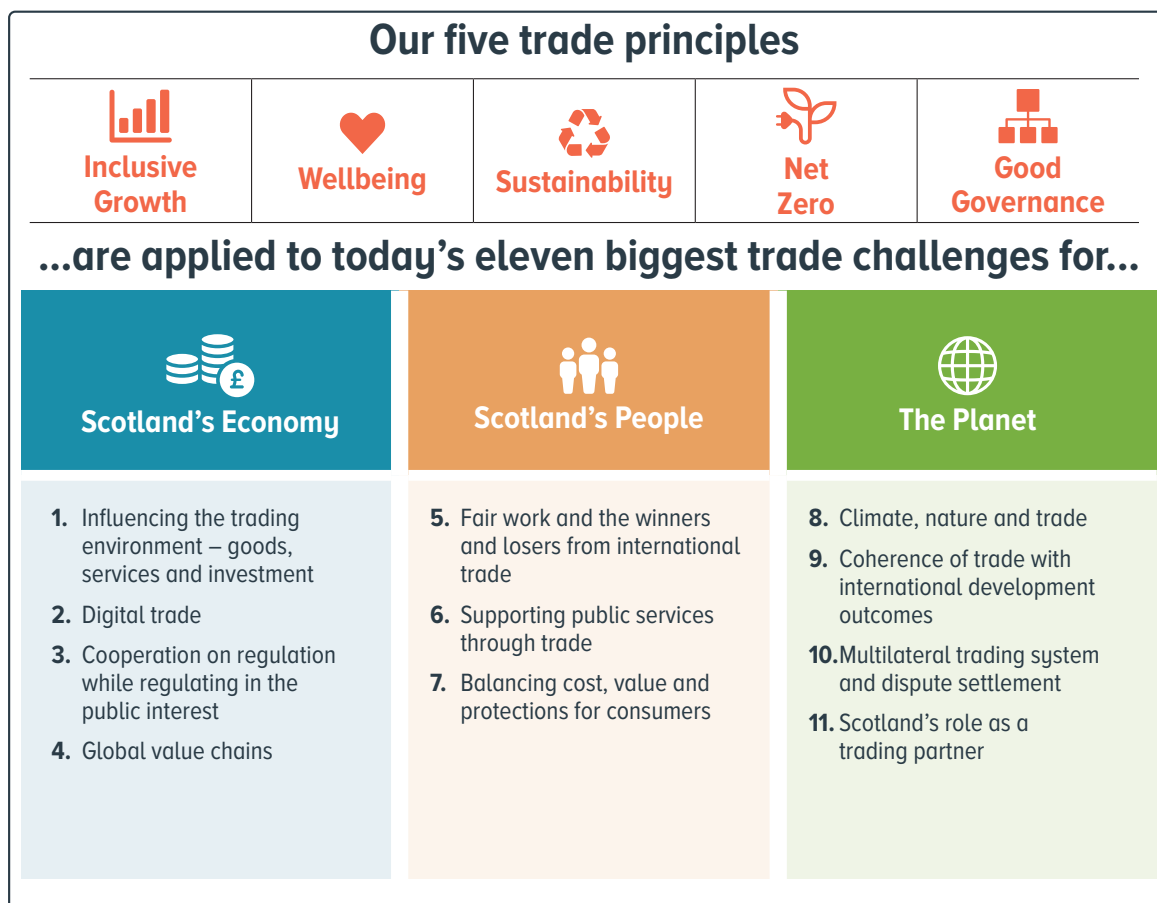
Minister for Business, Trade, Tourism and Enterprise

Introduction

Our Vision for Trade

In January 2021, the Scottish Government published [Scotland's Vision for Trade](#), (the *Vision*): a strategic policy framework to guide the decisions we make on trade in a way that supports our wider ambitions for the Scottish economy, people and the planet. The *Vision*:

- Sets out five principles which underpin our trade decisions and relationships: inclusive growth, wellbeing, sustainability, net zero and good governance. These are the guiding principles that we use to weigh up, sometimes difficult, decisions on trade.
- Positions our approach to trade within a broader economic, social and environmental context – so we consider the strategic role of trade and how it contributes to wider governmental ambitions, in line with our National Performance Framework.
- Sets out the key challenges and opportunities related to trade and identifies the range of levers that can be used to address or take advantage of them. This allows us to identify concrete actions that the Scottish Government can take to improve the trading environment, while applying our principles. Where the relevant levers currently sit with the UK Government we are able to identify specific actions for it to take.
- Recognises that the growth in international trade has contributed to a rapid increase in growth and living standards globally, and the importance of championing Scottish trade interests by speaking out for free trade and against protectionism. It recognises that doing so is compatible with continuing to regulate legitimately in the public interest, balancing economic, social and environmental aims.
- Facilitates a longer-term perspective and approach, that allows us to take principle-based decisions in response to any shifts in the global trading system, transcending specific circumstances or particular challenges.



In the *Vision* we committed to publishing an annual trade policy review to report on implementation progress. This report sets out the work we have undertaken so far – both in terms of utilising Scottish Government levers and engaging with the UK Government to utilise theirs – and outlines how we plan to build on this progress.

While the ongoing delivery of *A Trading Nation*, Scotland's Export Growth Plan, promotes Scottish exports in target markets where we have competitive advantage and targets provision of support to Scottish businesses to increase exports, this report focusses on other levers available to influence the trading environment so the necessary conditions for export growth are in place. In seeking to build the right trading conditions for export growth, in line with our principles, the *Vision* supports the aims of *A Trading Nation*. Together, *A Trading Nation* and the *Vision* provide a strong foundation upon which to achieve [Scotland's National Strategy for Economic Transformation](#) and its aim to strengthen Scotland's position in new markets and industries.

Executive Summary

Part 1: Assessment of policy development and outputs, using Scottish Government levers

Scottish Government levers

Governments have a range of levers available to direct, manage, and shape international trade flows and their impacts. These can be levers that are trade-related, trade-impacting or that address the impacts of trade. The *Vision* identifies those levers that are available to the Scottish Government, particularly those with an interaction with domestic policy.

The list of Scottish Government levers that we set out in the *Vision* are the tools that we can draw on as we navigate the complex trading environment. In this first year of implementation, we identified an initial set of priorities.

Progress in using Scottish Government levers

Using Scottish Government levers, we were able to build on previous work to make tangible progress in two key areas in particular.

Using trade as a lever to increase progress towards net zero, including:

- Meeting our commitment to end overseas trade support and promotion solely focused on fossil fuel goods and services by COP26;
- Engaging internationally on climate, trade and investment at COP26;
- Enhancing our understanding of Scotland's strengths and opportunities in relation to environmental goods and services.

Taking steps to improve the trading environment for businesses, while prioritising public interests, including by:

- Developing a methodology to prioritise identified market access barriers;
- Aligning the Scottish Government's Business and Regulatory Impact Assessment process with trade requirements;
- Notifying the regulation on Single Use Plastics to the World Trade Organization (WTO).

In other areas, our work in this first year has focussed on building our evidence base and laying the ground-work for future development.

Future plans for using these levers

This report also covers our future plans to meet our aims for Scotland's economy, people and the planet, focussing on the following issues:



Economy. We will take action to improve the trading environment for Scottish businesses, while applying our principles to ensure that we find the right balance between competing priorities, including by:

- Refining and applying our market access prioritisation methodology.
- Building our evidence base on Trade in Value Added.
- Building on our relationship with the British Standards Institution (BSI).
- Developing an approach to regulation that links adoption of international standards, regulatory cooperation and EU alignment.
- Building coherence between digital trade and domestic digital policy.
- Identifying opportunities to position Scotland as an ethical digital nation.



People. We will take action to advance more equal access to the gains and opportunities from international trade for people in Scotland, including by:

- Building our evidence base and engaging with stakeholders on the differential impacts of trade.
- Identifying domestic policy ambitions that interact with the international trade agenda on improving gender equality.
- Identifying further opportunities to embed fair work in our trade policy.
- Examining the impacts of trade on health and nutrition and identifying levers to address or mitigate any negative impacts.
- Continuing to build our evidence base on consumers, in collaboration with key stakeholders.



Planet. We will take action to use trade to contribute to addressing global challenges, such as tackling the climate and nature crises, reducing global inequalities and building international cooperation, including by:

- Continuing to support coherence between our climate, environment and trade ambitions and building our evidence base on the impacts of trade on climate change and on Scotland's international footprint.
- Engaging with the UK Government and international partners on fossil fuel subsidy reform.
- Continuing to develop our understanding of the strengths and opportunities of Scotland's environmental sectors and to embed trade into related Scottish Government policy.
- Taking opportunities to engage on the global stage with like-minded countries, organisations and businesses on a principled approach to trade, including building on the momentum of COP26.
- Strengthening the role of Scotland at the WTO and building capacity across the Scottish Government on WTO compliance.
- Developing and monitoring the connections between human rights and trade.
- Supporting Policy Coherence for Sustainable Development.

Part 2: Engagement with the UK Government on trade policy

Where particular trade-related levers are currently reserved to the UK Government, the *Vision* sets out how we think it should use those levers to act in a way that is supportive of Scotland's economy, people and the planet.

This report highlights our work so far to promote Scottish trade priorities and defend trade issues of importance for Scottish people and businesses, through engagement with the UK Government on Free Trade Agreement (FTA) negotiations, the implementation of the UK-EU Trade and Cooperation Agreement (TCA), and on WTO business.

In our engagement with the UK Government on live and anticipated FTAs, we have applied our principles, pressing for:

- Consideration of the wider socio-economic impacts of trade agreements.
- The assessment of impact and desirability of short-term market access gains against longer term economic, social and environmental goals.
- All FTAs to link trade and climate change and to help unlock the economic opportunities from the transition to net zero.
- Ambitious human rights provisions.

We have identified and argued for Scotland's interests in a wide range of areas, including goods market access, technical barriers to trade, food standards, animal welfare and regulation. We have worked to ensure that Scotland's services sector can benefit from FTAs and that they help to promote opportunities for digital trade, balancing economic and social considerations.

In doing so, we have also made it clear that the protection of the NHS, its services and the price paid for medicines continue to be red lines for the Scottish Government.

Part 3: Engaging stakeholders, developing data and monitoring our progress

The report outlines our continued engagement with stakeholders, a core aspect of developing our evidence base, testing our policy development, and implementing and monitoring the *Vision*.

It is crucial that the implementation of the *Vision* is based on relevant data in support of our trade policy. This lays the groundwork for decisions we make on trade and the levers we prioritise. This report details progress we have made in two areas in particular: Trade In Value Added; and the impact of international disputes.

The report also sets out our initial progress in monitoring the implementation of the *Vision*, to ensure we are making good progress against our priorities in relation to the **Economy, People and the Planet**. This annual report, documenting how we have put into practice the principles in the *Vision* and met the needs of people and businesses in our policy development and decisions on trade, is the first product of this monitoring process and a core part of how we will document our ongoing work on trade policy.

1

Assessment of policy development and outputs, using Scottish Government levers

The list of Scottish Government levers that we set out in the *Vision* are the tools that we can draw on as we navigate the complex trading environment. In this first year of implementation we identified an initial set of priorities from this list. Our prioritisation drew on:

- Stakeholder feedback.
- Opportunities or challenges created by changes within the trading environment, as a result of the negotiation of new trading arrangements by the UK Government, or global trends in trade.
- Our wider governmental objectives and priorities – in line with our Programme for Government.
- Previous progress made in each policy area. In some areas we were able to build on previous work or evidence; in others, work has focussed on building our evidence base.

This section sets out the key highlights from our first year of implementation in using Scottish Government levers. These are the areas in which we were able to make the most tangible progress, building on previous work, towards net zero and improving the trading environment for business.

This section then takes a wider look at the other levers we prioritised in this first year, across a range of trade issues.

1.1 Key highlights from the first year of implementation

Key highlights this year have been using trade as a lever to increase progress towards net zero, and actions taken to improve the trading environment for businesses.

1.1.1 Using trade as a lever to increase progress towards net zero

As the *Vision* makes clear, trade policy can and should support our ambitions to deliver a sustainable net-zero economy. Our work this year has demonstrated how this can be put into practice effectively.

Ending overseas trade support and promotion activities solely focused on fossil fuel goods and services by COP26

In close collaboration with Scottish Development International, we met our commitment in the *Vision* to end all Scottish Government overseas trade support and promotion activities solely focused on fossil fuel goods and services by COP26 (informed by industry feedback, small and medium sized enterprises (SMEs) have continued to receive such support until 31 March 2022).

We have now refocused our overseas trade support in this area towards products and services that align with the energy transition. Scottish Government advice published in October 2021 on *trade promotion support for the fossil fuel energy sector overseas* will inform the assessment of potential projects and their suitability for support by our trade support and promotion agencies and networks.¹

Scottish Development International has reflected this increased focus on the low carbon transition into its operating model and in its operating plan for 2022/23. In June 2021, Scottish Enterprise published its [Net zero framework for action](#), setting out how it will align its trade and investment activities and operations, delivered through Scottish Development International, to support delivery of the *Vision*.

Aligning trade support with climate priorities in this way is a key step towards trade operating as a lever to support net-zero targets. We are therefore pleased that, in line with the Scottish Government's ambitions, the US, Canada and eighteen other countries made their own commitments at COP26 to stop public financing for fossil fuel projects abroad by the end of 2022 and steer spending into clean energy.

Engaging internationally on climate, trade and investment at COP26

COP26 was a significant moment in the global effort to address the climate emergency. The Scottish Government, working in collaboration with Scottish Enterprise and Scottish Development International, took the opportunity presented by COP26 to demonstrate how trade can contribute to net zero.

- We delivered an ambitious Scottish Government-led programme, with over 140 events and engagements focused on aligning our economic priorities with climate ambition, through partnerships with our Enterprise Agencies, the Scottish National Investment Bank, Glasgow City Chambers of Commerce, Association of British Insurers, City of London, and Global Ethical Finance Initiative, among others.
- Scottish Ministers engaged with business leaders from around the world to explore opportunities in the green economy for Scotland.
- We promoted our Green Investment Portfolio of low carbon or renewable initiatives, now worth £2 billion. We also showcased the mission-led approach of the Scottish National Investment Bank, which will contribute to net zero.
- We positioned Scotland as leader in green finance, recognising that the financial sector needs to act now to achieve climate targets and seize opportunities in green and sustainable financial services.

We built on the momentum from and connections made at COP26 at Dubai EXPO 2020, where we were able to raise the profile of Scotland's net zero trade and investment ambitions and strengths, including by showcasing Scotland's growing hydrogen expertise and use of innovative climate technology in agriculture and food industries.

Facilitating trade in environmental goods and services

In the *Vision*, we committed to developing our competitive advantages in areas with positive environmental and economic impact. Trade in environmental goods and services is a key means of doing this and for trade to support progress towards net-zero targets.

¹ [Fossil fuel energy sector overseas – trade promotion support: policy – gov.scot \(www.gov.scot\)](#)

The Scottish Government and our agencies have enhanced our understanding of Scotland's export strengths and priorities in environmental goods and services, helping us to develop a trade policy response that supports Scotland's green businesses to export more.

Informed by this understanding of Scotland's strengths, we are embedding trade into relevant Scottish Government policies relating to environmental goods and services, such as policies on hydrogen and the Just Transition. A Renewable Sector Export Growth Plan is also currently under development.

1.1.2 Improving the trading environment, while prioritising public interests

In addition to the ongoing delivery of *A Trading Nation*, Scotland's export growth plan, the *Vision* identified a number of ways in which we can improve the trading environment for businesses, while applying our core principles. We have made tangible progress in two key aspects of this in particular: in relation to market access barriers; and in demonstrating transparency and accountability in developing regulation, through our Business and Regulatory Impact Assessment Process and through compliance with WTO obligations.

Market access barrier prioritisation

The *Vision* considered how we could best influence the trading environment to maximise our competitive advantages in goods and services. One means of doing so is through addressing market access barriers that are not, or are only partially, addressed through trade agreements.

While doing so can be challenging, evidence suggests that the economic benefits of removing market access barriers far exceed those conferred by FTAs, particularly for small and medium-sized enterprises (which make up much of Scotland's private sector).² Overcoming such barriers would improve trading conditions and increase access to international markets for Scottish goods and services sectors.

In the past year, we have developed a methodology to identify and prioritise the most significant market access barriers affecting Scottish trade, an essential step towards improving the trading environment for businesses in Scotland.

Under that methodology, barriers to trade will be given a priority rating using qualitative and quantitative sources of information. Those sources include the UK Digital Market Access Service (DMAS) database, statistical sector and country data, Scottish Government policy frameworks, information from other Scottish Government and public sector (e.g. Scottish Development International) officials, and international data sources (e.g. WTO Trade Policy Reviews).

Action plans will then be developed for addressing priority barriers, in collaboration with stakeholders, and based on an assessment of the potential for successful action.

This methodology was presented to a range of external stakeholders at a roundtable in December 2021 and the process is being refined based on positive and helpful feedback.

² UK Government analysis shows that liberalising market access barriers could boost British exports as a whole by £75 billion per year – UK Government Department for International Trade (September 2020). Trade barriers removed to boost business <https://www.wired-gov.net/wg/news.nsf/articles/Trade+barriers+removed+to+boost+business+24092020151000> This is far more significant than the expected benefits of any FTA. For example, UK Government analysis shows a UK-US FTA could increase trade between both countries by only £15.3 billion over a 15-year period UK Government Department for International Trade (March 2020) The UK's Approach to Trade Negotiations with the US <https://www.gov.uk/government/publications/the-uks-approach-to-trade-negotiations-with-the-us>

Increasing regulatory transparency and accountability through the Business and Regulatory Impact Assessment process

The *Vision* recognised the importance of good regulatory practices in international trade. It committed to improving the quality and transparency of our regulation through using good regulatory practices in our Better Regulation framework.³ This approach supports proportionate regulation by reducing costs for business, which supports business growth, but does so within the context of regulating in the public interest.

Better Regulation is supported by a range of measures, including Business and Regulatory Impact Assessments (BRIAs). The BRIA process helps assess the likely costs, benefits and risks of any proposed primary or secondary legislation, voluntary regulation, codes of practice, guidance, or policy changes that may have an impact on the public, private or third sector. The goal is to use evidence to identify the proposal that best achieves policy objectives while minimising costs and burdens.

The *Vision* identified the addition of questions on the impact of international trade to the Scottish Government's [Business and Regulatory Impact Assessments \(BRIA\) template](#) as an opportunity to reduce barriers to trade.

We have therefore added questions on whether a proposed measure impacts international trade and whether the options under consideration relate to relevant international standards.

These questions provide a means to consider the impact of regulation on the ability of Scottish businesses to trade overseas and of overseas businesses to export to Scotland, as well as whether foreign investors or companies operating in Scotland could be impacted differently from UK-owned companies or investors.

This helps meet our obligations under FTAs (including the TCA) and WTO agreements, by ensuring that we develop regulation in a transparent way that takes the international aspects of trade into consideration. It also underpins opportunities for international regulatory cooperation.

Increasing regulatory transparency and accountability through compliance with WTO obligations

The *Vision* recognised the importance of strong global governance in providing collective solutions to transnational challenges. It also recognised that effective global governance can only be achieved through international cooperation. The rules-based system of the WTO is a core part of this, driving up standards in good governance.

To apply good governance to our international trade decisions, we need to act in accordance with the rule of law, with transparency and accountability. This means, for example, notifying other WTO members of measures being introduced which may have an impact on trade and giving them the opportunity to comment. However, we also need to ensure we continue to regulate legitimately in the public interest, balancing our economic, social and environmental aims.

This year we struck this balance by notifying the Scottish Government's Environmental Protection (Single-use Plastics Products) (Scotland) Regulations 2021 to the WTO's Technical Barriers to Trade Committee, in line with the Technical Barriers to Trade Agreement. The regulation, implementing a ban on problematic single-use plastic items in line with Article 5 of the EU Single-Use Plastics Directive (EU) 2019/904, will ban the 10 single-use plastic items that account for approximately 70% of marine litter products found on European beaches.

³ [Supporting business: Business regulation – gov.scot \(www.gov.scot\)](#)

In notifying this regulation to the WTO, we have signalled that we are transparent and open to the scrutiny that comes with effective global governance and promoting regulatory cooperation. By providing clear justification on the grounds of protecting the environment, we have also ensured that the rules on trade do not prevent Scotland from meeting ambitious environmental targets, in line with our principles of sustainability and net zero.

1.2 Summary of progress and future plans in using other policy levers

We have also prioritised work on a range of other levers to address trade issues currently facing our **economy**, **people**, and the **planet**. This work has largely involved building up our evidence base, or laying the ground-work for future policy development.

1.2.1 Progress in using the range of available policy levers

Our main progress over this period relates to work to:

- Improve the trading environment for Scottish businesses.
- Promote proportionate and transparent regulation, while prioritising public interest.
- Ensure consideration of the impacts of trade on individuals, consumers and our health.
- Use trade as a net-zero lever.
- Ensure good governance and good global citizenship.

Improving the trading environment for Scottish businesses

Since the publication of the *Vision*, we have taken steps to improve trading conditions for Scottish businesses. In addition to our work on market access prioritisation (highlighted above), we have also made connections across the Scottish Government and its agencies – particularly Scottish Development International – to leverage our overseas network and in-market specialists. This is already showing results with Trade Envoys now playing a role in reporting market access barriers.

We have taken steps to understand better Scotland's role within **Global Value Chains**. Outputs to date in building our evidence base on Trade In Value Added are included in section 3.2. We also identified in the *Vision* the potential role of the Supply Chain Development Programme in assisting Scottish suppliers to grow and compete globally within global value chains.⁴ We have supported the Supply Chain Development Programme to identify risks and opportunities related to international trade, including the impact of shortages of conformity assessment bodies on supply chains.

In the *Vision* we identified the opportunity to apply our trade principles by adapting the UK's Freeport model to Scotland's values and priorities. The **Green Freeport** model in Scotland adapts the UK Government's Freeport model to fit the distinct needs and interests of the Scottish economy. This will help deliver a net-zero economy and a Fair Work First approach, while supporting innovation, trade and inclusive growth.

⁴ The Supply Chain Development Programme is a key part of Scotland's economic recovery from COVID-19 and explores how to better leverage Scotland's public sector procurement spend to improve the capacity, capability and development of supply chains in Scotland. It targets sectors with sustainable economic potential, such as construction, renewables, hydrogen and generic medicines.

We engaged over this period with a wide range of stakeholders to improve the trading environment for Scottish **services**. Our relationship with the Law Society of Scotland, for example, has allowed us to gather intelligence on priorities for the mutual recognition of professional qualifications, the potential for co-operation with regulators in other countries, alongside consequences for the services sectors of leaving the EU under the terms of the TCA. Our engagement with the Institute of Chartered Accountants of Scotland has enabled us to learn from their experience of negotiating the mutual recognition of professional qualifications with their US counterparts. This stakeholder intelligence has informed our engagement with the UK Government and has laid the groundwork for using other available levers to support trade in services, including the planned establishment of a Scottish services trade forum with stakeholders.

On **digital trade**, we have focused on improving the coherence between digital trade and broader domestic digital policy. Our new digital strategy, [A changing nation: how Scotland will thrive in a digital world](#), along with [Scotland's AI Strategy](#) (both published in March 2021), highlight the role of the *Vision* in maintaining Scotland's reputation as an ethical place to do business and being recognised internationally as an ethical and secure digital nation. We have also reviewed the range of Scottish Government strategies and action plans related to digital policy to identify opportunities to cooperate and ensure coherent approaches. To improve our evidence base, we are reviewing available data on digital trade flows in and out of Scotland and are strengthening relationships with our agencies and external stakeholders, such as TechUK, Which?, University of Edinburgh and the Competition and Markets Authority.

Promoting proportionate and transparent regulation, while prioritising public interest

The update to the BRIA, as detailed above, sits within our wider work on the domestic application of **Good Regulatory Practices**. We have developed an approach to implementing the obligations of the Good Regulatory Practices and Regulatory Cooperation chapter of the UK-EU Trade and Cooperation Agreement. This approach, in conjunction with the BRIA, will help ensure we develop regulation transparently and in consideration of the international environment, underpinning opportunities for voluntary international regulatory cooperation, whilst meeting FTA obligations.

The *Vision* recognised the role that international standards play in enabling trade and international competitiveness. We have therefore increased our engagement with the British Standards Institution (BSI), the national standards body for the UK, over this period. Our joint aim is to increase opportunities for Scottish participation in the development of standards at domestic, European and international level. In line with this, we have taken opportunities to collaborate and increase awareness within and outwith the Scottish Government on standards:

- We have worked with BSI to raise awareness within the Scottish Government of the benefits of international standards, particularly where they can help to facilitate trade.
- During COP26, BSI and the Scottish Government jointly delivered two panel sessions on sustainable finance and industrial biotechnology, with the participation of the Minister for Business, Trade, Tourism and Enterprise, Ivan McKee MSP, alongside representatives from BSI; Green Investment Group; Royal London; the Financial Conduct Authority; Economics for the Environment; and the International Organization for Standardisation.

Ensuring consideration of the impacts of trade on individuals, consumers and our health

The *Vision* recognised that there are winners and losers from international trade. It committed us to identifying these **differential impacts** in Scotland, and options to address them. Our work in the past year has focussed on building an evidence base, including through reviewing existing international approaches to understanding and addressing the differential impacts of trade.

In the *Vision* we also recognised the links between trade, **nutrition and health**, alongside the differential impact of trade on public service users, and we are considering these links across the Scottish Government.

We have also started work to build links between trade and domestic policies in support of **gender equity**. The breadth of the Scottish Government's policy development on gender equity provides a range of opportunities to do this. Our initial work has also identified that global efforts to improve gender equality through trade, such as by the OECD and the WTOs Informal Working Group on Trade and Gender, align closely with our own policy commitments (e.g. Scottish Government policies aimed at women in agriculture, and the 2021–2022 Programme for Government commitment to establish a Women's Business Centre).

We recognise in the *Vision* that trade policy should protect, serve and empower **consumers**, as well as supporting producers. To build our evidence base and improve consultation and engagement with consumers, we engaged with stakeholder organisations which represent and serve consumers, including BSI and Which?

Trade as a net-zero lever

The *Vision* recognised that our approach to trade should build coherence between our climate, environment and trade policies. In addition to our work to end overseas trade support and promotion activities solely focused on fossil fuel goods and services (highlighted above), work continues across the Scottish Government to ensure trade is embedded into wider climate policies. For example, since the *Vision's* publication:

- [Scotland's indicative Nationally Determined Contribution \(NDC\)](#) to the Paris Agreement was published, committing to using trade as a lever to increase progress to net-zero globally. We consider that there is great potential to incorporate trade measures in NDCs globally to support net-zero targets.
- Interactions with trade were included in the draft [Hydrogen Action Plan](#), published in November 2021, such as in relation to regulation, international standards, international collaboration and increasing export potential in collaboration with SDI and overseas offices.
- Our recently published progress report on the Environment Strategy included consideration of the role of trade in the Scottish Government's efforts to improve the sustainability of our international footprint.

We have also commissioned research from ClimateXchange to understand the impacts of Emission Trading Systems and Carbon Border Adjustment Mechanisms on Scottish business. The outputs of this research will be published shortly.

Good governance and good global citizenship

The *Vision* recognised that strengthening, reforming and enhancing the **WTO** is a priority, identifying ways for the Scottish Government to strengthen its role at the WTO and demonstrate its commitment to the rules-based system. Doing so provides an opportunity to ensure that the interests of Scottish people and businesses are reflected in the rules by which trade is governed globally.

We have built capacity across the Scottish Government on the WTO, to ensure our policies are compliant with its rules. We have also influenced the UK Government's input into the WTO Trade Policy Review process, contributing to seven Trade Policy Reviews, by raising questions of importance for businesses and people in Scotland, for example on manufacturing, fisheries and seafood, investment, the environment, services and digital trade, amongst others.

We have strengthened our pre-existing relationships with the WTO's committee structure, working collaboratively with the UK Government on issues important to Scotland, for example where international regulatory barriers have been identified by industry. This has had tangible benefits, helping to clarify the scope and impact of regulatory barriers, providing certainty for Scottish producers.

The *Vision* recognises that **human rights** must be a central consideration in our trade policy, and we are considering how to build connections between human rights and Scottish Government activity related to trade. As part of this work, we have sought to raise awareness of, and support adherence to, the UN Guiding Principles on Business and Human Rights. These principles make clear that businesses have a responsibility to ensure their activities do not have adverse human rights impacts. In line with this, we issued a note to all public bodies to remind them of due diligence procedures in relation to services procured from organisations identified by the UN as being involved in certain activities relating to settlements in the Occupied Palestine Territories.

The *Vision* also recognises the integral link between trade and **international development**, and we are contributing to Policy Coherence for Sustainable Development, by building on these links. To do this, we identified the interactions between trade and international development in the [Scottish Government's Review of our International Development Programme](#) in March 2021.

In the *Vision* we identified continued support to fair trade as an opportunity to increase the coherence of trade and international development. Over the last year the Scottish Government has continued to provide core funding to the Scottish Fair Trade Forum. This support helps ensure that farmers and producers in the global south achieve a fair price for the goods they produce.

1.2.2 Look ahead

Over the coming year, we will build on the progress outlined in this report across all trade issues currently facing our **economy, people, and the planet**.



Economy. We will take action to improve the trading environment for Scottish businesses, while applying our principles to ensure that we find the right balance between competing priorities, including by:

- Monitoring the effectiveness of, and refining, our market access barrier prioritisation methodology. To do this, we will run pilots with real market barrier data from DMAS, then apply it to all identified market access barriers, ensuring we focus our resources on eliminating barriers that most benefit Scottish businesses, while respecting our principles.

- Using this data to inform a coherent approach to addressing market access barriers. Recognising that resolving market access barriers can be a complex and lengthy process, we will look to develop a toolkit of levers that have been effective in removing or reducing their effect, making it easier to take on similar barriers in the future. We will also take all opportunities to engage and coordinate with the UK Government in analysing and removing barriers.
- Continuing to support the Supply Chain Development Programme to identify risks and opportunities related to international trade and further building our evidence base on Trade in Value Added for use in policy development on global value chains.
- Widening our engagement with standards bodies on Scottish interests, by continuing to build our relationship with BSI to explore the role of standards in support of trade policy.
- Continuing to develop an approach to regulation that links adoption of international standards, regulatory cooperation and EU alignment.
- Working with key services stakeholders to identify opportunities to improve the trading environment for trade in services, including as part of a Scottish services trade forum. As part of this we will explore opportunities to address barriers to trade in services using regulator-to-regulator agreements.
- Continuing to position Scotland to take advantage of the opportunities from digital trade, by building coherence with domestic digital policy. As part of this, we will aim to increase access to information and support for businesses to maximise opportunities from digital trade, such as through existing funds to support the digital transformation of individual businesses (e.g. [DigitalBoost](#)).
- Identifying opportunities to influence the international debate on regulation of emerging technologies, and position Scotland as an ethical digital nation, for example through exploring interactions between digital trade and the AI Strategy for Scotland.



People. We will take action to advance more equal access to the gains and opportunities from international trade for people in Scotland, including by:

- Continuing our work to address the differential impacts of trade, by building our evidence base further and engaging with stakeholders, as well as further building links and coherence with relevant policy areas across the Scottish Government.
- Using the global momentum on gender and trade to identify domestic policy ambitions that interact with the international trade agenda on improving gender equality. This will include identifying opportunities where domestic policy can also help to make trade more inclusive for women.
- Identifying opportunities to further embed fair work in our trade policy.
- Continuing to examine the impacts of trade on health and nutrition and identifying levers that the Scottish Government can use to address or mitigate any negative impacts.
- Continuing to build our evidence base on consumers, in collaboration with key stakeholders and by facilitating the connections between domestic consumer policy and trade policy.



Planet. We will take action to use trade to contribute to addressing global challenges, such as tackling the climate and nature crises, reducing global inequalities and building international cooperation, including by:

- Continuing to support coherence between our climate, environment and trade ambitions, including referencing trade, where relevant, in Scottish Government net-zero plans and strategies and supporting the integration of net zero into all Scottish Government trade and investment activity.
- Further building our evidence base on the impacts of trade on climate change and on Scotland's international footprint.
- Monitoring our policy of ending overseas trade support for fossil fuel goods and services. We will also engage with UK Government and international partners on the fossil fuel subsidy reform agenda.
- Continuing to develop our understanding of the strengths and opportunities presented by Scotland's environmental goods and services sectors. We will also identify opportunities to embed trade into wider Scottish Government policy in relation to these sectors, e.g. on hydrogen.
- Taking opportunities to engage on the global stage with like-minded countries, organisations and businesses on a principled approach to trade. We will build on the legacy of COP26 and develop a high impact programme for COP27.
- Strengthening the role of Scotland at the WTO. This includes continuing to use the WTO Trade Policy Review process to raise market access barrier issues. We will also explore how best to use our and the UK's engagement with the WTO to promote Scotland's policy objectives, including through an external stakeholder roundtable in the first half of 2022.
- Further building capacity across Scottish Government on compliance with WTO obligations.
- Continuing to work across the Scottish Government to develop and monitor the connections between human rights and trade. We will benchmark ourselves against developments within the EU, for example, proposals for sustainable corporate due diligence.
- Continuing to support policy coherence for sustainable development by building connections between trade and our International Development Programme, such as through engaging with the proposed Global South Programme Panel and through a reconstituted Ministerial Working Group on Policy Coherence for Sustainable Development.

2 Engagement with the UK Government on trade policy

Where particular trade-related levers are currently reserved to the UK Government, the *Vision* sets out how we think it should use those levers to act in a way that is supportive of Scotland's economy, people and the planet.

Our engagement with the UK Government on FTA negotiations, the implementation of the UK-EU Trade and Cooperation Agreement and WTO business – detailed below – seeks to promote those Scottish trade priorities and principles, and defend trade issues of importance for Scottish people and businesses.

2.1 Free Trade Agreements (FTAs)

Scotland's role in the development of FTAs

Since leaving the EU, against Scotland's wishes, the UK Government has embarked on a programme of negotiating Free Trade Agreements with countries around the world. In many cases, these agreements involved replicating the existing trade agreements which Scotland previously benefited from as part of the EU. The UK Government is also pursuing new trade agreements with countries such as Australia, New Zealand and India. While presented as a benefit of leaving the EU, the reality is that the expected GDP increase as a result of these FTAs is tiny, and will in no way compensate for the loss in trade as a result of Brexit.⁵

We have consistently made the case for a full role for the Scottish Government and the Scottish Parliament in all trade negotiations. [Scotland's Role in the Development of Future UK Trade Arrangements](#), published in August 2018, made the detailed case for such a role, noting that modern trade agreements merge a range of reserved and devolved policy areas. This has been evident in the agreements considered so far. For example, decisions taken on tariffs (which are reserved) impact heavily on Scottish agriculture (which is devolved). Despite this clear interest, the UK Government has offered little meaningful involvement in the development of these trade agreements, a position which is increasingly untenable. The Scottish Government has, however, engaged constructively, and in detail, on UK Government FTA negotiations, protecting and promoting Scotland's interests, and using the policy positions set out in the *Vision* as a basis for doing so.

Scottish Ministers have repeatedly raised Scotland's interests, priorities and concerns with the UK Government, and stressed the need for full involvement to ensure that any new FTAs reflect our needs and provide opportunities for our companies. Scottish Government officials have worked closely in support of this aim with their counterparts in the UK's Department for International Trade (DIT) and Department for Environment Food and Rural Affairs (DEFRA), as well as alongside other devolved administrations. In the period since January 2021, we contributed to the following negotiations:

- UK-Norway, Iceland, and Liechtenstein FTA (signed July 2021)
- UK-Australia FTA (signed December 2021)

⁵ UK Government analysis shows an increase in UK GDP of only 0.08% and 0.03% from completed FTAs with Australia and New Zealand respectively. See: Department for International Trade (2021) [UK-Australia FTA: impact assessment – GOV.UK \(www.gov.uk\)](#) and Department for International Trade (2022) [UK-New Zealand FTA: impact assessment – GOV.UK \(www.gov.uk\)](#). In contrast, Scottish Government analysis suggests that Scotland's GDP will be 6.1% lower by 2030 than it would have been with full EU membership. See: Scottish Government (2018) [Scotland's Place in Europe: People, Jobs and Investment Chapter 2: Modelling the Impact of Leaving the EU on the Scottish Economy – Scotland's place in Europe: people, jobs and investment](#).

- UK-New Zealand FTA (signed 28 February 2022)
- UK-Canada FTA (negotiations ongoing)
- UK accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (accession process ongoing)
- UK-Greenland continuity-style FTA (negotiations ongoing)
- UK-Gulf Cooperation Council FTA (negotiations expected to open during 2022)
- UK-India FTA (negotiations ongoing)
- UK-Mexico FTA (negotiations expected to open during 2022)

We have also sought to leverage other opportunities to influence UK trade policy and record the Scottish Government's view, e.g. by responding to the House of Commons International Trade Committee's Call for Evidence as part of its scrutiny of the UK-Australia trade agreement in January 2022 and the House of Lords International Agreements Committee in September 2021.⁶

Implementing the EU-UK Trade and Cooperation Agreement

Following the signature and entry into force of the EU-UK Trade and Cooperation Agreement (TCA), the Scottish Government has engaged constructively with the UK Government on its implementation, while advocating for the UK to build on the terms of the deal. Scottish Government officials have attended the Trade Partnership Committee, as well as a range of specialised committees under the TCA (including on SPS, customs cooperation, trade in goods, services, regulatory cooperation, and technical barriers to trade), inputting through UK Government delegations to ensure that Scotland's interests are understood and raised.

The Scottish Government continues to push for the deepening of our relationship with the EU, our nearest and largest international trading partner, to be prioritised in UK trade policy. In line with this aim, we have developed a needs assessment on gaps in the TCA in relation to goods, with specific asks of the UK government. Under the TCA, trade in services is more restricted than as an EU member state. Part of these restrictions come from reservations to the agreement which allow parties to opt out of aspects of the liberalisation of services and investment. It is important for companies to understand these restrictions. We have therefore pressed the UK Government to publish a tool to enable businesses to find specific reservations by nation and sector.

Look ahead

In the year ahead, we will continue to advance Scotland's interests in FTAs, as the UK Government pursues accession to the CPTPP, undertakes negotiations with India and the Gulf Cooperation Council and prepares to enter into negotiations on a new agreement with Israel, and other countries. We will work with the UK Government, in line with the principles in the recent Intergovernmental Review, but will continue to press for a full role in development of new FTAs and for the UK Government to fully respect our devolved responsibilities and the role of our Parliament.

We will continue our calls on the UK Government to prioritise building on the Trade and Cooperation Agreement with the EU in support of goods, services and digital trade, while upholding high standards.

6 <https://committees.parliament.uk/writtenevidence/42613/pdf/> and <https://committees.parliament.uk/writtenevidence/106815/pdf/>

2.1.1 Applying our principles to Free Trade Agreements

The *Vision* underpins our approach to FTAs. We are determined to do all we can to ensure that they work for Scotland and support the outcomes in our National Performance Framework.

We have therefore scrutinised the UK Government's proposals for each new FTA and assessed them against the five principles (*Inclusive Growth, Wellbeing, Sustainability, Net Zero and Good Governance*) in the *Vision*. Examples of how we have applied the five principles are set out below.



Inclusive growth

As there are winners and losers from trade, it is important to consider the wider socio-economic impacts of trade agreements. We have highlighted a number of concerns with the UK Government's scoping assessments – which detail the likely economic, social and environmental impacts of a new FTA – prior to negotiations, and with the final impact assessments, published on completion of an FTA. These assessments are important in identifying how an FTA might impact on Scotland's economy, people and environment. However they lack sufficient modelling on crucial differential impacts. For example, it is not possible to see detailed impacts on particular regions of Scotland, or Scotland as a whole, and there is limited assessment of consequences for different parts of society and protected groups.

In addition, the UK Government's approach to economic modelling looks 15 years into the future, but does not consider short- to medium-term adjustment costs, which may disproportionately affect groups more marginal in the labour market. This means we do not know how people or businesses may be affected in the early years of a trade agreement coming into force, making it difficult to plan support for those who are negatively affected.

We have consistently called for this modelling to be improved, as well as for more detailed assessment to be undertaken on the different trade profiles of UK nations with FTA partners. We have also repeatedly called on the UK Government to collect detailed disaggregated data on the impact of trade policy on different groups, including in their roles as exporters, producers, workers, consumers and public services users. We have asked the UK Government to mitigate any undesired effects of FTAs through increased funding to support affected sectors or localities.



Sustainability and wellbeing

We continue to emphasise the need to avoid the prioritisation of short-term market access gains over longer-term economic, social and environmental goals. For example, reducing tariffs on UK food imports, reducing fair competition on food safety and animal welfare, or diluting digital rights may have a detrimental effect in the longer term. When considering the impacts of trade deals, we have asked the UK Government to look beyond GDP growth and changes in income, and to consider individual wellbeing. We have made it clear that any deal agreed must promote wellbeing and avoid increasing inequality.



Net zero

We have consistently called for all FTAs to link trade and climate change and help to unlock the economic opportunities from the transition to net zero. Scotland is well placed to be a global leader on this issue, and we want FTAs to support that aim. We have pressed the UK Government on the following:

- Compliance with the Paris Agreement should be a ‘red line’. However, we are concerned that environmental provisions within FTAs often lack robust enforceability. In particular, some FTAs do not reference specific temperature goals, which is a way to encourage compliance with the Paris Agreement. For example, the UK-Australia FTA makes mutual commitments to comply with the Paris Climate Agreement, but does not reference the 1.5 degree temperature goal – a clear example of where the UK’s inclusion of climate change concerns in FTAs falls below our level of ambition.
- Net zero and environmental commitments should be at the forefront of impact assessment, including emissions and indirect land-use change. The relevant provisions in an agreement should be subject to formal dispute resolution to ensure compliance.
- Innovative and robust provisions on the environment should be included. We have pressed the UK Government to include commitments to multilateral environmental agreements across all FTAs and welcome where this has been achieved. We see the reciprocal commitments agreed on labour, environmental and climate standards in the UK-Norway, Iceland, and Liechtenstein FTA trade agreement as a positive example of this.
- Liberalisation of trade in environmental goods and services should be a key offensive interest. We have actively engaged with the UK Government to promote the liberalisation of trade in environmental goods and services as a key offensive interest in order to support Scotland’s environmental goods and services sectors to export more. We therefore welcome progress on this in the UK-New Zealand FTA and at the WTO.
- Flexibilities should be provided to Least Developed Countries, in line with the Paris Agreement.

We have also engaged with the UK Government and International partners on Fossil Fuel Subsidy Reform, pressing them to increase transparency and reporting of these subsidies. We welcome recent progress on this as part of trade negotiations with New Zealand, and at the WTO, and will continue to engage with the UK Government on this issue.

In the *Vision* we indicated that we are keen to explore new, innovative trade and climate agreements, such as the Agreement on Climate Change, Trade and Sustainability (ACCTS) between New Zealand, Costa Rica, Fiji, Iceland, Norway and Switzerland. On this basis we have encouraged the UK Government to explore plurilateral options, including joining ACCTS and the WTO’s Trade and Environmental Sustainability Structured Discussions.



Good governance

Scotland is committed to being a good global citizen and trading partner, respecting international law, supporting human rights and seeking to build global relationships based on trade. Where relevant we have raised concerns linked to the human rights approach of potential trading partners, calling on the UK Government to ensure that future trading partners comply with fundamental human rights and international law. We have called for FTAs to be used to encourage progress in this area, with a view to raising standards, establishing or promoting forums for dialogue and sharing best practice.

The UK Government has committed to encouraging all states to uphold international human rights obligations, but we are concerned that there is often limited consideration of human rights in scoping assessments. Therefore we have called on the UK Government to undertake human rights impact assessments and engagement with NGOs/human rights defenders *prior* to the negotiation of FTAs. For example, we asked the UK Government to conduct a human rights impact assessment and engage with NGOs and human rights defenders prior to its proposed accession to the CPTPP. The UK Government should use the accession process to create a dialogue around human rights and to use trade remedies to uphold human rights in member countries.

2.1.2 Thematic areas of interest

We have used and developed the positions set out in the *Vision* to input into the wide range of policy areas covered by FTAs, protecting and promoting Scotland's interests. These areas include: trade in goods; food, drink and agriculture; services and investment; digital trade; regulation; climate and the environment; intellectual property and the NHS; human rights; international development; gender; and Investor State Dispute Settlement.

Trade in goods

Trade agreements can provide opportunities for Scottish exporters to enter or develop new markets, bringing Scotland's world-renowned products to new consumers. They can also make it easier for companies to import essential components used in manufacturing to enhance their competitiveness. However decisions on goods market access, including tariffs and quotas, need to reflect Scotland's needs and protect domestic producers from unfair competition. We continue to press the UK Government for greater involvement in these decisions to ensure that the FTAs they negotiate are in Scotland's best interests.

While tariffs can be a significant barrier to increasing exports, in many cases non-tariff barriers can be equally or more important. We engage constructively with the UK Government on Technical Barriers to Trade (TBTs) faced by Scottish businesses.

The Scottish Government's position is that the TBT chapter in any agreement should go beyond obligations in the WTO TBT Agreement and include provisions on issues such as transparency; procedures for assessing conformity to make it easier for Scottish businesses to export products; and provisions on sharing information.

We have also pressed the UK Government to include specific sectoral annexes, where barriers to trade are complicated. For example, in FTA negotiations with Australia and New Zealand, we pressed the UK Government to secure a spirits annex that includes a legal definition of whisky in the Australia New Zealand Joint Food Standards Code. While disappointing that this was not included in the

agreement with Australia, we welcome the inclusion in the UK-New Zealand FTA of a spirits annex, which commits New Zealand to supporting any UK application to secure a definition for whisky in the Australia New Zealand Joint Food Standards Code. This is a step towards achieving stronger protection for Scotch Whisky.

Food, drink and agriculture

Scotland's food and drink is renowned around the world for its high quality, high standards and provenance. Scotch Whisky is one of Scotland's most successful global exports, with Scotch Beef, Scottish Farmed Salmon and speciality seafood highly prized internationally.

The food and drink sector in Scotland has suffered extensively as a result of Brexit, with exports to the EU down significantly.⁷ While we are keen that new FTAs offer opportunities for Scottish exporters, they will not compensate for the barriers that the UK Government has erected between Scotland and the EU, our largest export market for food and drink exports.

The FTAs negotiated with Australia and New Zealand are likely to be damaging to Scotland's agri-food sector, with the UK Government's own analysis showing a reduction in output within this sector. In both cases, there will be a significant increase in the quantity of Australian and New Zealand beef and lamb that can enter the UK tariff-free from day one of the agreements, and these quotas will increase each year.

Throughout the negotiation of both FTAs, we pressed the UK Government to protect Scottish producers from imports that are produced to lower environmental and animal welfare standards than Scottish producers are required to meet. However this protection was not included in either agreement, opening the door to agri-food imports, which, in some cases, may be produced to lower animal welfare and environmental standards, undercutting UK domestic food production standards.

The unique provenance of Scotland's food and drink exports are protected by Geographical Indications (GIs), under a system developed by the EU to protect the origin of particular food and drink products. Iconic Scottish exports such as Scotch Whisky, Scotch Beef and Scottish Farmed Salmon all benefit from this protection. Although the UK Government treats GIs as reserved, the Scottish Government has consistently made the case for all Scottish GIs to be recognised in trade agreements and for greater involvement of devolved administrations in negotiations related to GIs. While the UK Government has secured continued GI protections in trade agreements that it rolled over from the EU, it was not able to secure any additional recognition of GIs in new FTAs negotiated, such as with Australia or New Zealand. However, should Australia or New Zealand establish a GI system in future, UK GIs will be put forward for consideration.

The Scottish Government recognises the serious threat to global health from antimicrobial resistance (AMR) – which limits the effectiveness of vital drugs – and the role that agriculture and aquaculture can play in this. The WHO has declared AMR as one of the top public health threats facing humanity, as misuse and overuse of antimicrobials in agriculture and aquaculture drives the development of drug-resistant pathogens. It is estimated that, without urgent global action, up to 10 million people could die each year due to AMR by 2050.⁸

7 Exports of UK food and drink in the first half of 2021 totalled £4.9 billion, which is 27.4% below the same period in 2019, as exporters face additional administrative costs and delays at ports.

8 Based on a 2019 [report](#) by the UN Ad Hoc Interagency Coordination Group on Antimicrobial Resistance.

We have therefore pressed the UK Government to secure ambitious commitments on antimicrobial resistance and animal welfare in all FTAs, as it did in its FTA with Norway, Iceland and Lichtenstein and within the UK-EU TCA. However, the commitments in the UK-Australia and UK-New Zealand FTAs do not go far enough and it is unclear what meaningful impact, if any, such weak commitments will have. We will therefore continue to work with the UK Government to encourage a much higher level of ambition in *all* upcoming FTAs.

Services and investment

New FTAs should open opportunities for Scotland's strong services sectors to ensure they benefit from opportunities to grow their exports. Scotland is a leading exporter of services worldwide in areas such as professional and business services, financial services, architecture and education. However, leaving the EU closed off opportunities for Scottish companies through the EU single market and neither the EU-UK TCA nor FTAs with other countries will be able to replicate the same level of market access.

FTAs contain restrictions on what and how services can be exported and this is crucial to assessing how beneficial the agreement will be to Scottish companies. Specifically, we have undertaken a detailed review of reservations in trade agreements to increase our understanding of their impact and the levers available to influence them.

As an example, we successfully argued for the maintenance of the aquaculture reservation in the UK-Norway, Iceland, and Liechtenstein FTA, which will allow measures to be taken in the future on international investment in the sector. This supports the stability and sustainability of the Scottish aquaculture and fish farming industry. We have also made this a key focus of our input into FTA negotiations with Canada, where we believe it has the potential to have a similarly significant impact.

We have advocated for, and defended, services interests in sectors of key importance to Scotland, including architecture and legal services. For example, we called for ambitious mobility provisions in the FTA with Australia to facilitate export opportunities for Scottish services firms and mitigate in part the impact of the loss of freedom of movement with the EU. We therefore welcomed the agreed mobility provisions.

The Scottish Government has been closely monitoring steps taken by the UK Government domestically on the regulation of professions and the recognition of professional qualifications from overseas in the context of the UK Recognition of Professional Qualifications Bill. Any changes, and any subsequent trade deals which are negotiated based on these changes, must reflect different approaches to the regulation of some professions in Scotland and must not prevent future regulation in areas of devolved competence. Protection of Scotland's capacity to regulate in this area is necessary to, for example, ensure the Scottish Government can agree to mutually recognise professional qualifications, within its competence, with trading partners in the future. The Scottish Government is concerned that the UK Government refused to amend the Bill to provide that UK Ministers should not be able to legislate in devolved areas of responsibility without the consent of the Scottish Parliament. The decision to press ahead with the Bill without the consent of the devolved legislatures is a clear breach of the Sewel Convention and Scottish Ministers will escalate this through the appropriate intergovernmental process.

We have made clear to the UK Government that any FTA must also provide full protection for Scotland's public services, including the NHS, from enforced privatisation, competition or fragmentation

Digital trade

The Scottish Government wants businesses to take advantage of the opportunities presented by the acceleration of digital trade, including through FTA provisions. We welcome the opening up of new opportunities for Scottish businesses and reduction in barriers to cross-border trade, for example provisions on digital identity cooperation in FTAs with Australia and Singapore.

However, the Scottish Government has argued consistently that digital trade provisions in trade agreements must balance economic and social considerations, upholding data protection and digital rights.

We have prioritised the issue of data flows, pressing the UK Government to fully assess longer term consequences of data provisions in FTAs, to prevent, for example, any restrictions in future domestic regulation on data protection and privacy.

As part of this we have also prioritised maintaining a positive EU data adequacy decision, which allows UK businesses and organisations to receive personal data from the EU and EEA without having to put additional arrangements in place. Digital trade provisions in other trade agreements could make this more difficult for the UK to maintain, given that the adequacy decision will be subject to review, including in the light of any changes in EU standards. Loss of data adequacy with the EU in the future would create a significant barrier to trade for businesses.

Regulation

Scottish Government officials have maintained regular engagement with UK counterparts across all live and upcoming FTAs on issues relating to Good Regulatory Practices and Regulatory Cooperation (GRPRC).

In line with the principles set out in the *Vision*, we agree with the UK Government that regulation should be designed in a way which helps to minimise burdens on business, and as such, supports commitments to good regulatory practices. However, at its core, regulation is a tool to achieve public policy objectives. We have therefore called on the UK government to ensure that commitments made under GRPRC chapters do not impact the right to regulate to achieve public policy goals, or prevent governments from regulating in accordance with the precautionary principle.⁹

The Scottish Government's commitment to regulating in the public interest also means that there will be limits on the extent to which we will be prepared to enter into agreements on regulatory cooperation when public policy objectives are different. We have therefore called on the UK Government to ensure that any commitments on regulatory cooperation made under the GRPRC chapter are voluntary in nature. We welcome that, in the case of the TCA, and FTAs with Japan and Australia, these provisions are voluntary and non-binding, and call for this approach to be maintained in all upcoming and ongoing FTA negotiations.

⁹ The precautionary principle is the principle whereby policy-makers adopt precautionary measures when scientific evidence about an environmental or human health hazard is uncertain, ensuring a higher level of environmental protection through preventative decision making. EU-Lex (2016) The Precautionary Principle <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM:l32042#:~:text=%20The%20precautionary%20principle%20shall%20be%20informed%20by>

Intellectual property and the NHS

We have made clear that the NHS, its services, and the price paid for medicines should not be included in any trade-related negotiations with other countries. The UK has upheld this position in FTAs agreed to date. However, we have reiterated our concerns about the potential for pressure to be placed on the UK to offer concessions in this area to future FTA partners, such as the US, and as part of the UK's accession process to CPTPP. For example, stakeholders, including the British Generic Manufacturers Association, have highlighted the potential for CPTPP rules to delay generic and biosimilar medicines coming to market, resulting in increased medicine prices for the NHS. The Scottish Government will continue to press the UK Government to recognise and address these concerns.

International development

In the *Vision* we recommended that all tariff liberalisations (either through FTAs or unilaterally) be impact-assessed and published to ensure liberalisations do not degrade the tariff preferences of developing countries. The Scottish Government therefore welcomes provisions that allow for ongoing assessment and monitoring of the impact of FTAs on developing countries, although we would support stronger commitments on this. This approach, as in the UK government's recent India FTA scoping assessment, contributes to considering the broader implications of the deal on the preferences of least developed countries as part of the Generalised Scheme of Preferences (GSP), and ensuring these interactions are fully assessed and monitored.

Gender

Taking account of the impact of trade policy and trade deals on women as economic and social operators is a key ask in the *Vision* and we have consistently pressed for this to be reflected in UK FTAs. Whilst the inclusion of a dedicated chapter on Trade and Gender Equality in the UK-Australia and UK-New Zealand FTAs is welcome, the text of the agreement does not go far enough to address the differential impacts of trade on gender or recognise women as more than economic operators. Gender equality in FTAs must not be confined to a single chapter, but must be mainstreamed throughout the entirety of the text. FTAs must also contain robust monitoring and accountability mechanisms, including frameworks for analysing gender-disaggregated data, so that commitments are actioned and improvements to performance can be made.

Investor State Dispute Settlement (ISDS)

In recent years stakeholders have been increasingly critical of ISDS provisions in FTAs, noting concerns about the potential for such provisions to lead to 'regulatory chill', whereby governments may be deterred from regulating in the public interest, and about the expense of investor-state arbitration.

In line with the position outlined in the *Vision*, we have consistently called on the UK Government to ensure that any ISDS mechanism will not prevent the UK and Scotland from regulating on health, social, environmental and economic matters. Any such system must be transparent, based on judicial procedures, and permit meaningful representations by all parties with a potential stake in the matter. Provisions in this area have the potential to impact Scotland significantly and limit the ability of the Scottish Parliament to regulate in devolved areas, and we have therefore pressed for increased involvement in negotiations on this.

2.2 Wider engagement

World Trade Organization

In January 2021, the UK took up its independent seat at the WTO. Since then, the Scottish Government has engaged with the UK Government to ensure that Scottish interests are identified, protected and promoted in this forum, reflecting commitments made in the *Vision*.

We have also developed and communicated positions on high-profile issues related to the WTO that matter to Scotland, using the positions set out in the *Vision*. For example, we have identified priorities for progress ahead of WTO's postponed 12th Ministerial Conference (**MC12**) on fisheries subsidies, trade and environment and trade and gender. We have sought to influence the UK Government to develop an agreed approach on these issues.

In a clear demonstration of Scotland's commitment to addressing the global differential impacts of trade, the Scottish Government also joined over 100 countries and the WHO in advocating for a **TRIPS waiver** agreement at the WTO in December 2021. This waiver intends to address vaccine supply inequity between high and low income countries by temporarily removing intellectual property barriers preventing developing countries from producing Covid-19 vaccines. We welcome recent progress made by the EU, US, India and South Africa towards agreeing a TRIPS waiver for Covid-19 vaccines. It is an important step forward, but there is still room to build on this proposal to ensure that the final agreement goes as far as it can to address the urgent need for fairer access to vaccines and Covid-19 health treatments across the world. We will continue to press the UK to drop its opposition to the TRIPS waiver and to enable agreement to be reached at the WTO as soon as possible.

We will continue to engage with the UK Government on issues of WTO business important to businesses and people in Scotland. We will continue to call on the UK Government to involve the Scottish Government in UK WTO delegations (for example, where matters falling in devolved policy areas are in question) and engage with the Scottish Government on any specific trade concerns raised at the WTO that relate to or impact on Scotland.

Generalised system of preferences

In the *Vision* we recommended that the UK Government explore how the UK's Generalised Scheme of Preferences (GSP) mechanism could be improved. We suggested that the UK Government undertake an impact assessment to explore the following:

- Expanding product coverage for countries within the general and enhanced frameworks.
- Increasing tariff reductions for countries within the general framework.
- Relaxing rules of origin requirements to increase cumulation.
- Increasing regional value-added production.

In July 2021, the UK Government announced its intention to develop a new GSP mechanism, called the Developing Countries Trading Scheme (DCTS). We have submitted our views, and encouraged our international development partners to do the same. We will continue to engage with the UK Government as they formalise the DCTS over the coming year.

Market access

The Scottish Government continues to engage regularly with the UK Government to ensure that our work on market access complements theirs. We welcome increased engagement in this area since the publication of the *Vision*. We have also been working to ensure that Scottish Development International are able to participate effectively in the market access barrier reporting and review process.

We welcome the UK Government's approach to improving its market access barrier system, and see DMAS as an effective way for our work on prioritised barriers to be coordinated with that of the UK Government. We support improvements made in the quality of data on DMAS, including in the identification of barriers that affect Scottish businesses. We also support the integration of DMAS into DIT's other public-facing trade support services to provide a single 'one stop shop' information hub for exporters.

Conformity assessment

The Scottish Government is contributing to UK-wide work on the capacity of conformity assessment bodies, while building conformity assessment capacity in Scotland, including engaging with the Construction Scotland Innovation Centre about a proposal to establish an additional accredited construction body in Scotland. While this is about ensuring that products are in compliance with UK regulations and so can be placed on the British market, there is also a link with international trade. Scotland's participation in global supply chains means that a lack of capacity could have a knock-on effect for imports into Scotland and could result in supply chain disruption. Building conformity assessment capacity also demonstrates to our trading partners that we have the infrastructure and competence to ensure Scottish products meet their standards.

Trade remedies

In the *Vision* we committed to ensuring that Scotland's trade and economic interests are identified and taken into account in any investigations into unfair trade practices affecting UK industry, and the administration and management of any subsequent trade remedies, both within the Trade Remedies Authority (TRA) and at ministerial level. Since the publication of the *Vision*, the TRA has been established, and has initiated a number of trade remedies cases, including transition reviews of EU trade defence measures, as well as some new investigations brought by UK businesses.

To ensure that Scotland's industries are adequately protected by trade defence measures, the Scottish Government has been closely involved in four trade remedies investigations for products where Scotland has a particular interest. We have engaged with TRA investigators and submitted detailed economic evidence in relation to investigations on rainbow trout, aluminium extrusions, and steel.

We continue to build our relationships with the TRA and our knowledge of the evolving UK trade remedies landscape. For example, we recently hosted a virtual visit from the CEO and Chief Executive of the TRA, who spoke with the relevant Scottish Parliament Committee, Minister and senior officials about their work, and how Scottish authorities and businesses could contribute to it. We will continue building on these relationships, including to raise the profile of the TRA's work with Scottish stakeholders.

Trade disputes

In the *Vision* we committed to ensuring that the Scottish Government is given a meaningful and substantive role in the preparation and conduct of disputes to which the UK is a party, where the matters in dispute are ones that engage with, impact on or threaten Scottish interests. Since then, developments in a number of international trade disputes have had an impact on Scotland, including:

- A negotiated settlement to suspend the long-running and damaging Large Civil Aircraft (Airbus-Boeing) dispute, including a five-year suspension of tariffs in place on affected EU, US and UK goods.
- We were pleased to see that the UK and US Governments announced a partial agreement on the Section 232 dispute on 22 March.¹⁰ We had been pressing the UK Government to reach a deal with the US to remove these tariffs, which have been affecting steel and aluminum exports since 2018. This agreement will come into effect on 1 June, five months after a similar deal came into force between the US and the EU. In the meantime, EU steel producers have been at a competitive advantage, estimated as a 25% price advantage over UK producers.

We have raised the damaging impact of these disputes on Scottish businesses repeatedly with the UK Government, offering our support – including our own analysis – in seeking the removal of these tariffs. We have also raised the issues directly with relevant foreign governments.

¹⁰ Section 232 tariffs refer to a point of US law which enables imports to be restricted if they are deemed to be a threat to national security.

3 Engaging stakeholders, developing data and monitoring our progress

It is crucial that our work developing and implementing the *Vision* is built on stakeholder input, informed by relevant and robust data, and monitored to ensure we are making good progress against our priorities in relation to the **Economy, People and the Planet**.

3.1 Stakeholder engagement

In the *Vision*, we issued an open invitation, to individuals, businesses, academics and other organisations in Scotland and globally, to discuss trade policy with us, reflecting the priority we place on ensuring that our approach to trade is informed by the experience and expertise of consumers, businesses, workers, civil society and others.

In March 2021, the Minister for Business, Trade, Tourism and Enterprise, Ivan McKee MSP, hosted a stakeholder roundtable to help identify initial priorities for the Scottish Government in implementing the *Vision*. Those stakeholders represented interests across the entirety of the *Vision*, and included representatives of business, academia, civil society and international organisations.

In terms of the **economy**, participants considered how Scotland can influence the trading environment, cooperate on regulation whilst protecting public interests and the importance of digital trade and global value chains. Commitments in the *Vision* regarding adherence to a rules-based global trading system were welcomed, as was the focus on identifying and removing market access barriers, with suggestions from the panel as to how this could be done.

On **people**, stakeholders considered how Scotland should tackle the differential impacts of trade, as well as protecting public services and consumers. Participants supported the focus on winners and losers of international trade and highlighted the importance of seeing people as workers, citizens, service users and consumers.

On the **planet**, participants discussed how Scottish trade policy can be used as a tool to support climate and environment targets, address the differential global impacts of trade and reform multilateral trading systems. Suggestions included taking steps to liberalise trade in environmental goods and services, seeking to influence the UK Government to make FTAs international development-friendly and advancing links between trade and industrial policy.

Outputs from this discussion were used to inform our decisions on what to prioritise during our first year of implementation of the *Vision*. In particular, participants supported an integrated approach to policy development, to develop solutions that work across aims for the economy, people and planet and recognise difficult choices and trade-offs related to international trade policy (such as supporting the rules based system, while pushing for reform; or trade supporting economic development while achieving climate targets).

To further explore our priorities and the trade-offs across economic, social and environmental aims, we are now taking forward a series of roundtables with stakeholders to consult on a range of technical issues.

The first roundtable, on how Scotland can best take advantage of market access opportunities across goods, services and digital trade, covered two main issues: prioritising and removing specific market access barriers; and taking market access opportunities. The session's discussion highlighted the importance of ensuring the inclusion of stakeholders, particularly SMEs, in decisions about which market access barriers to prioritise. Participants also emphasised the role of regulator-to-regulator and industry-to-industry cooperation, both for addressing barriers and taking market access opportunities. This roundtable consultation has directly influenced policy development, for example informing adjustments to the market access prioritisation methodology currently in development.

Further roundtables are planned in the coming months on issues including: what trade based on high regulatory standards means for Scotland's businesses, workers and consumers; and the role the Scottish Government can play in relation to global value chains and their interactions with economic, social and environmental policy.

3.2 Developing data to inform trade policy

Improving access to, and developing, relevant data in support of our trade policy is key to the successful implementation of the *Vision*, laying the groundwork for decisions we make on trade and the levers we prioritise.

This year, we have developed our data sources and understanding in two key areas, by conducting our own analysis of:

- Where value is added along the supply chain. In doing so, we can better understand where income and jobs are created and how we can build a high value-added economy.
- The impacts of trade disputes on Scottish businesses, supporting our work to influence the UK Government in this area.

Data on Trade In Value Added

COVID-19 has tested supply chains in unprecedented ways, and has demonstrated the importance of resilience in ensuring the continued flow of critical goods. The increased importance of global value chains in production means that it is essential to consider 'value added' when thinking about trade policy, namely the amount of value added by an industry or company, rather than just the value of the product or service that is sold on. Identifying where value is added along the supply chain will enable Scotland to estimate where income and jobs are created. Higher value-added activities contribute more to the economy, and jobs in these industries tend to pay better wages and generate higher profits.

For example, Country X may import steering wheels to add to the production process of cars that they manufacture. When the final good, the car, is exported to Country Y, the entire value of the car will be attributed to Country X, including the value of the steering wheel, thereby overestimating the value Country X added in production, and the capacity for job creation.

Our analysis so far has yielded valuable findings on where Scotland lies in the global value chain for specific sectors, generating an Inter-Country Input-Output (ICIO) table for Scotland, demonstrating:¹¹

¹¹ [OECD Inter-Country Input-Output \(ICIO\) Tables – OECD](#)

- **Which sectors are export or import intensive.** Table 1 below shows the top five most export-intensive sectors and the top five most import-intensive sectors. For example 'computer, electronic and optical products' is high on the export intensity and import intensity scale. This suggests that Scotland lies somewhere in the middle of the value chain for products within this sector.
- **Where demand for Scottish exports lies in the value chain** and therefore how Scottish goods are consumed, i.e. whether Scottish goods are used primarily for final consumption, as an intermediate good in the production process, or as a fixed asset of investment.¹² The data shows that Scotland's exports are primarily consumed as intermediate goods. This suggests that Scotland adds more value upstream in the value chain (manufacturing and production), rather than downstream to the final consumer (advertising, marketing and sales).

Top 5 Export-Intensive Sector	% of total industry output that is exported	Top 5 Import-Intensive Sectors	% of consumption originating from imports
Mining and Quarrying	80%	Computer, electronic and optical products	64%
Food, Beverages and Tobacco	73%	Electrical Equipment	59%
Computer, electronic and optical products	73%	Financial and insurance activities	52%
Electrical Equipment	67%	Coke and Petroleum products	51%
Machinery and Equipment	67%	Mining and Quarrying	50%

Table 1: Concentration of Output and Consumption for Scottish Exports and Imports

The next step in this work will be to build on these findings by producing Trade in Value Added estimates for Scotland. This will allow us to understand how best to further support Scotland's participation in global value chains, and where the highest potential lies for job creation.

The impact of international trade disputes on Scottish businesses

Successfully influencing the UK Government and other trading partners in relation to international trade disputes relies, in part, on having a strong understanding of the impacts of those disputes on businesses in Scotland.

A recent dispute of significance to Scotland was the US/EU Large Civil Aircraft (the 'Airbus-Boeing') dispute. In October 2019, the US applied 25% tariffs to a range of products from EU countries, including the UK, in accordance with World Trade Organization rules. One of those products was Single Malt Scotch Whisky.

¹² Total accumulated (gross) trade data can tell us what proportion of domestic consumption is made up of foreign imports. It can also tell us what proportion of final goods produced (output) will end up being exported. However, gross data cannot explain how much of the imported materials end up in the in the exported products.

The impact on Scotch Whisky exports of the tariffs specifically – as opposed to, for example, the more general impact of the Covid-19 pandemic on global trade – had been hard to pinpoint using traditional methods. Developing and applying a novel ‘synthetic control method’ of analysis, however, suggested that the quantity of single malt exports declined by between 9.5% and 19.6% between Q4 2019 and Q4 2020, as a result of the tariff. We were able to use these figures to back up our efforts to influence the UK Government to take action on the trade dispute.¹³

This method of calculating impact will provide a useful framework for assessing the impact of any future trade disputes and, potentially, certain aspects of trade deals agreed in the coming years.

3.3 Monitoring Scotland’s Vision for Trade

Over this period we have been developing our plans to track progress in implementing the *Vision*. We are looking to understand whether what we are doing is making a difference and how to link what we’ve done to changes in the economy, for people or for the planet.

This annual report, documenting how we have put into practice the principles in the *Vision* and met the needs of people and businesses in our policy development and trade decisions, is the first product of this monitoring process and a core part of how we will document our ongoing work on trade policy.

We are additionally identifying ways to track the views of businesses and individuals in relation to the effectiveness of Scotland’s trade policy, and on their top priorities for the Scottish Government for using our own levers and influencing the UK Government.

We also use our ongoing engagement with stakeholders, individuals, businesses, academics and other organisations in Scotland and globally, to hear their views on our progress in implementing the *Vision*. We welcome the opportunity to engage with stakeholders on our progress to date and future plans, as set out in this report.

¹³ [Estimating the impacts of US tariffs on UK exports of single malt Scotch whisky – gov.scot \(www.gov.scot\)](https://www.gov.scot/resources/consultations-petitions/embedded/estimating-the-impacts-of-us-tariffs-on-uk-exports-of-single-malt-scotch-whisky/)



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