

COVID-19: The Case for Extending the Brexit Transition Period

June 2020



Scottish Government
Riaghaltas na h-Alba
gov.scot

COVID-19: The Case for Extending the Brexit Transition Period

Contents

| | |
|--|----|
| Foreword | 2 |
| Executive Summary | 4 |
| Introduction | 7 |
| Section 1 Why an Extension to the Transition Period is Essential | 10 |
| 1.1 Economic analysis | 10 |
| 1.2 Practical challenges to EU exit resulting from COVID-19 | 30 |
| Section 2 How to use the Breathing Space Created by an Extension | 40 |
| 2.1 The New Global Context | 40 |
| Conclusions | 44 |
| | |
| Annex A Results of Economic Modelling | 46 |
| Annex B Examples: Difficulties for Businesses on 1 January 2021 | 50 |
| Annex C Government Readiness for 1 January 2021 | 57 |

Foreword

This document is about why an extension to the Brexit transition period is vital to our economic recovery from Coronavirus (COVID-19).

In the referendum on membership of the European Union in June 2016 people in Scotland voted overwhelmingly to remain.

The Scottish Government's position is well known: we have always vehemently opposed Brexit and see Scotland's future as an independent country and an EU member state. That has not changed.

That goal of becoming a full, equal member of the EU, committed to the founding values of human dignity, freedom, democracy and equality is at the heart of the Scottish Government's ambition for Scotland.

However, although there will be differences of opinion on Brexit and Scottish independence, I believe there is an immediate step that must be taken, given the unprecedented Coronavirus crisis, that can command widespread consensus.

Although the UK has left the European Union, it is still able to benefit from most aspects of EU membership because it is in a "transition period" during which pre-Brexit rights and obligations apply in almost all areas.

This transition period is due to finish on December 31, but it can be extended for up to a further two years as long as that is agreed by the end of June. After that date, it will not be possible to extend under the terms of the Withdrawal Agreement – and no other plausible route to an extension has been put forward. We must therefore work on the basis that the end-June deadline for an extension is real. Without an extension, the UK would, on 1 January 2021, have to operate in an entirely new relationship with the EU.

Given the huge economic hit caused by coronavirus it would be an act of extraordinary recklessness for the UK Government to refuse to seek an extension.

That's because the default plan is to leave in around seven months' time with either only a very basic deal with the EU or no deal at all.

That would mean Scotland, and the UK as a whole, being subjected to an entirely unnecessary second economic and social shock on top of the COVID-19 crisis. More jobs would be lost, living standards would be hit and essential cooperation would be damaged. For many businesses which manage to survive the coronavirus crisis, this second, Brexit, shock would hit them at their weakest, and be the final straw to put them out of business. Each business lost is a permanent reduction in Scotland's productive capacity, and thus in our long-term prospects for inclusive, sustainable growth.

Whatever one's opinion, in principle, of the merits of Brexit, that approach makes no sense. I believe there is a growing common-sense coalition to press for an extension to avoid such a disastrous outcome.

In this paper the Scottish Government sets out the evidence to back up the arguments for an extension to the transition and I look forward to working with others to put forward the case during this unprecedented time.

A handwritten signature in black ink, consisting of several vertical strokes followed by a long horizontal stroke that curves upwards at the end.

Michael Russell

Cabinet Secretary for the Constitution, Europe and External Affairs

Executive Summary

Despite Scotland having voted to remain, the UK has left the EU. But – though Brexit has already had a damaging impact on our economy – the main impact of leaving has not yet been felt because the UK is operating under transitional arrangements which ensure our producers, consumers and citizens continue to benefit from full membership of the EU single market.

The transition period is scheduled to finish on 31 December 2020. This paper sets out why it is vital, if we are to ensure the most rapid recovery possible from the COVID-19 crisis, that the UK Government immediately seeks an extension to the transition period for up to two years.

The Scottish Government, and the overwhelming majority of people in Scotland opposed Brexit. That remains the case. However, regardless of views on EU membership it is clear that COVID-19 has vastly increased the difficulties that firms across the country face in preparing for a hard Brexit (outside the Single Market and Customs Union) in December. Extending the transition period for a further two years is an appropriate and desirable economic measure that will support economic activity, employment and a speedier return to inclusive, sustainable growth.

The arguments in favour of an extension are that:

- It would allow the economy more time to recover from COVID-19 before experiencing the additional negative impact of ending the Brexit transition;
- The COVID-19 pandemic has prevented government, business and citizens from preparing adequately for what will be the most significant change to our external trade policy for half a century; and
- Proper democratic and technical scrutiny and implementation of the UK's putative new relationship with the EU is simply not possible in the few months remaining before December this year – the end of the current transition period.

Ending the transition period at the end of 2020, even with the type of basic deal the UK government is pursuing, or worse still without a deal with the EU at all, will represent a significant additional downside risk to the trajectory of the economic recovery. Immediate and short-run effects will include:

- Introduction of non-tariff barriers to trade with the EU (and tariff barriers in a no deal outcome);
- Increased disruption to supply chains already experiencing challenges due to COVID-19; and
- Heightened uncertainty in some markets.

The combined impact of these effects on businesses that are already severely affected by COVID-19 could result in widespread business closures and job losses over and above those resulting from COVID-19 alone.

New economic modelling shows the impact of ending the transition period at end-2020 or, with the full two-year extension provided for by the Withdrawal Agreement, at end-2022. We also model the impact of two outcomes to the current EU-UK

negotiations, either a basic Free Trade Agreement in line with the UK government's unambitious aspirations, or no deal. The lack of progress in the negotiations so far and the impact of COVID-19 on the negotiating process make no deal a real possibility. These Brexit scenarios are overlaid on two illustrative paths for the recovery of the economy from COVID-19.

The modelling indicates that ending transition this year would result in Scottish GDP being between £1.1 billion and £1.8 billion lower by 2022 (0.7 to 1.1% of GDP), compared with ending transition at the end of 2022. That would be equivalent to a cumulative loss of economic activity of between nearly £2 billion and £3 billion over those two years. A proportionate impact would be likely for the UK economy. This will clearly hamper recovery from the impact of the pandemic.

Simply extending the transition period would thus postpone the costs of Brexit, which is crucial at this time. But beyond this – and in addition to the costs identified by the modelling – exiting the current transitional arrangements before Scotland has emerged from the COVID-19 crisis would greatly increase the costs of Brexit to the Scottish economy, in comparison to a two year extension. This is for two main reasons:

- Because of COVID-19, Scottish companies will be in a much more fragile state and less able to absorb the impact of Brexit at the end of this year than in two years' time; and
- Because of the need, rightly, for both business and government to focus now on COVID-19, they will be less prepared now than they would be in two years, resulting in even greater disruption. This would be the case whether or not a deal is agreed.

This paper also reports on the cumulative impact of the COVID-19 and Brexit shocks on key sectors. All sectors of the economy have been affected in some way by COVID-19 – many profoundly so – and will face a further adverse effect if the UK leaves the transition period in December. Analysis of exposure by sector shows the manufacturing and agrifood sectors to be particularly vulnerable to the additional shock of ending the transition period.

There is also evidence, which this paper sets out, that both COVID-19 and Brexit have particular impacts on the most vulnerable sections of society.

The impact of COVID-19 has exacerbated what was already an unrealistically tight timetable for governments and businesses to be ready to exit the transition period by the end of this year.

A fundamental problem is that preparation for the arrangements that will need to be in place cannot be done with confidence, because those arrangements are still being negotiated. Simply knowing that the outcome will be somewhere between a basic FTA and no deal is not enough. Businesses still do not know, for example:

- what tariffs there may or may not be on trade with the EU;
- which regulations they should follow;
- what Customs paperwork and processes will apply;
- how people and data will be able to cross borders in order to make businesses work; or

- whether professional qualifications will be recognised.

The case for extending the transitional period for a further two years is informed by the very real and inevitable damage to our economy, to our communities and to our citizens that – as evidenced in this paper – will result if the UK Government continues to pursue a policy of ending the transitional arrangements with the EU regardless of the consequences for our collective recovery from the most destructive global health and economic crisis in living memory.

None of the arguments put forward by the UK government and others against an extension stand up to scrutiny:

- Businesses do not want to remove uncertainty through a disorderly and damaging end to the transition period this year, when they will not have had time to prepare properly, but by having adequate time to prepare for an orderly move to a close future trading relationship with the EU;
- Extending the transition period does not expose the UK to unquantified future budget commitments: under the Withdrawal Agreement the Financial Terms for Extension have to be agreed before an extension is agreed, so, If there is an extension, the UK will know and have agreed the financial implications in advance;
- There is no basis to expect the EU to put in place regulatory measures damaging to the UK in any extension period: they have shown no inclination to do so during the current transition period, and, in any case, except for emergency measures, EU legislation normally takes around two years to negotiate and implement.

There have been suggestions that one motivation for rejecting an extension is to hide the adverse impact of Brexit In the bigger COVID-19 impacts: no responsible government could choose such a path, but no other convincing argument has been put forward.

Opinion polls suggest that a clear majority of the UK population would favour an extension as a result of COVID-19. Time is running out. After June 30 there will be no reliable way of extending the transition period. As a responsible administration which, notwithstanding our fundamental opposition to Brexit, is working to protect Scotland's interests in the Brexit process, we call upon the UK Government to act now to secure an extension to the end of 2022.

Introduction

Despite Scotland having voted to remain, the UK has left the EU. It is operating under transitional arrangements, agreed upon with the EU under the Withdrawal Agreement, which are currently scheduled to finish on 31 December 2020 – around seven months from now.

Once the transition period ends, the UK will have a whole new relationship with the EU, the precise shape of which is not known because negotiations are taking place right now. That relationship will include new arrangements for how UK goods and services access the EU Single Market – which, at 450 million people, is around seven times the size of the UK alone - and how the UK and the EU operate together across a range of policy issues such as security, law enforcement and judicial cooperation, environmental protection, energy, transport, and research and development.

The self-imposed deadline of 31 December 2020 was originally designed by the then UK government to give a transition period of 21 months for negotiating, ratifying and implementing the new relationship. The UK Government chose to include scope for an extension of up to a further 24 months, should more time be needed. Although the Brexit process has been delayed, the deadline has not yet been adjusted, with the result that the time remaining is only a third of that originally foreseen.

Given the lack of time, and the fundamental differences between the EU and UK positions, a no deal outcome at 31 December 2020 is only too possible. In that scenario, UK and Scottish exporters of goods and services to the EU would face tariff and non-tariff barriers that would significantly reduce, and in some cases effectively cut off, their access to the Single Market. But, even if an agreement were to be reached, the UK government's level of ambition for the agreement is now so low that the negative impact would be almost as great as under a no deal outcome, due to a host of new non-tariff obstacles to our goods and services.

Even in normal times, this kind of damage to Scotland's interests would be unacceptable. But we are operating in times that are far from normal. The COVID-19 pandemic has triggered an unprecedented global economic crisis. It is impossible to know how long this crisis will last, or the ultimate consequences it will have for our citizens, our communities, our businesses or our economic prospects. But what we do know is that the economy will still be adjusting to an unprecedented economic shock by the end of this year – when the Brexit transitional phase is currently scheduled to end.

The UK is no longer a member of the EU, however much the Scottish Government – and the vast majority of people in Scotland who voted against it in 2016 – regret the loss of membership. But the full damage of Brexit has not yet been felt, thanks to the transitional arrangements under which the UK is now operating. The principal question we address in this paper is how long the transitional state should be maintained, to minimise the combined damage of COVID-19 and Brexit on the Scottish and UK economies.

Despite our opposition to Brexit – and the refusal of the UK government to involve devolved governments properly – the Scottish Government is doing everything it can to protect Scotland’s interests in the Brexit process. In this very singular context, we consider it essential that the UK Government seeks an extension of the transitional arrangements, before the 1 July deadline it agreed in the Withdrawal Agreement. Subject to the agreement of the EU, which we fully expect would be forthcoming, the UK Government should extend the current transitional arrangements by the maximum of up to two years.

As we will demonstrate, the case for an extension rests on three fundamental considerations. While our focus is clearly on the impacts on Scotland, our analysis also touches on some wider impacts for the UK of failing to extend the transition period.

The most important consideration concerns the consequences of introducing more economic and social turmoil to a UK economy already deeply in crisis as a consequence of the COVID-19 pandemic. Failing to extend the transition period would mean hitting the economy with the consequences of a hard Brexit at a time when it is already unprecedentedly fragile. Companies that might otherwise have managed to resume full operations, despite the effects of COVID-19, would face additional headwinds. The impact on Scotland’s economy and our productive potential would be long term. This paper sets out our analysis of those risks and impacts, for the Scottish economy and for key sectors within it.

That simultaneous double hit could be avoided by extending the transition period.

The second consideration relates to the immense practical challenges faced by governments, businesses and others. Without an extension, all concerned will have only a few months to implement a workable framework for our economic, social and security relationships with the EU for many years to come. That framework has not even been negotiated and ratified yet, so the actual time available will be even shorter. Furthermore, COVID-19 will still be severely constraining the available bandwidth of governments and businesses. While it is true that the broad shape of the future relationship is clear – somewhere between no deal and a basic free trade agreement (FTA) – businesses, and everyone else adapting to new arrangements, need to know the details so that they can adjust systems, processes, and even entire business models. To suggest that the UK can be ready in time for 1 January 2021 is to recklessly deny reality.

The third consideration revolves around the timetable for negotiations and the inadequacy of scrutiny and accountability across the UK’s four nations. The tight timescale, at a time when leaders on both sides are rightly fully occupied with handling the coronavirus crisis, increases the risk of a no deal outcome. The biggest change in the UK’s international relationships in a generation must not be carried out without proper scrutiny by and involvement of the Westminster parliament and the devolved institutions. That has not happened to date; whilst an extension alone will not guarantee it happens, what can be guaranteed is that without an extension it will be impossible.

We will argue in this paper that these considerations taken together constitute a compelling case for using the option for an extension that was sensibly included in the Withdrawal Agreement. These arguments are more than enough to justify an extension, even for those who see Brexit as an opportunity, since the reality is that the UK has left the EU and the most immediate issue now is how to manage the end of transition in the least damaging way. But an extension to the transition would also allow for a re-evaluation of the UK's current approach to the future relationship, to take account of the long term impacts of the pandemic.

While clearly putting in place arrangements for an extension will itself require some effort, this will be modest. It should not impact on business, which will simply see a continuation of existing arrangements. The most frequently cited objection to an extension, of continuing UK financial contributions, with the potential for the UK to have to contribute to EU COVID-19 recovery programmes is simply incorrect. The Withdrawal Agreement itself recognises that, in the event of an extension, the financial terms will change, reflecting the fact that the EU will enter a new Multiannual Financial Framework Period at the end of 2020 and the UK will no longer be part of major programmes such as Common Agricultural Policy payments. The Withdrawal Agreement provides for a revised contribution to be agreed between the UK and EU reflecting this new situation. The size of this contribution resulting from an extension will be significantly less than during the current transition period, and very small compared with the loss of economic growth the UK would suffer without an extension, even if an FTA were agreed and implemented by the end of 2020. Most importantly, the size of the contribution (other than for specific programmes in which the UK wishes to participate) would, under the terms of the Withdrawal Agreement, need to be agreed before any decision to extend the transition period, so the UK Government would be able to take a decision on extension in full knowledge of the financial implications.

Section 1: Why an Extension to the Transition Period is Essential

1.1 Economic Analysis

The COVID-19 pandemic has caused Governments across the world to shut down large sections of the economy to deal with the public health crisis, resulting in a collapse in global economic activity that is steeper and faster than in previous downturns and presenting an uncertain path for economic recovery. What began as a public health crisis is now also an economic crisis.

COVID-19 also has significant implications for the UK's exit from the European Union. The path that the economy will be on by the end of transition, scheduled for 31 December 2020, will be fundamentally changed. Additionally, as we consider in a later chapter, the likelihood that the EU and UK will be able to reach a timely agreement on new arrangements will be seriously affected.

COVID-19 has created unprecedented uncertainty for world trade, with current forecasts by the WTO suggesting anything between a 13% and 32% fall in world trade in 2020¹.

Illustrative analysis of the potential short run impact on GDP during the COVID-19 outbreak² indicates that output in the Scottish economy could fall by 33% in the current quarter, primarily because of physical distancing and its implications for business closures and temporary reductions in operations.³

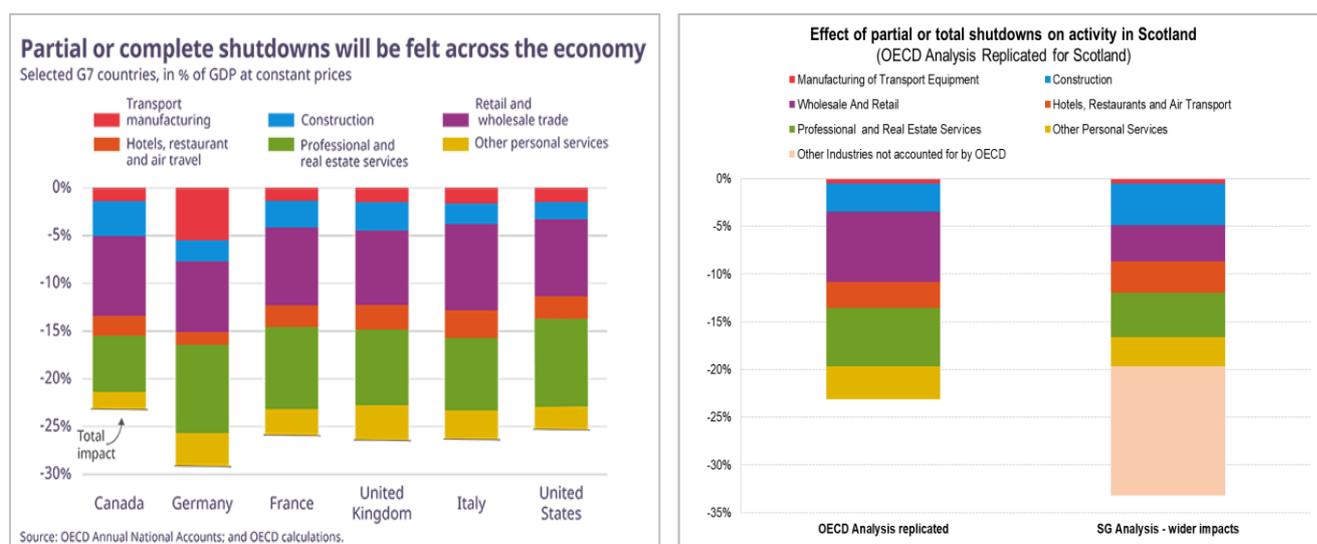
These results are broadly in line with estimates and models for other countries around the world, including the Bank of England, the OBR and OECD; see Figure 1, below.

¹ [World Trade Organisation Press Release, Trade set to plunge as COVID-19 pandemic upends global economy](#)

² Official economic forecasts for Scotland are undertaken by the Scottish Fiscal Commission

³ This analysis is based on the same scenarios as the Scottish Government report, [State of the Economy: April 2020](#), which assumed three months of physical distancing. It is likely that scenarios will be updated or new scenarios published as data emerges on the extent of COVID-19 impacts and the path for resumption of economic activity.

Figure 1: Potential Economic Impact – During Period of Social Distancing



Implications of Ending the Transition Period in December 2020

The severe economic impact of COVID-19 was clearly not foreseen during the first phase of negotiations between the UK and EU.

If the UK were to exit the transitional arrangements at the end of 2020 with anything less than a comprehensive trade deal (which the UK Government is not currently seeking), this would represent a significant additional downside risk to the trajectory of the economic recovery from the COVID-19 shock. Such a scenario would have serious implications both for the short to medium-run economic recovery and for the long-run economic outlook. Short-run effects would include:

- tariff and non-tariff barriers to trade with the EU; and
- disruption to supply chains which are already experiencing challenges as a result of COVID-19; and heightened uncertainty in some markets, potentially weighing against the prospects of a recovery from the COVID-19 downturn, which could negatively impact business sentiment, investment, and consumption.

The combined impact of these effects on the operations of businesses that are already severely affected by COVID-19 and struggling with lower demand and consequent cash-flow issues could result in:

- business closures and job losses over and above the potential losses that would result from COVID-19 alone.

With or without an FTA, the impact would vary across sectors, as we set out later. These short-run impacts could be mitigated to some extent by policy responses, including fiscal stimulus. However, Governments across the UK are already providing unprecedented support to the economy in response to COVID-19, reducing the room for further mitigating policies to address the additional impacts of EU exit.

Modelling

The economy will recover from the current impacts of COVID-19 but the shape and speed of adjustment are uncertain.

The scale of the COVID-19-related economic shock is now becoming more apparent as real data begins to emerge. UK GDP data for Q1 2020 indicated that output in the economy declined by 2% over the quarter driven by a 5.8% decline in March. The Bank of England has published illustrative analysis that estimates that the UK economy could decline by around 14 per cent in 2020, this would be the largest annual decline in economic output in 300 years. The Bank also estimated that unemployment may increase to nine per cent in the second quarter of this year, higher than in the wake of the 2008/9 financial crisis, up from around four per cent in February and is estimated to remain at 7% in 2021. The scale of the increase in unemployment has yet to emerge in the data. However, Scottish Government analysis referenced earlier in this paper indicates that a 33% decline in output could be associated with the rate of unemployment increasing to up to around 10% in Scotland.

Recent analysis by the National Institute of Economic and Social Research (NIESR) suggests that some of these impacts could become permanent, estimating that “scarring” caused by the COVID-19 shock could take as much as 3% off long-term GDP.

The shape of the medium-term economic recovery is subject to several key uncertainties:

- i. How long physical distancing measures will need to be in place to ensure public health is protected;
- ii. Whether or not the size and scale of the temporary downturn causes more long-lasting supply-side damage to the productive capacity of the economy;
- iii. The impact that fiscal and monetary responses will have; and
- iv. The global nature of the crisis, with economic spill-over effects from other countries both in terms of trade and policy responses.

Ending the Brexit transition period at the end of 2020 would provide an additional headwind to this already uncertain recovery.

We have already published detailed analysis of the potential impact on the economy of an exit based on the type of unambitious deal the UK government favours; previous Scottish Government modelling of an EU-UK FTA estimated that GDP could be around 6.1% lower in the long term compared to EU membership under a similar scenario.⁴

In this paper we are publishing new modelling looking specifically at the risks posed by exiting the transition period at the end of 2020 in combination with the impacts of the COVID-19 crisis.

⁴ [*Scotland's Place in Europe: People, Jobs and Investment*](#)

Two⁵ illustrative scenarios for COVID-19 modelled using the Scottish Government's Global Econometric Model (SGGEM) have been extended to include potential impacts of Brexit, giving further illustrative paths for the economic recovery. In terms of COVID-19 recovery, one scenario illustrates a single wave of infection followed by a single ('v-shaped') recovery, where the other is an illustration of how a second wave of infection, if one were to occur, could lead to a second economic impact and a 'w-shaped' recovery. Both scenarios assume a resumption of the pre-COVID-19 status quo, including continuation of trade with the EU on current terms.

It should be noted these additional scenarios do not represent a central prediction or medium term forecast; the aim of this analysis is to explore how the economy could be further impacted by different Brexit outcomes, through EU trade and migration channels which this modelling takes into account. For more information on the approach, please see footnote⁶.

We have then, against the background of these two illustrative COVID-19 scenarios, shown a range of possible Brexit outcomes: ending the transition period either at the end of 2020, as currently scheduled, or at the end of 2022, as would be the case with a two-year extension; and exiting the transition period into either a basic FTA, or no deal.

The impacts of COVID-19 and of Brexit outcomes are modelled separately and overlaid on top of each other rather than interacting in any more complex way. This is a necessary simplification. In reality the situation would be more complex, for reasons that include those described earlier, and the real-world, short-term outcomes might be expected to be worse than those illustrated by the modelling.

No additional assumptions have been made about shocks to uncertainty or investment as result of Brexit. For example, the impact of ending the transition period at the end of 2020 could, on top of the impact of COVID-19, result in additional operating and financing impacts that might have been avoided by postponing the Brexit impact.

The results of this new modelling are summarised in Figures 2 and 3, below, and in Annex A.

⁵ [State of the economy: April 2020](#)

⁶ The aim of this analysis is to explore how the economy could be further impacted through EU trade and migration channels. All modelling was carried out separately, and as such no assumptions have been made about how the economic impact of COVID-19 could worsen or dampen the impact of a no-deal Brexit. For SGGEM modelling of COVID-19 see: <https://www.gov.scot/publications/state-economy-april-2020/pages/6/>. For similar CGE Brexit modelling used here see supporting file of: <https://www.gov.scot/publications/state-economy-february-2019/>

Figure 2: Illustrative Scenarios of Possible Macroeconomic Paths of the Scottish Economy with an FTA Brexit Outcome at the End of 2020 or the End of 2022

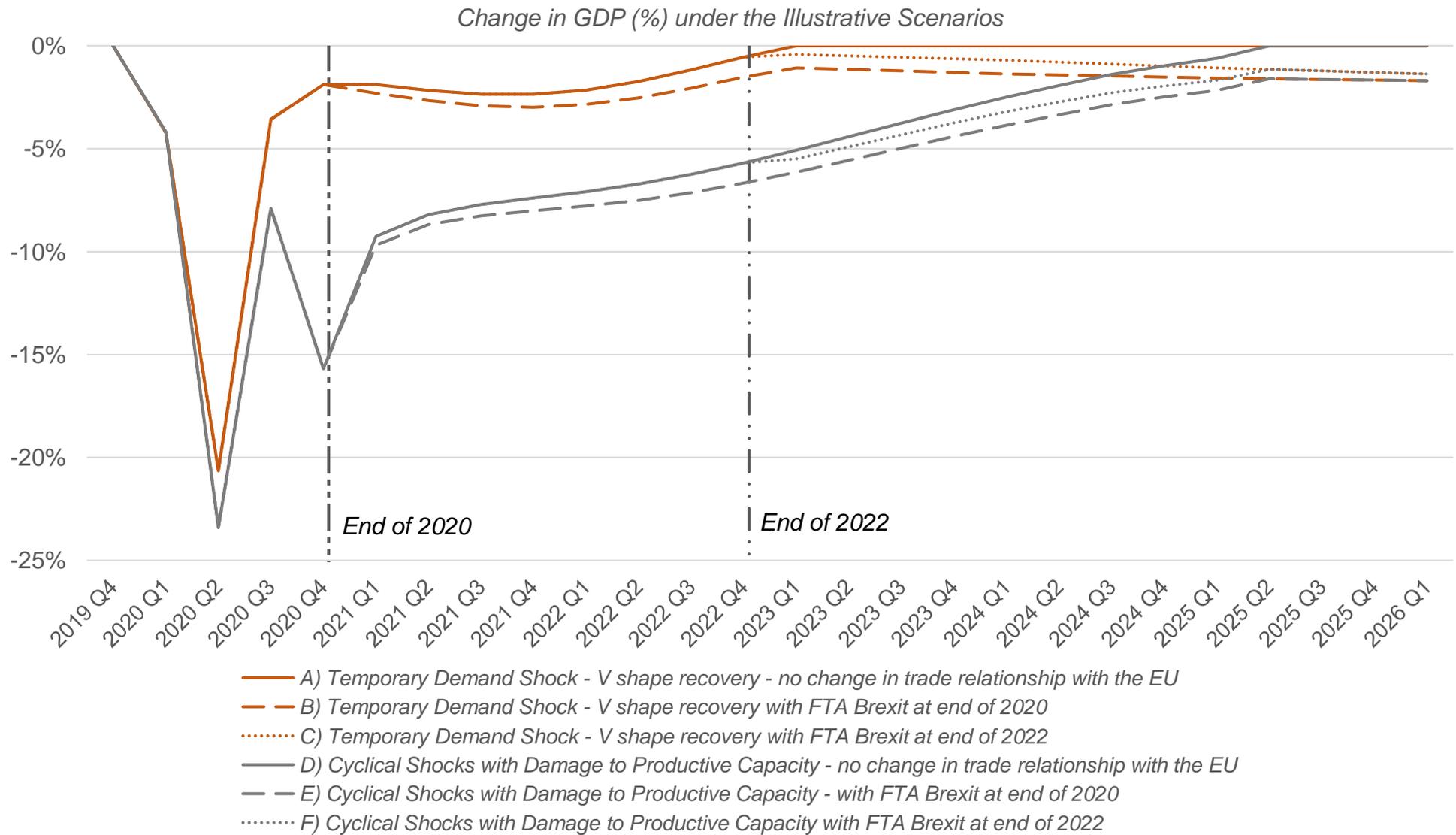
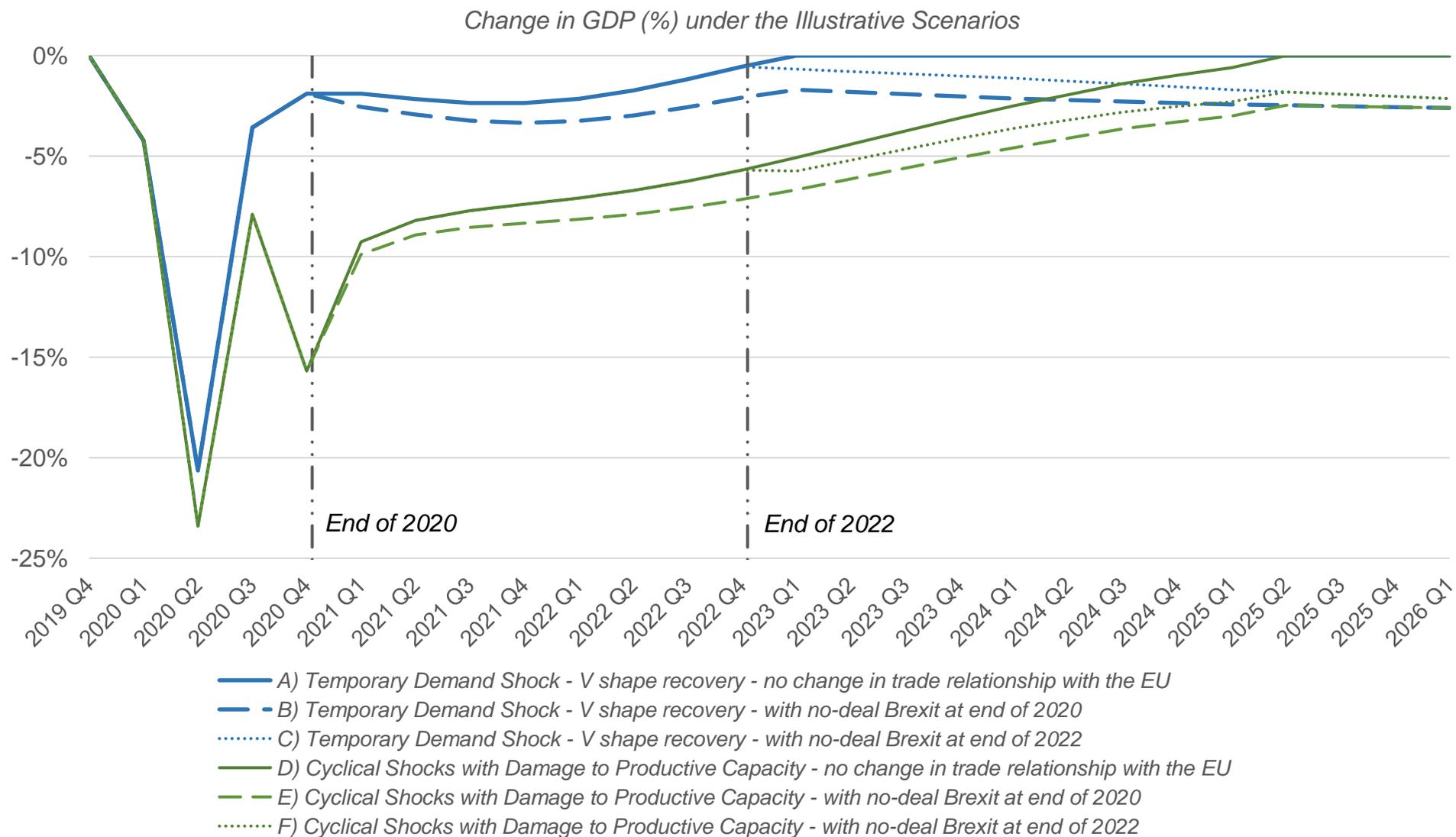


Figure 3: Illustrative Scenarios of Possible Macroeconomic Paths of the Scottish Economy with a No Deal Brexit Outcome at the End of 2020 or the End of 2022



Coronavirus Scenarios

Scenarios A, B and C on these graphs represent an illustrative scenario in which the economy has partially recovered from the large demand shock in the second quarter of 2020 and is on its path to economic recovery. Scenarios D, E and F represent a hypothetical deeper COVID-19 shock and an illustration of how a second wave of infection, if one were to occur, could lead to a second economic shock. This second-round impact represents a second significant reduction in international trade levels, which means that, in these scenarios, trade is already at a very low level when the impact of Brexit is overlaid.

The Impact of Brexit Outcomes

The four possible Brexit outcomes overlaid on top of the two COVID-19 scenarios are ending the transition period either at the end of 2020 or at the end of 2022, and moving thereafter into either a basic FTA or no deal.

In the no deal Brexit outcomes, the economic path diverges from the illustrative baseline due to the immediate introduction of UK-EU trade barriers and lower investment prospects. Following this immediate impact on GDP, this economic impact worsens over time for two principal reasons.

Firstly, in addition to declines in existing trade, future Scottish-EU trade is foregone with less trade being created than would have occurred otherwise. Scottish exports into the EU single market lose competitiveness with the cost of Scottish goods and services being higher due to tariffs and non-tariff barriers.

Secondly, net annual EU migration is likely to fall. With each year following EU exit seeing lower levels of net-EU migration, the level of foregone migration accumulates over time. This results in smaller pools of available workers each year than would have been the case, putting upward pressure on production costs as well as reducing prospects of business expansion. All of these contribute to a prolonged period where trade levels never recover fully, and GDP is permanently lower in the long term.

In the Brexit outcomes with an agreed FTA, it is assumed that there are no tariffs on EU-UK trade – but the other economic impacts, including non-tariff barriers and the net migration effect, still apply.

In terms of timing, the graphs show clearly that, depending on the COVID-19 scenario, ending Brexit transition at the end of 2020 or at the end of 2022 has a significant impact on the extent to which the economy has been able to recover from, or is still suffering the effects of, the pandemic. As would be expected, the worst illustrative outcome would be a 'W-shaped' COVID-19 scenario with Brexit transition ending at the end of 2020 without a deal.

Every year, EU single market access brings economic benefits to the Scottish economy. An extension will provide more breathing space for businesses still dealing with the aftermath of the COVID-19 downturn. Extending the transition period will

also enable further negotiations for extended market access without any trade or migration restrictions, bringing benefits to these years and delaying the impacts that Brexit will have on the Scottish economy.

Ending the EU exit transition period at the end of 2020 would increase frictions in the economy at a time when companies will be in a fragile state, still dealing with the financial implications of the recession, and less able to manage and absorb the impact than they would be in two years' time. The transition period was supposed to be used to prepare for the UK's departure from the EU Single Market, allowing both business and government to implement processes in order for them to ensure compliance with new trading arrangements. However, COVID-19 has meant that firms have had to spend this period dealing with the challenges caused by the pandemic, managing an unprecedented decline in demand and the associated implications that this has had for cash flow. The COVID-19 shock will also create a more indebted business base further depressing business investment, which was already at muted levels prior to the crisis.

With the economy unlikely to have fully recovered at the beginning of 2021, even in a best case scenario, the additional structural changes forced on business by leaving the EU could undermine current attempts to support the economy.

Figure 4, below, illustrates the economic impacts that would be avoided by extending the transition period by two years. The modelling indicates that simply extending the transition period for two years would leave Scottish GDP between £1.1 billion and £1.8 billion higher by the end of 2022 (between 0.7 and 1.1 percent of GDP). This would constitute vital support to the Scottish economy, and public finances, as Scotland recovers from the COVID-19 shock, and would be equivalent to avoiding a cumulative loss of economic activity of up to £3 billion over those two years. This Figure shows only the additional costs of ending the transition period in 2020, compared to 2022. It does not include the annual costs of leaving the transition period in 2022 compared to remaining in the Single Market and Customs Union.

Not only would shifting the date see a saving of up to £1.8 billion of economic output in Scotland in each of the next two years, it would avoid additional adverse effects, not included in this modelling, from hitting Scottish businesses with a new shock when they have only begun to recover from COVID-19, and when neither they nor Government have had the time to prepare.

The modelling confirms earlier modelling results that leaving the EU is a negative outcome for the economy whenever it is undertaken. In the event that transition is ended with an FTA or a no-deal Brexit at the end of 2022, the benefits provided by the transition period would slowly disappear over time as the full impact of Brexit is realised from that year and every year onwards.

Figure 4: The Reduction in Scottish GDP Due to Ending the Transition Period at the End of 2020 in No-Deal-Brexit and FTA Scenarios

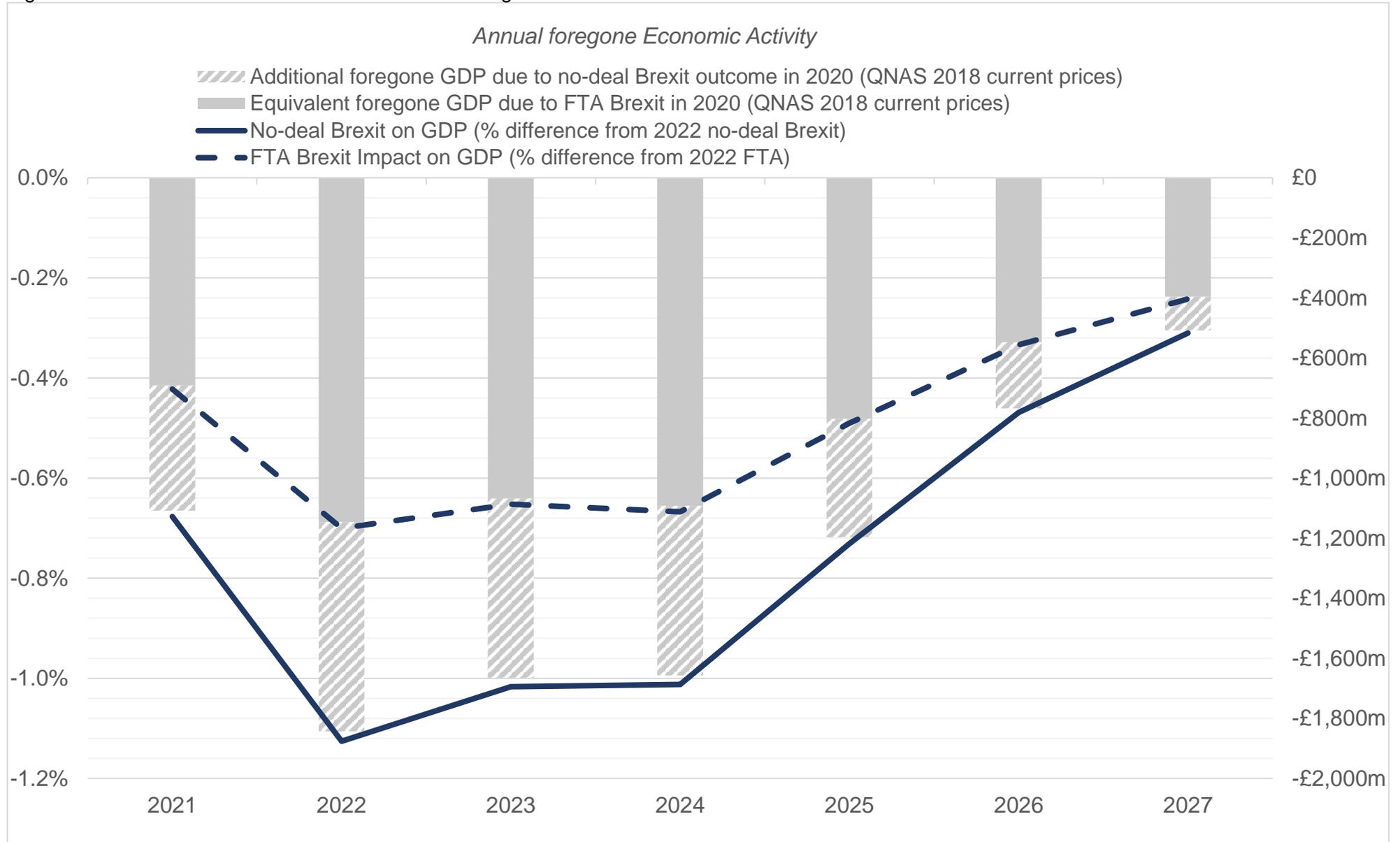


Figure 4 (continued): The Reduction in Scottish GDP Due to Ending the Transition Period at the End of 2020 in No-Deal-Brexit and FTA Scenarios

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|----------|----------|----------|----------|----------|--------|--------|
| Foregone GDP due to ending transition with an FTA at the end of 2020 (QNAS 2018 current prices) | -£691m | -£1,147m | -£1,068m | -£1,093m | -£803m | -£547m | -£397m |
| Impact on GDP of ending transition with an FTA at the end of 2020 (% difference from ending transition at the end of 2022 with an FTA) | -0.4% | -0.7% | -0.7% | -0.7% | -0.5% | -0.3% | -0.2% |
| Foregone GDP due to ending transition with a no-deal Brexit at the end of 2020 (QNAS 2018 current prices) | -£1,109m | -£1,844m | -£1,665m | -£1,658m | -£1,197m | -£768m | -£508m |
| Impact on GDP of ending transition with a no-deal Brexit at the end of 2020 (% difference from ending transition at the end of 2022 with a no-deal Brexit) | -0.7% | -1.1% | -1.0% | -1.0% | -0.7% | -0.5% | -0.3% |

Long-Term Implications

In the long term, a wide range of evidence⁷ has shown that Brexit will limit the economy by imposing restrictions on trade, investment, migration and productivity. A recent publication by NIESR outlined the long-term implications of leaving the Single Market and instead entering into a Free Trade Agreement with the EU: "*In the long term leaving the EU single market and customs union is expected to reduce GDP by 3–4 percent relative to what it would have been had the UK remained in the EU*"⁸. Previous Scottish Government modelling of an FTA scenario estimated that GDP could be around 6.1% lower in the long term compared to a scenario of continued EU membership.⁹

A no-deal Brexit scenario has greater economic implications and could see the economy 8.5% smaller by 2030 compared to a scenario of continued EU membership.

For comparison, the UK Government's own analysis shows a Free Trade Agreement with the US would only increase UK GDP by up to 0.16% over a similar time period.

Sectoral Analysis

This section focuses on the sectoral implications of the Brexit outcome in the context of COVID-19. It draws on recent COVID-19 analysis published in the latest Scottish Government 'State of the Economy' report¹⁰, alongside economic analysis of the sectoral implications of a WTO Brexit outcome¹¹.

This analysis focuses on the international dimension of COVID-19. It examines how sectors that have been exposed to changes in international trade through COVID-19 could be further affected by tariffs and regulatory barriers that could be introduced at the end of 2020 as a result of Brexit. This would be in addition to the impact of the domestic public health measures on the viability of different sectors. The agriculture, fishing and manufacturing sectors would face some of the highest increases in trade costs – through the introduction of customs controls, rules of origin and non-tariff barriers. In the event of a no-deal outcome these sectors would also face tariffs and quotas. Key service sectors, such as financial and professional services, would face disruption as a result of regulatory barriers.

The COVID-19 situation is highly uncertain, and the interaction with Brexit is heavily dependent on how long it is necessary to maintain restrictive measures for, and the speed of recovery, both domestically and abroad. The Scottish Government's State

⁷ Examples include Ebell, M., Hurst, I., & Warren, J. (2016). Modelling the Long-Run Economic Impact of leaving the European Union National Institute of Economic and Social Research; OECD. (2016) The Economic Consequences of Brexit Taxing Decision & FAI (2016) – Long-term Economic Implications of. Brexit. A report for the Scottish Parliament

⁸ [National Institute Economic Review No. 252 May 2020](#)

⁹ [Scotland's Place in Europe: People, Jobs and Investment](#)

¹⁰ [State of the Economy: April 2020](#)

¹¹ This refers to a scenario in which the UK starts trading on World Trade Organisation terms with the EU following departure from the EU. See Annex A for further technical details of this analysis.

of the Economy publication in April 2020¹² highlighted that the three main channels for economic impact from COVID-19 are:

- International supply exposure (% of intermediate use sourced internationally);
- International and domestic demand exposure (changes in international & domestic demand); and
- Labour market disruption (sectors exposed to labour supply disruption through social distancing guidance, absences and existing labour supply shortages).

Brexit represents an additional risk to the sectors already exposed to those COVID-19-related channels, especially through the international (specifically EU) supply and demand exposures and the impact of removal of Freedom of Movement of Workers on labour supply.

Figure 5, below, outlines the relative exposure of sectors in Scotland, using a no-deal Brexit to illustrate the most severe level of risk.

¹² [State of the Economy: April 2020](#)

Figure 5: Sectoral Exposures to a No-Deal Brexit and COVID-19

| Sector | No-trade deal Brexit | COVID-19: International Supply | COVID-19: International Demand | COVID-19: Domestic Demand | COVID-19: Labour Market Disruption |
|---|----------------------------|--------------------------------------|--------------------------------------|------------------------------|---------------------------------------|
| Primary/Manufacturing Sectors | | | | | |
| Agriculture, forestry and fishing | R | Y | A | Y | Y |
| Mining and Quarrying Industries | R | Y | A | A | Y |
| Manufacturing | R | R | R | A | R |
| Electricity, Gas & Water Supply | A | Y | Y | Y | A |
| Construction/Service Sectors | | | | | |
| Construction | A | Y | Y | R | R |
| Retail & wholesale | A | Y | Y | R | R |
| Transport & Storage | A | Y | Y | A | A |
| Accommodation & food services | A | Y | A | R | R |
| Information & Communication | A | A | Y | Y | Y |
| Financial & Insurance Activities | A | Y | Y | Y | A |
| Real Estate Activities | Y | Y | Y | Y | A |
| Professional, Scientific & Technical Services | A | Y | A | Y | A |
| Administrative & Support Services | A | Y | Y | A | R |
| Public Administration and Defence | Y | A | Y | Y | R |
| Education | Y | Y | A | Y | R |
| Health and Social Work | Y | A | Y | Y | R |
| Other Services | Y | Y | Y | R | R |
| Legend | Red [R]: Most Exposed | | | | |
| | Amber [A]: Medium Exposure | | | | |
| | Yellow [Y]: Least Exposed | | | | |

These exposures are necessarily presented at an aggregated level in order to align with modelled outputs from both our Brexit and COVID-19 modelling. As such there will be variation at firm level. Simply because a firm is not in the red category does not mean the impacts are limited. On the contrary, for many firms within the amber and yellow sectors the impact of COVID-19, although on average less extreme than in the most exposed sectors, will still be enough to jeopardise their future prosperity, or indeed existence.

Within the impacts of Brexit, a key factor is different sectors' exposure to the potential introduction of tariffs and non-tariff barriers. These will be introduced with a no-deal outcome and, potentially, for some products, in an FTA outcome. Exposure to tariffs has two elements: the higher price of UK goods and services in the EU market; and increased costs of production and consumption within the UK if tariffs are applied to imports from the EU.

As shown in Figure 6 below, EU tariffs vary considerably across product groups. For some sectors, or individual products within sectors (e.g. red meat), tariffs themselves are high. But for many sectors and products and, in particular, for trade in services, non-tariff barriers such as regulatory and customs procedures are more significant.

Figure 6: World Trade Organisation – European Union Tariffs on Imports¹³

| Product groups | EU MFN applied duties | | |
|-----------------------------|-----------------------|------------------------|--------------------------|
| | Simple Average (%) | Products duty-free (%) | Maximum duty Applied (%) |
| Animal products | 17.9 | 28.4 | 152 |
| Dairy products | 43.7 | 0 | 235 |
| Fruit, vegetables, plants | 10.7 | 19.8 | 218 |
| Coffee, tea | 5.9 | 27.1 | 16 |
| Cereals & preparations | 14.9 | 7.8 | 51 |
| Oilseeds, fats & oils | 5.5 | 48.1 | 112 |
| Sugars and confectionery | 27.5 | 11.8 | 140 |
| Beverages & tobacco | 19.8 | 18.4 | 152 |
| Cotton | 0.0 | 100.0 | 0 |
| Other agricultural products | 3.3 | 65.5 | 75 |
| Fish & fish products | 11.6 | 7.4 | 26 |
| Minerals & metals | 2.0 | 50.0 | 12 |
| Petroleum | 2.5 | 33.7 | 5 |
| Chemicals | 4.6 | 22.3 | 13 |
| Wood, paper, etc. | 0.9 | 81.5 | 11 |
| Textiles | 6.5 | 2.1 | 12 |
| Clothing | 11.5 | 0 | 12 |
| Leather, footwear, etc. | 4.1 | 27.2 | 17 |
| Non-electrical machinery | 1.8 | 23.9 | 10 |
| Electrical machinery | 2.4 | 23.9 | 14 |
| Transport equipment | 4.7 | 12.9 | 22 |
| Manufactures, n.e.s. | 2.2 | 28.4 | 10 |

¹³ https://www.wto.org/english/res_e/statistics_e/daily_update_e/tariff_profiles/E28_E.pdf

Sectoral Exposure

Our analysis suggests that the sector most exposed to the combined effects of Brexit and COVID-19 is manufacturing, given its level of international integration. As discussed above there will be variation; for example, sectors such as food and drink, manufacturing, chemicals and life sciences will face higher tariff and non-tariff barriers than some other sectors within the wider manufacturing classification. Agriculture and fishing, where international supply and demand exposures associated with COVID-19 are lower but their exposure to the effects of Brexit is high, face a different challenge:-

- Higher prices of UK produce in EU markets could lead to lower demand, resulting in permanently lower sector output and exports.
- The imposition of UK tariffs, which would be a matter for the UK government, could boost domestic demand for these sectors, contributing to a reduced net overall impact. However, this would result in higher prices for domestic users/consumers. If the UK government responded by cutting tariffs to benefit consumers then this potential gain to the domestic industries would be reduced.

In our analysis a number of other sectors have been identified as having a medium exposure to the effects of Brexit and medium or low relative exposure to COVID-19 impacts. For example, we identify the Professional, Scientific and Technical Services sector as having medium exposure to both Brexit and the impacts of COVID-19 on international demand. This does not mean that these sectors are unaffected. On the contrary, for many firms within those sectors the impact of COVID-19, although less extreme than in the most exposed sectors, could still be enough to jeopardise their survival. Adding in the negative impact of Brexit could further compound these effects, leading to significantly reduced demand and, ultimately, the potential for business closures.

All sectors have been affected in some way by COVID-19 and will be adversely affected by the UK leaving the transition period. The cumulative impacts in some specific sectors are described briefly here and more fully in Annex B:-

- COVID-19 has caused major disruption for the transport sector and at EU-UK borders, with cold storage capacity nearly full. The preparations businesses will have to make to plan for new border arrangements at the end of the transition period, deal or no deal, will be complex. For example, new compliance measures could necessitate at least 200 hours of training for each employee or outsourcing to customs intermediaries, of which there is a shortage.
- Manufacturing has been particularly hard hit by COVID-19 and, even with a deal, it will face major additional challenges at the end of the transition period. The complex international supply chains on which companies rely have been significantly impacted. UK companies will be at a severe disadvantage when working to maintain their places in those supply chains after COVID-19 if they

are also facing the cost and disruption of new border controls and customs restrictions at the end of 2020. Recovery will be further inhibited by loss of freedom of movement of workers.

- Tourism is one of the sectors most severely impacted by COVID-19 and ending freedom of movement of EU workers, in the absence of a similar route for migrants, will make it more difficult to recruit the workforce needed to drive recovery.
- In the food and drink sector, businesses' capital, cash flow and capacity have all been reduced by COVID-19, leaving them short of the resources needed for no deal preparations. Some key Scottish exports, such as beef and lamb, face the risk of prohibitively high EU tariffs as well as new non-tariff requirements, including for Export Health Certificates. Retailers had intended that greater local sourcing would help mitigate supply problems but COVID-19 has made it difficult to engage with potential alternative suppliers. Moreover, the COVID-19 crisis has highlighted UK producers' heavy reliance on migrant workers and they are struggling to source the labour needed to harvest crops.
- The fishing industry's supply chains to the major markets in Europe have been severely disrupted by COVID-19. Even with a deal, the end of the transition period will mean substantially more border controls and regulatory duplication; without a deal, tariffs will add further pressure. The industry's capacity to absorb these shocks is much reduced, since they have already had to take steps such as reducing their catch and filling up cold stores in order to cope with COVID-19. Fragile rural communities would be hit hardest.
- In addition to COVID-19, the oil and gas industry has had to face the impact of the collapse in oil prices. An extra period within the EU's trading arrangements would remove a further source of instability: even with a deal, current UK Government plans would put UK refiners at a competitive disadvantage; and a no deal outcome would mean tariffs for exports to the EU.
- Maintaining the supply of medicines and pharmaceuticals was an important issue in previous EU exit planning. The system for managing shortages of medicines and pharmaceuticals in the UK is under enormous strain as a result of COVID-19, which places increased risk on its capacity to manage disruption resulting from the end of the transition period. Handling a pandemic, when the search for a vaccine is intense, is also a dangerous time to disrupt the regulatory arrangements for approving medicines and vaccines.
- The construction industry has faced supply chain disruptions from COVID-19, and will face workforce supply challenges as it recovers. Both of these issues will be exacerbated by an early end to the transition period, with or without a deal. Given the likely importance of infrastructure investment in the recovery from COVID-19, this could result in a major bottleneck.
- Trade in services has been hit by COVID-19, due to restrictions on transport and travel and the temporary closure of businesses. Patterns of services trade may shift as a result of COVID-19 (with, for example, greater emphasis on

digitally-enabled cross-border trade in services rather than temporary movement of persons). Even with a deal, the end of the transition period will substantially increase barriers to trade in services, putting UK firms at a substantial disadvantage. The loss of freedom of movement of workers will also create workforce pressures. Both these effects will be particularly important in growth areas like digital services.

- A rapid acceleration of progress is needed in the negotiations on cross-border trade in services, mobility, domestic regulation and Mutual Recognition of Professional Qualifications so that businesses can understand and manage to some extent the new barriers. With, at best, a very basic FTA in prospect and with no concrete information on progress towards an equivalence decision, financial services providers have been obliged to consider “no deal preparedness”: to continue trading they may need to move staff and activities to new EU hubs. COVID-19 has minimised the capital available for businesses to do this. It is also not yet clear what residence requirements EU states may apply to UK-based staff moving for work. The Irish Taoiseach Leo Varadkar has argued that the UK is highly vulnerable in this sector, telling the BBC¹⁴ in January that “You may have to make concessions in areas like fishing in order to get concessions from us in areas like financial services.”
- In Higher Education, universities, whose business models were predicated on receiving significant numbers of overseas students, will face immediate financial pressures. Leading academics had already flagged up the difficulties which will result from ending freedom of movement from the EU and this will now be compounded with the challenges which reduced international travel will pose for research collaboration.

Inclusive Growth

In terms of the relative exposure of different parts of society, the Scottish Government published on 26 January this year a report entitled “Brexit: social and equality impacts”¹⁵, which analysed the potential impact of Brexit on the most vulnerable people in Scotland:

“For instance, disabled people, minority ethnic communities, refugees and asylum seekers, and women, tend to be at a higher risk of poverty and insecure employment or unemployment than average ... Given that 37% of households in Scotland (or 890,000 households) are considered to be ‘financially vulnerable’, any negative impact on their household finances resulting from smaller UK economic growth – which the Treasury has forecast in relation to Brexit – could put further pressures on struggling households.”

There is a body of emerging evidence that suggests that COVID-19 is also having a disproportionately negative economic impact on particular groups in society.¹⁶

¹⁴ [BBC News article, Varadkar: EU will have stronger team in trade talks with UK](#)

¹⁵ [Brexit: Social and Equality Impacts](#)

¹⁶ See for example <https://www.resolutionfoundation.org/publications/risky-business/> and <https://www.ifs.org.uk/publications/14791>

In terms of COVID-19 harm, some groups such as older, disabled people and possibly ethnic minorities will be more affected by severity of disease. Women make up the majority of people providing care, both paid and unpaid, and the majority of health workers which may increase their risk of infection; women may also be more at risk of domestic abuse during relationship tensions in lockdown. Initial analysis of infection has shown that people in the most deprived areas were 2.3 times more likely to die with COVID-19 than those living in the least deprived areas. In addition to COVID-19 harm, we also recognise that there are much broader harms related to population health, social and economic impacts. These harms are also likely to disproportionately impact on those least able to cope. For example, initial analysis of labour market impacts has shown that those most likely to be hit hardest financially include low earners, younger people, women, ethnic minorities, disabled people, lone parents and those living in the most deprived areas of Scotland. Intersectional impacts compound this with many belonging to more than one group. Leaving the European Union without a trade agreement could further exacerbate the negative impacts on many people's lives at a time when the economy is still recovering from the impact of COVID-19.

While many of these impacts arise because groups are disproportionately represented in those sectors of the economy that have been, by and large, shut down, negative effects can persist in the longer term when individuals are not easily able to find new employment. For example, evidence suggests that lower skilled workers are less able to find jobs quickly in periods of weak economic conditions.¹⁷ Women are less mobile than men on average (in terms of commuting distances) meaning they have a smaller pool of job opportunities, particularly in weaker labour markets.¹⁸ Experience of the 2008 recession also suggests that economic shocks can disproportionately affect minority ethnic groups and disabled people.¹⁹

These detrimental impacts would be compounded by Brexit. Trade shocks can have significant distributional effects within an economy.²⁰ Evidence suggests that it is those workers who are less able to move from declining to growing sectors that can suffer long-term negative impacts.²¹ A further economic shock caused by leaving the EU without a deal could make it more difficult for those displaced by COVID-19 to get back into employment.

Those out of employment for extended periods of time are also more likely to become discouraged in the labour market or become long-term unemployed, with

¹⁷ https://www.spi.ox.ac.uk/sites/default/files/Barnett_Paper_13-03_2_.pdf

¹⁸ Ibid, also

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/thecommutinggapwomenaremorelikelythanmentoleavetheirjoboveralongcommute/2019-09-04>

¹⁹ After the 2008 recession there was a significant rise in the minority ethnic employment gap (the difference between employment rates of white and minority ethnic groups, ages 16-64), from 8.2 percentage points (Annual Population Survey, Jan-Dec 2007) to 14.8 percentage points (Annual Population Survey, Jan-Dec 2009). The employment rate of disabled people in Scotland was increasing prior to 2008, but the recession halted progress (Annual Population Survey).

²⁰ See for example <https://blogs.sussex.ac.uk/uktpo/publications/winners-and-losers-from-international-trade-what-do-we-know-and-what-are-the-implications-for-policy/>

²¹ See for example <http://documents.worldbank.org/curated/en/820801468156898298/Sticky-feet-how-labor-market-frictions-shape-the-impact-of-international-trade-on-jobs-and-wages>

the vulnerable groups mentioned above most likely to suffer these ‘scarring’ effects.²²

Summary of the Economic Analysis

COVID-19 has led to the economy facing one of the steepest and fastest falls in economic output in history. EU exit represents a different type of shock: as outlined in *Scotland’s Place In Europe, People Jobs and Investment*, it reduces trade and investment, lowers migration and harms the productive capacity of the economy. Our analysis shows that the severity of the impact of Brexit is now dependent on both the form of the future relationship with the EU and, crucially, the timing of the end of transition. The worst of the Brexit outcomes we have modelled would be a no-deal outcome at the end of 2020, with no extension to the transition period. Relative to a path where the UK remains in the Single Market, we would expect to see declines in existing trade, Scottish exports into the EU single market losing their competitiveness, and lower investment and reduced levels of net-EU migration. Our modelling illustrates, as a result, trade levels never recovering fully from a no-deal exit, and the economy permanently smaller in the medium to long term.

Aside from the greater likelihood (as we will argue later) of avoiding a no-deal outcome, extending transition to the end of 2022 could avoid a loss of Scottish economic activity of over £1 billion during each of the next two, important years. This could provide vital support to an economy still recovering from the COVID-19 recession. Extension would also avoid the further serious and, potentially, lasting sectoral and business-specific risks and impacts we have mentioned above, which could result from ending the transition when the economy is still recovering from the unprecedented COVID-19 shock.

Our sectoral analysis shows manufacturing, agriculture and fishing to be particularly exposed to the combined impact of COVID-19 and Brexit. Analysis of the specific potential impacts of Brexit on equalities groups – including impacts on legal rights, public services and funding, and employment, housing and spending - showed that some equalities groups may be more affected by a loss of EU funding while others are more affected by loss of specific EU rights relating to their personal characteristics.²³

Previous Scottish Government analysis examined the medium- to long-term impact of Brexit-related economic shocks to trade flows, migration, investment and productivity²⁴. Our earlier modelling suggested an FTA Brexit would reduce growth by around 6% over time. This latest analysis suggests that the range of outcomes of the negotiations could result in GDP being lower by up to 1.1% by 2022, compared to extending the transition and remaining inside the Single Market and Customs Union.

²² https://www.equalityhumanrights.com/sites/default/files/research-report-47_the-equality-impacts-of-the-current-recession_0.pdf

²³ [Brexit: Social and Equality Impacts](#)

²⁴ [Scotland’s Place in Europe: People, Jobs and Investment](#)

But this type of modelling is not designed to pick up some of the firm-level impacts of the type of issues that the close proximity of the COVID-19 and Brexit transition shocks will be likely to create, and which would significantly increase the adverse impact on growth. These are of two types in particular:

- Businesses are more likely to fail, or be substantially weakened in the long term, as a result of the end of the transition period if they have just been substantially weakened by the impact of COVID-19; and
- the fact that businesses and governments are, and will remain, largely devoted to tackling COVID-19 during the already limited time remaining in the transition period means that the extent of disruption at the end of the transition period will be substantially greater than would be the case if efforts could have been concentrated exclusively on Brexit preparation.

It is hard to quantify these impacts, but the sector analysis set out above demonstrates that both factors will be significant in most sectors of the economy. Postponing the additional economic frictions and impacts that arise from leaving the EU would clearly be desirable.

It may be tempting for some to think of the end of the Brexit transition period as a one-off shock, like removing a sticking plaster. “If the pain will be short-lived then why not get it over with?” Our analysis in this chapter has shown that this is far from being the case. The damage caused by Brexit will not be short-lived but serious and permanent; knowingly incurring this damage at the same time as the economy is reeling from the effects of COVID-19 is extremely reckless. By extending the transition period, we can avoid the double risk at the end of 2020 and potentially reduce – though not come even close to eliminating – the economic damage that Brexit will cause over the next decade compared with remaining within the European Single Market and Customs Union.

1.2 Practical Challenges to the Exit Process Resulting from COVID-19

Impact on Government Readiness

The impact of the pandemic not only exacerbates the economic risk associated with the end of the Brexit transition period; it is also delaying the technical, administrative and infrastructural preparations that will be required in the UK to implement the as-yet-unknown new arrangements.

For example, at border crossings there will need to be new arrangements for the movement of goods and citizens between the UK and EU. Appropriate checks will be needed, and staff will have to be recruited and trained. Administrative systems to support our exports will need to be in place, for instance if products of animal origin exported from the UK to the EU have to be accompanied by Export Health Certificates. With the ending of free movement of people from the EU, an entire new UK immigration system – a matter currently not devolved but reserved to the UK government – will need to be designed, legislated for, and in place by 1 January 2021.

The box below and Annex C show some specific and serious examples of areas where it is already clear that governments – both the UK government and, insofar as implementation is devolved, the devolved governments – will be unable to ensure a smooth handover on 1 January if the transition period is not extended.

Example: Delivery of Customs Checks and Border Controls

After the transition period, the checks and controls that need to be applied to UK imports and exports from and to the EU will be different. This means changes at Scottish ports and airports. Under the Northern Ireland Protocol, new measures are expected even for goods moving between Scotland and Northern Ireland. The extent of new measures that may be required is not yet understood or agreed, eating into the time that will be needed to design new systems and plan and implement their delivery. Additional capability and capacity will be required to administer new measures, including to process and respond to an increased volume of more complex Customs declarations and to manage additional Export Health Certification requirements. This means recruiting and training new customs officers, for which there is now insufficient time before the end of the year. New physical Border Control Posts may be needed in new locations to administer checks on products of animal origin moving between the island of Great Britain and Northern Ireland; provision of new infrastructure takes time and planning to get right. If the checks and controls required to prevent smuggling and to ensure the safety and quality of products cannot be delivered effectively by the end of transition then trade would likely be affected; movement of some types of goods could be prevented.

Example: Access to the European databases

Governments across Europe face serious challenges in preparing for the security aspects of the future EU-UK relationship and it looks increasingly unlikely that the UK will successfully negotiate similar access to the key law enforcement tools that Police Scotland and the Crown Office and Procurator Fiscal Service (COPFS) currently use in the fight against crime. However, even if those negotiations are successful, in many areas it may be simply impossible to have new arrangements in place for 1 January 2021. The technical and IT solutions required to operate new, as yet undetermined, arrangements for security cooperation must adhere to strict, important and complex requirements and standards, including for data security and data protection. Sufficient time must be allowed for proper design and implementation of the new systems and processes. The inevitable consequence of ending the transition period without new systems in place is, at best, a hiatus until new arrangements can be implemented and, at worst, a permanent loss of the security cooperation from which we have benefited for so long. The technical changes that would be required to the way that Scotland can access information in the European Criminal Records Information System (ECRIS), if something akin to ECRIS access is indeed negotiated, is just one example that may take months to design and implement. Any gap in coverage would have a serious effect on Scottish Ministers' vetting and barring functions under the Protection of Vulnerable Groups Act 2007, which is a crucial element in the protection of children and vulnerable adults. Similarly, any changes to the way Police Scotland access the Schengen Information System if access to that system is negotiated, may result in coverage gaps while that necessary new infrastructure is designed and put in place.

At the same time, the UK Government and the devolved governments need urgently to put in place the systems and processes needed to implement the arrangements that the UK and the EU have already agreed in the Withdrawal Agreement, including the Protocol on Northern Ireland and Ireland. On 30 April the European Commission published a note²⁵ listing the measures which the UK needs to put in place to give effect to the Protocol, the implementation of which is inextricably linked with the negotiations on the future EU-UK relationship. For example, whether or not tariffs will exist in future between the UK and the EU has implications for the border elements of the Protocol, and this cannot be prepared for whilst it is unclear whether the future relationship negotiations will result in an agreement.

These very serious issues with the Protocol are, of course, especially difficult for the Northern Ireland Executive. They also create real practical problems in Scotland, for example in planning for new arrangements at our west coast ports from 1 January when the necessary shape of those arrangements is not known. In its 1 June report, the House of Lords European Union Committee concluded that "*Even before the COVID-19 outbreak, Northern Ireland stakeholders described preparing for the Protocol to become operational on 1 January 2021 as a Herculean task; that task*

²⁵ [European Commission Technical Note on the Implementation of the Protocol on Ireland/Northern Ireland](#)

has become even more difficult, given the impact of COVID-19 on the economy and the capacity of individual businesses to cope with the problems confronting them.”²⁶
On 24 May, the Institute for Government wrote that *“the chances of completing the work [to prepare for the Irish Sea border] in the current circumstances in less than eight months are remote.”²⁷*

With around seven months to go before the transition period is due to end, the UK government has only now indicated it will share some of its implementation plans and assumptions with the devolved administrations, despite their crucial role in preparations, and in contrast to the much more open engagement in the run up to previous Brexit deadlines.

Impact on Business Readiness

The prospects for businesses are just as daunting as they are for governments, if not more so because for some their very survival is at stake.

Even if a deal is achieved, the type of basic Free Trade Arrangement that the UK Government is now intent on pursuing will inevitably add to the costs businesses face when trading with the EU. It will require UK exporters to implement a wide range of administrative changes to comply with the rules for exporting from non-member states to the EU single market. This is clear from the revised advice the European Commission is issuing to EU stakeholders likely to be impacted by the end of the transitional arrangements:-

“In particular, a free trade agreement does not provide for internal market concepts (in the area of goods and services) such as mutual recognition, the ‘country of origin principle’, and harmonisation. Nor does a free trade agreement remove customs formalities and controls, including those concerning the origin of goods and their input, as well as prohibitions and restrictions for imports and exports.”

The challenge for businesses adapting their administrative procedures and implementing new arrangements (changes to labelling; verification of compliance with relevant EU legislation; proof of origin etc.) would be considerable under any circumstances. Imposing an entirely new raft of administrative and regulatory obligations on businesses already struggling to recover from the impact of the COVID-19 pandemic, at a time when they are least able to adapt, is bound to compromise their viability.

Annex B lists some real practical examples of the difficulties businesses in different sectors will face if the transition period ends with no extension on 31 December while they are still reeling from the effects of COVID-19.

Comments from a range of stakeholders confirm the Scottish Government’s view that an extension is essential.

²⁶ [House of Lords European Union Committee Report “The Protocol on Ireland/Northern Ireland”](#)

²⁷ [Institute for Government report, “Implementing Brexit: The Northern Ireland Protocol”](#)

Carolyn **Fairbairn**, Director General of the Confederation of British Industry, wrote, on 1 June 2020:-

“For many firms fighting to keep their heads above water through the crisis, the idea of preparing for a chaotic change in EU trading relations in seven months is beyond them. They are not remotely prepared. Faced with the desperate challenges of the pandemic, their resilience and ability to cope is almost zero.”

The director general of the British International Freight Association (BIFA) has said that given the disruption to supply chains caused by COVID-19, it would be irresponsible of the UK government to try to abide by the timetable for ending its Brexit transition period, referring to a whole new set of uncertainties and a second shock if there is change in the terms of trade with the EU at the end of the year.

The Freight Transport Association has said that the challenges posed by COVID-19 will make the effective implementation of any new legislation impossible in the short term. This industry is petitioning the UK government urgently to seek an extension to the transition period, as well as suspending other planned domestic legislation which will impact the logistics sector. They say that the pandemic will have a significant impact on supplies of new equipment, technology and vehicles, as well as the industry’s ability to recruit and train new staff, and the challenge of adapting to new trading arrangements with the EU is placing logistics under huge and unnecessary pressures. *“Our industry needs the support of government, not to be broken by it.”*

The food industry, and its agricultural suppliers, have faced enormous supply and logistical problems. In April, Andrew Opie, Director of Food and Sustainability, British Retail Consortium, told the House of Commons International Trade Committee that:

“Our resilience really relies on our trading relationship with our largest trading partner... There is no getting away from that: 80% of our food imports for supermarkets come from the EU. We rely on them heavily to supplement us when we are out of season, which is through the hungry years. That is the bit that we have to get right going forward: we must have a good trading relationship with the EU. That is vital to our consumers here... Northern Ireland consumers have the added issue of how we transport from our Great Britain depots into Northern Ireland without the checks being so excessive that they make the food almost unaffordable when it reaches the supermarket in Northern Ireland. I am sorry to bore everyone, but the EU-UK trade deal is fundamental to our resilience going forward... In terms of migrant workers, that is obviously a concern. We are going into the main seasonal harvest period. We are flipping over from Spain, Portugal and Italy into British produce. Tomatoes will go basically from 95% imports to the majority being produced here. Soft fruit, again, will flip almost 50% over to the UK, so we need the 80,000 migrant workers who would normally come to the country. I think that is going to be our real challenge.”

The Managing Director of the International Monetary Fund (IMF), Kristalina Georgieva, has warned against not extending the transition period, saying that

because of the "*unprecedented uncertainty*" arising from the pandemic, it would be "*wise not to add more on top of it*".²⁸

Two-thirds of over 1,000 businesses surveyed in the Highlands and Islands region in January/February 2020, before the full impact of COVID-19 had begun to be felt in the UK, felt that UK's departure from the EU presented at least some risk to their business, rising to 74% amongst food and drink businesses.²⁹ That region has also been hit heavily by the effect of COVID-19 on tourism. Scottish Enterprise and Highlands and Islands Enterprise have carried out extensive qualitative and quantitative research on the UK's exit from the EU which, among other things, found that the impact of a no-deal exit would fall most heavily on the food and drink, life and chemical sciences, manufacturing, logistics and financial and business services sectors.

The British Exporters Association (BExA) has reported that the disruption to, and loss of, labour is resulting in lower output in manufacturing and agrifood. The European Automobile Manufacturers Association (EAMA) has also stated that there is insufficient time available under the transitional arrangements given the COVID-19 crisis.

Strategy Director at the CBI, Nicole Sykes, tweeted on 1 May:

"if company leadership is dealing with coronavirus, or ... if their usual project teams are furloughed to stem the flow of cash out of the company, they are not dealing with Brexit. If you're in new levels of debt as a result of coronavirus, you cannot afford to deal with Brexit. And you've just lost two months in which to get ready for Brexit."

One of the main reasons that businesses are in such an invidious position is that they will not know exactly what is required of them until the EU-UK negotiations are over and governments have worked out how the outcome – deal or no deal – will be implemented. As exemplified in the box below, the level uncertainty for businesses is very high, across a range of areas, with less than seven months left for them to complete preparations for the new business environment. That leaves businesses facing the awful dilemma of whether to: try and act now, without knowing what to prepare for and whilst still battling the worst of the COVID-19 impact; or to wait for more certainty about the new arrangements but in the knowledge that without an extension they will then have even less time to make themselves ready.

²⁸ [BBC News Article, IMF head warns on Brexit trade deal failure](#)

²⁹ Wave 15 of the Highlands and Islands Enterprise (HIE) business panel survey

Five Things Which Business Still Don't Know So Can't Prepare for Yet

- Will there be Tariffs and what will they apply to?

Businesses still don't know what tariffs will be applied to which goods entering the EU (or entering the UK from the EU), or whether there will be no tariffs at all.

- Which regulations to follow?

Businesses still don't know if you make something in the UK, to UK regulations and standards, whether those will be recognised in the EU (and vice-versa).

- What customs paperwork and processes will be?

Businesses still don't know what they will have to provide at the border and whether UK certificates will be recognised (and vice-versa for the EU). Businesses don't know how much of their products have to originate in the UK and EU to benefit from preferential trade terms. They also don't know how this interacts with other trade agreements the UK and EU have which undermines businesses' ability to plan their supply chains.

- How will people and data cross borders to make businesses work?

Businesses still don't know the rules which would allow them to conduct business in the EU or what will need to be put in place to protect data to allow businesses to move information digitally.

- Will professional qualifications be recognised?

Business people don't know which (if any) professional qualifications will be recognised in the EU.

Impact on the Negotiations Process Itself

In normal times, concluding an international agreement with the UK's most important trading partner would be expected to take years rather than months. That would be especially true for an agreement which ought to go beyond trade and include domestic and international security, law enforcement and judicial cooperation, energy, transport, and so on.

The fact that there are fundamental differences between what the EU and the UK see as acceptable in an agreement, as evidenced by their published starting positions, could only add to the time needed if the result were to be a fully comprehensive agreement. And yet the UK government, only weeks after signing the Withdrawal Agreement that sensibly included an extension option, ruled out using it under any circumstances. In other words, even before the effects of COVID-19, it

seemed that the potential outcomes had narrowed down to a very basic, economically damaging deal or no deal at all.

The practical impact of COVID-19 on the negotiating process makes that already recklessly ambitious timetable even more unrealistic. The original timetable agreed between the EU and the UK envisaged 5 rounds of negotiation between 2 March and 16 May, followed by a stocktake in mid-June, but already the timetable has had to be revised and the number of rounds reduced. Leading figures in the negotiating teams themselves, on both UK and EU sides, have sadly fallen victim to the virus. Face-to-face meetings between the negotiating parties are impossible.

Undoubtedly the teams on both sides will have been making efforts to proceed as best they can in the circumstances by using video- and tele-conferencing. But experienced trade negotiators stress the importance, in normal negotiations, of the less formal, more personal channels of communication. Personal relationships between key individuals, informal conversations that can normally take place in the margins and coffee breaks of the formal negotiating sessions play a key role in the normal negotiating process. None of that is possible in the current circumstances, which means that apart from facing an immense negotiating task in policy terms, the two teams are at the same time having to invent a whole new modus operandi for the negotiations themselves.

Moreover, rightly and properly, the Scottish and UK governments, and our counterparts across the EU, have pivoted huge amounts of staff and financial resource to tackling the human, social and economic impacts of the COVID-19 pandemic. That means inevitably that staff previously working on or in support of the negotiations have had to be redeployed to COVID-19 on all sides – UK Government, EU Commission, and in the devolved administrations.

In addition to negotiations with the EU, the UK Government is simultaneously having to negotiate continuity arrangements to rollover the existing EU–Third Country trade agreements which the UK benefited from as an EU member state. The difficulties mentioned above have also affected the UK Government's programme for negotiating these continuity agreements: 19 out of approximately 40 agreements were signed by the end of January 2020, but no further agreements have been concluded since then.

The difficulties set out here must increase the likelihood that, unless there is an extension which would allow more time for the negotiations, the UK and the EU fail to reach an agreement. The Withdrawal Agreement deliberately set a deadline of 1 July for a decision on whether to extend the transition period. Though a number of ideas have been put forward for, in effect, achieving an extension of the transition period after the 1 July deadline, all suffer from fundamental legal, political and technical shortcomings and, in the highly unlikely event these proved surmountable, would require a substantial amount of time to negotiate and put into effect. We must work on the basis that a decision on an extension is needed urgently, and extension is effectively ruled out after 1 July.

Impact on Legislation, Democratic Scrutiny and International Relations

The impact of the pandemic is not only undermining the UK-EU negotiations. It is impacting as well on necessary legislative preparations for the exceptional circumstances which arise from withdrawal from the EU. With reduced time available in the UK parliament and devolved legislatures, an extension would mean that vital parliamentary time is not diverted from focussing on the COVID-19 emergency. It would also help to ensure that all legislation required at the end of the transition period can be fully and properly scrutinised, including by the devolved governments and legislatures, ensuring it is fit for purpose.

To take one example, the end of the transition period will mark the end of the influence of the EU environmental principles, and the governance function of the EU institutions, as they apply directly with respect to environmental law in Scotland. We are designing strong, domestic measures to underpin our environmental standards. And we are seeking to ensure that robust legislation is in place to underpin Scotland's strong regulatory framework. However, both the legislative process and institutional development are significantly affected by the COVID-19 crisis. This creates risks to environmental standards, and to Scotland's reputation for a clean natural environment, which could have consequences for our communities and for business and exports. An extension to the transition period would allow us time to put statutory measures in place, and so mitigate this risk.

Even before COVID-19, the UK Government was already failing to provide the Scottish Government appropriate, meaningful engagement on or influence in the decisions which the UK Government sought to take as part of the UK-EU negotiations - despite the fact that many of those decisions fall within or impact on devolved responsibilities. The practical challenges of engagement during lockdown make such engagement more difficult, but the fact that negotiations have now begun makes it all the more vital.

Meaningful engagement must be judged not by how many meetings the UK government has invited devolved governments to, but by whether the UK's approach to the negotiations, with all its deep and widespread consequences for devolved areas of policy, is discussed and agreed among the four nations or prepared and decided upon unilaterally by the UK government. Sadly at the time of writing the latter is still the case, as it has been throughout the Brexit process. The Scottish Government continues to press UK ministers at every opportunity to open up its processes and allow proper involvement of the Scottish Government and Scottish Parliament.

Nor should we forget that COVID-19 has affected our neighbours in the EU just as it has affected people in the UK – and, like us, their attention and resource is rightly oriented to responding to the pandemic and saving lives. Even before COVID-19, for the EU the future relationship with the UK was just one issue, already reducing in importance, amongst a crowded number of priorities. Now, the Brexit negotiations must be of markedly less interest to the EU and its member states; and they will likely want to invest their limited resources and capacity accordingly. Indeed, one impact of COVID-19 might be for the EU to protect itself more forcefully against competitors that it feels are benefitting from an unlevel playing field.

The insistence by the UK Government to continue Brexit negotiations, despite our neighbours' pressing need to direct their full attention and resource to fighting the COVID-19 pandemic, will inevitably undermine what sort of future relationship can practically be agreed, given the limited negotiating capacity available this year. It could, moreover, have negative implications for the UK's international relations, reputation and standing more broadly. Care should be taken not to impose unreasonably, at this time, on the good will of the UK's international partners.

Conclusion on the Practical Challenges

The UK government has cited various arguments for not seeking an extension.

It argues that extending the transition period would create additional uncertainty for business. But in fact the main source of Brexit-related uncertainty is the fact that on our current trajectory, the UK will be leaving the Single Market and Customs Union arrangements at the end of December, but the successor arrangements have not yet been negotiated and a no-deal outcome is all too possible. The suggestion that the UK government can offset this enormous disruption by striking alternative trade deals in this time frame with other countries across the world is simply fantasy. Conversely, extending the transition period will avoid the compounded shock of Brexit and COVID-19, and offer breathing space for businesses during which they will, contrary to the UK government's claims, have more certainty than at present.

The UK government has also argued that the COVID-19 crisis makes it all the more important for UK to be free to make its own rules. But this is a global crisis that will require international co-ordination in policy responses. The EU and its Member States are our biggest international market and our most important partners. Now is the time to work with those partners, to aid our recovery process. The UK cannot face up to this global crisis effectively by cutting itself off from cooperation with Europe, or through the 'global Britain' approach.

It is, unfortunately, true that, although the EU's response to the crisis and its long term strategy will be important factors in the UK's future prospects, the UK will not be well placed to influence them. However, this is an inevitable consequence of Brexit, and is not an argument against the benefits of an extension.

Finally, the UK government argues that the fact that the UK would have to continue paying into EU budget is a reason for not extending the transition period. The date of 31 December 2020 was chosen deliberately to coincide with the end of the EU's seven-year budget cycle, and the Withdrawal Agreement already envisaged that agreeing a reasonable UK contribution for 2021 and 2022 in the event of an extension would require calculation and negotiation. Crucially, the size of the contribution (other than for specific programmes in which the UK wishes to participate) would, under the terms of the Withdrawal Agreement, need to be agreed before any decision to extend the transition period, so the UK Government would be able to take a decision on extension in full knowledge of the financial implications.

As our analysis clearly shows, the damage caused will be significant, it will last into the long term if not permanently, and it will be all the more serious if it is allowed to come at the end of 2020 when the economy will be reeling from the impact of COVID-19. Yet the some of the worst effects can be mitigated, by using the option to extend the transition period, pushing the impact of Brexit forward to a time when the economy will be less fragile, and prolonging the current certainty and visibility for businesses. An extension will also avoid the chaos that is otherwise inevitable at the end of this year given that, as we have clearly demonstrated, there is no way that governments or businesses can be ready for that date.

This is not about, as the UK government seems to be suggesting, getting some short-term inconvenience over and done with, rather than delaying it. It is about the risk that the end of the transition period, if allowed to fall at the end of this year, will be the straw that breaks the camel's back for many Scottish businesses and, as a result, families. That outcome is not inevitable and it is not necessary.

In a press conference on 24 April, EU chief negotiator Michel Barnier called on all parties to be realistic about what could be achieved in the negotiations against the backdrop of the global pandemic, urging:

"...realism...to think about whether, in the midst of the terrible economic crisis that is forecast due to the coronavirus crisis, we will be able to reach an intelligent agreement that limits the shock that the UK's departure from the Single Market and Customs Union will entail in any case. It is only realistic to raise these questions and to remind ourselves of these deadlines."

The Scottish Government strongly endorses these remarks. Continuing to insist on a timetable that was set prior to the pandemic – and was in any event extremely tight given the complexities involved – would be utter folly. It would expose our businesses and citizens to the very real likelihood of the UK exiting the transitional arrangements with a poor deal or no deal at all.

The practical difficulties highlighted in this chapter, and the absence of proper democratic scrutiny, along with the combined economic consequences of Brexit and COVID-19, make a compelling case for the transition period to be extended. In the next part of this document we set out how the breathing space created by an extension can be used constructively to factor in the long term changes that the COVID-19 crisis will bring about.

Section 2: How to Use the Breathing Space that an Extension to the Transition Period will Create

2.1 The New Global Context

In the previous sections of this paper we have set out the case for delaying the UK's exit from the EU in the context of the COVID-19 pandemic and its impact on Scotland's immediate economic and social prospects.

This section covers the post-COVID-19 global economic and political setting in which the UK will find itself. When the worst of the crisis is over, the global community will not return to the status quo ante, but will evolve towards an as yet undefined 'new' state. The UK government's post-exit trade strategy, already questionable even before the COVID-19 crisis, is now wholly unrealistic because of it.

Taken together, these considerations make a compelling case for using the breathing space created by extending the current arrangements beyond the end of 2020 to reassess the relationship the UK Government envisages for the future relationship with the EU.

Extending the transition beyond the end of this year is essential. But simply postponing a deeply damaging exit from the Single Market by two years without reevaluating the impact of the kind of hard Brexit the UK Government currently favours, given the consequences of the coronavirus crisis, would also be highly questionable.

For a range of industries, as well as the health and social care sector, the contribution of EU workers in Scotland has never been clearer, once again highlighting the damage of ending, permanently, freedom of movement.

On the 3rd February, before the scale of the COVID-19 pandemic had become clear, the Prime Minister set out in a speech in Greenwich his vision for a future 'global Britain' in which the UK would be in the vanguard of a new era of global free trade. This would, he said, counter the trend towards trade conflicts and protectionism that has developed in recent years.

The speech confirmed the central plank of the UK government's approach to EU exit ever since the arrival of Prime Minister Johnson: that the UK could and would negotiate new trade deals with countries other than the EU with such rapidity, and of such quality, that the benefits from them would over time make up for the economic damage caused by exiting the EU – damage which is an inevitable consequence of the distant EU-UK relationship which the Prime Minister favours. At the heart of 'global Britain' would be a network of new trade agreements with countries such as the USA, Australia, New Zealand, Canada and Japan.

Even before the COVID-19 crisis, this approach to the UK's global future did not stand up to serious scrutiny. As mentioned earlier, the UK government has not even made serious headway into securing the many 'continuity' agreements with other

countries that are necessary to avoid the loss of the trading benefits the UK enjoyed as an EU Member State. The assertion that a network of complex new trade deals could be completed and implemented at breakneck speed during 2020, or even shortly after, and the benefits felt immediately, was always absolutely unrealistic. In reality, no real progress has been made towards these new deals, and with presidential elections in the USA scheduled for later in the year there seems little likelihood that UK-US negotiations will succeed in that timescale.

Indeed EU trade commissioner Phil Hogan has recently suggested that the US government, and perhaps others such as South Korea, would be unlikely to wish to conclude a bilateral trade deal with the UK until the EU-UK negotiations have been completed, 'because after all we are 450 million people in the European Union ... Size matters in trade.' The US Chamber of Commerce commented on 5 May:

"it is vital that the UK secure a favourable trade agreement with the EU as quickly as possible. A continued lack of certainty about the way forward will continue to constrain inbound investment and risks limiting prospects for bilateral trade negotiations between the U.S. and UK. We continue to believe it makes sense for the UK to reset its relationship with the EU before it turns to setting the terms of its trade ties with other trading partners."

Aside from whether or not new trade deals could be in place by the end of this year, any objective economic analysis shows clearly that the scale of the potential impact would come nowhere near compensating for the huge losses caused by withdrawing from the EU's trading system. The UK government's own analysis shows that, for example, a Free Trade Agreement with the US would only increase UK GDP by up to 0.16% in the long term. This can be contrasted with reductions in GDP as a result of Brexit, compared with remaining in the EU Single Market and Customs Union, which Scottish Government modelling has estimated at between around 6% in an FTA scenario and 8.5% if the transition period ends with no deal.

But in any case, in the few months since the Prime Minister delivered that speech, the world has changed.

The COVID-19 pandemic has pushed the world into a deep recession. We do not know how long this downswing will last, or the impact it will have on the UK's or Scotland's future economic and trading prospects. World trade is expected to decline by up to 33% in 2020, and it is impossible to predict when it will fully recover. In such an environment, history teaches us not only that the conclusion of new free trade agreements is unlikely, but that active protectionism becomes a real possibility.

As a result, there is considerable uncertainty about how the international trading environment will unfold over the short-term, and how willing and able the UK's putative trading partners will be to negotiate preferential agreements during this period. Even if the administrative bandwidth were to exist to engage in what are highly complex negotiations, in countries facing their own recovery challenges it is unlikely that the political will and popular support will exist to take forward such negotiations at this time. This uncertainty will add significantly to the burden facing our businesses as they struggle to recover from the damaging consequences of the pandemic. In both the private and public sectors, some organisations will need to

fundamentally review their business models – as illustrated below for one example sector.

Example: Higher Education

Scotland's university sector is being hit hard by the coronavirus, Brexit and the proposals for a new UK immigration system. It has already been adapting to the changes Brexit is likely to mean for its world-leading research and education. Now added to that is the huge scale of the challenge that the COVID-19 virus brings, both in Scotland and worldwide. COVID-19 has already limited international travel, affecting both students and staff.

Scotland's reputation and performance as a global force in research is a vital national asset sustaining jobs and growth and ensuring that our people and economy are ready for the opportunities of the future. International research collaboration offers a beacon of hope as a key part of Scotland's and the world's response to tackle the coronavirus. A vibrant research and innovation sector will also have an important role to play in the post COVID-19 economic recovery period.

However, in a post-COVID-19 post-Brexit world researchers will have more reason to consider where to take their expertise and their next project. In a survey by the University and College Union (UCU) in 2017, over three-quarters of EU academics at UK universities said that in light of the Brexit referendum result, they were more likely to consider leaving the UK higher education sector. Professor Lee Cronin, regius professor of chemistry at Glasgow University, has said that 'if I can't run a world-leading team of researchers here I'm not going to let the skills, knowledge and momentum we've built die because of a hard Brexit. Many of us will be forced to move our research abroad or seek joint affiliations in the EU.'³⁰

In addition, many universities in Scotland and the rest of the UK are truly global players in the education market, and have developed business models based around students coming to them to study from the EU and across the world. On top of the impact of Brexit on the likely numbers of EU students, in a post-COVID-19 world the level of international student exchange that universities had been expecting will neither re-establish quickly nor in the same form as before, with inevitable consequences for their operational and financial strategies.

Questions about countries' future international strategies are linked to their decisions on their domestic recovery plans and strategies. Rather than viewing recovery as the global economy simply "bouncing back" from this COVID-19 health crisis, the Scottish Government fully supports the view that protecting our future requires us to consider measures that will ensure the economic system "bounces forward". This means looking for economic, environmental and social policies, and coordinated international action, directed to increasing economic and social wellbeing and creating a framework for sustainable development which protects and restores nature for future generations.

³⁰ [Article by The Guardian, 'There's no plan B': academics race to safeguard research against Brexit](#)

Over the last few years the Scottish Government has increasingly placed our citizens' wellbeing at the heart of Scotland's national performance framework. This is an explicit recognition that the rate of economic growth alone cannot be regarded as the sole indicator of wellbeing. Not only must growth be inclusive – with added prosperity being shared equitably between our citizens and used to enhance our public services – but economic growth itself must be sustainable.

The same reflections are being duplicated across the world. The importance of sustainable growth and a resilient economy are set to be at the centre of post-pandemic recovery plan for many nations. For the EU, the European Commission's Green Deal – designed to transform the EU into a sustainable and climate-neutral economy by 2050 – is a central component of the roadmap for recovery. By stressing increased investment in the fields of sustainable mobility, renewable energy, building renovations, research and innovation, the recovery of biodiversity and the circular economy, the EU has the potential to construct an economic and social framework at the heart of which is the wellbeing of its citizens.

The Scottish Government's objectives for inclusive and sustainable growth are very similar to those underlying the EU Green Deal.

And with governments worldwide facing the same long-term challenges, international collaboration – especially with our closest colleagues and neighbours in the EU – will become even more beneficial than before, placing further question marks over the direction of the UK Government's current policy towards the EU.

Conclusions

In this document, we have set out how the COVID-19 crisis has radically altered the priorities for governments' actions, across the world. When an event as important as the COP 26 climate conference later this year has had to be cancelled – an event on which literally the future of mankind and our planet depends – it is simply not credible to treat Brexit as an exception and plough on regardless.

As we have explained, there are economic, practical and democratic reasons why the Brexit process cannot continue on its current timetable. The UK Government should immediately, and in any case by the end of June, seek the maximum two-year extension of the negotiating period, as provided for in the Withdrawal Agreement.

In Section 1, we have presented economic analysis that confirms how a failure to extend the transition will exacerbate the already huge damage caused to the economy by COVID-19. Recovery from the COVID-19 crisis should start to happen in Q4 2020/Q1 2021, but that is exactly when the risks associated with end of Brexit transition period will fall if there is no extension.

We have also explained the practical difficulties faced by the public and private sectors in the absence of an extension. The EU-UK negotiations themselves have been disrupted. The need to deploy staff to work on COVID-19 means that government readiness for the end of 2020 cannot possibly be adequate, for example in arranging new systems for customs, immigration, export certification, and intra-UK frameworks. For businesses, ending the transition period in December would require them to cope with thousands of new administrative and regulatory obligations when they are already struggling to recover from, or in some cases simply to survive, the impact of the COVID-19 pandemic. Even if they had scope to begin their preparations, it is simply not possible at this stage to prepare properly for new arrangements which have not even been negotiated yet between the UK and the EU. By the time the outcome of the negotiations is known, it will be too late. In other words, extending the Brexit transition period is absolutely essential.

We have also set out how the breathing space created by an extension should be used to review future strategy, given that the world will never look the same again as a result of the COVID-19 crisis. Nations will learn from their COVID-19 experience and revisit their strategies and business models, as will organisations in both the private and public sectors.

The UK government's 'global Britain' strategy, which did not stand up to serious scrutiny even before the COVID-19 crisis, looks even more hollow as a result of it. We need to have a much clearer sense of the new global context before throwing away the advantages of our trade arrangements with the EU itself, and of the EU's trade agreements with other countries.

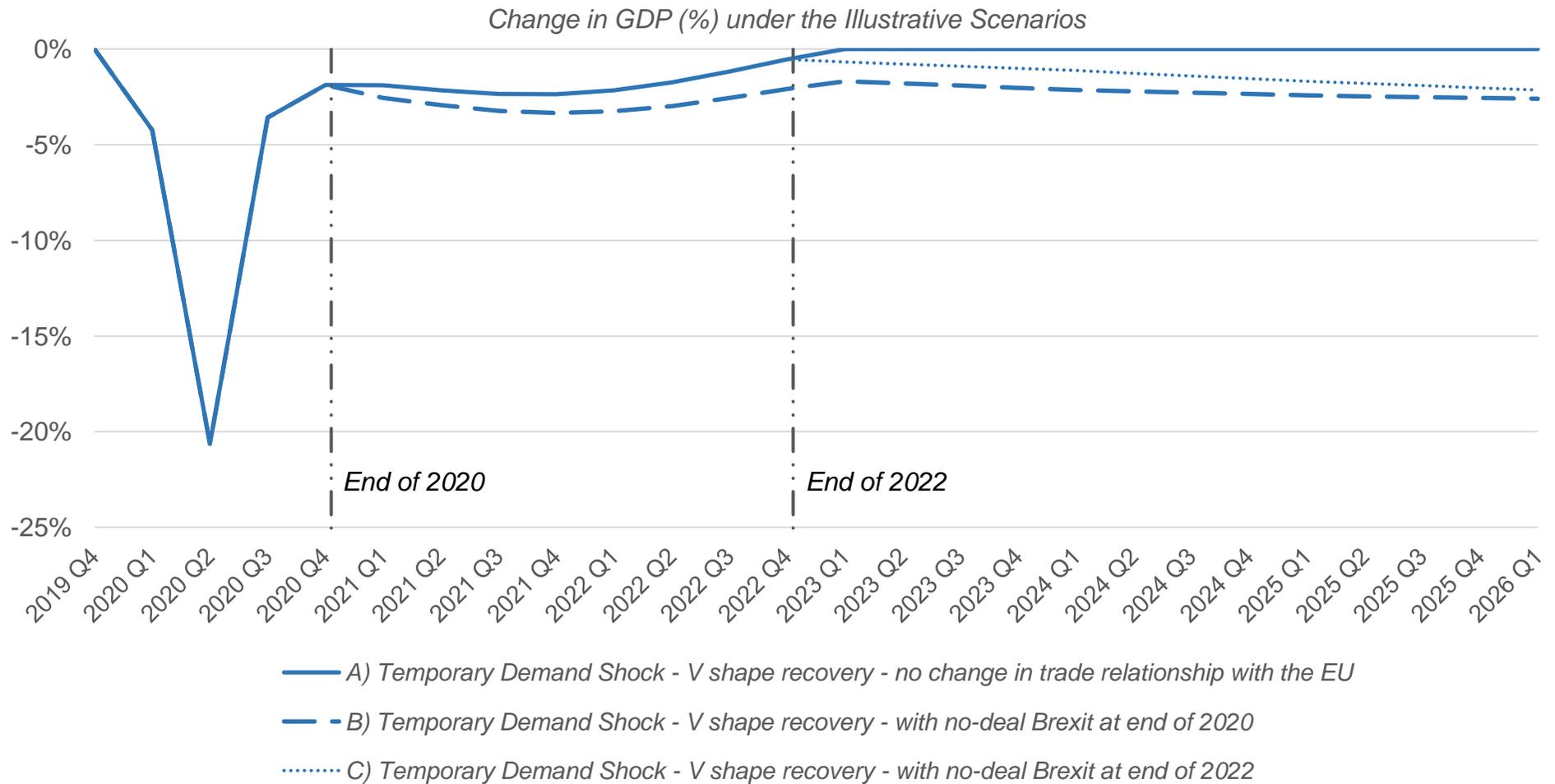
Time is running out. As the Scottish Government our responsibility, indeed our duty, is to protect Scotland's interests in the Brexit process. We are fully aware of the extent to which the UK government has staked reputational capital on exiting the

transition period at the end of 2020, but there are far more important things at stake than that. This is the time for the UK government to live up to its responsibilities and do the right thing, by securing an extension to the end of 2022. We call upon it to do so.

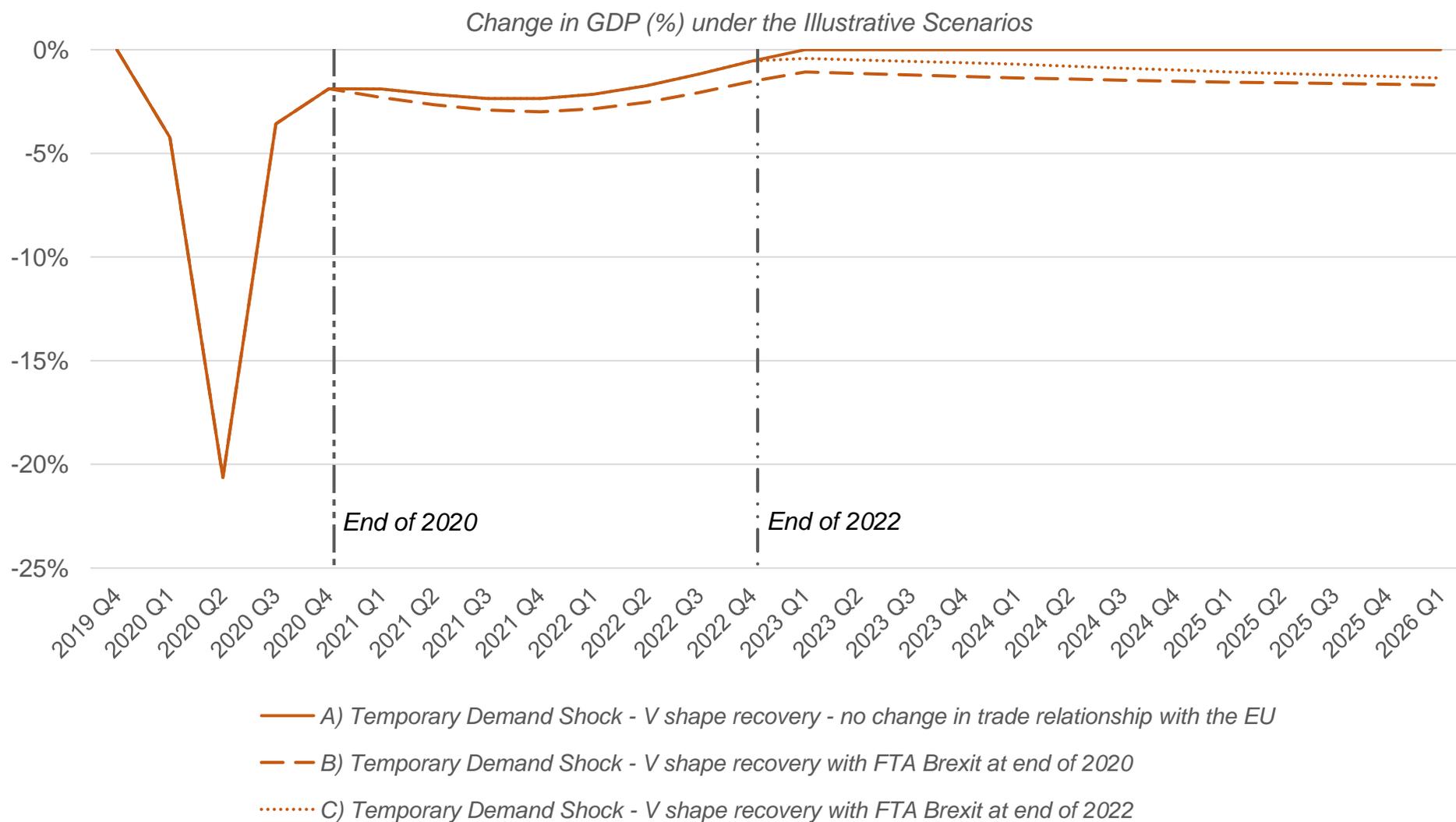
Annex A Results of Economic Modelling

The graphs in this annex represent the same data as in Graph 1 and Graph 2 in the main body of this document, but disaggregated according to the two different, illustrative, COVID-19-recovery scenarios.

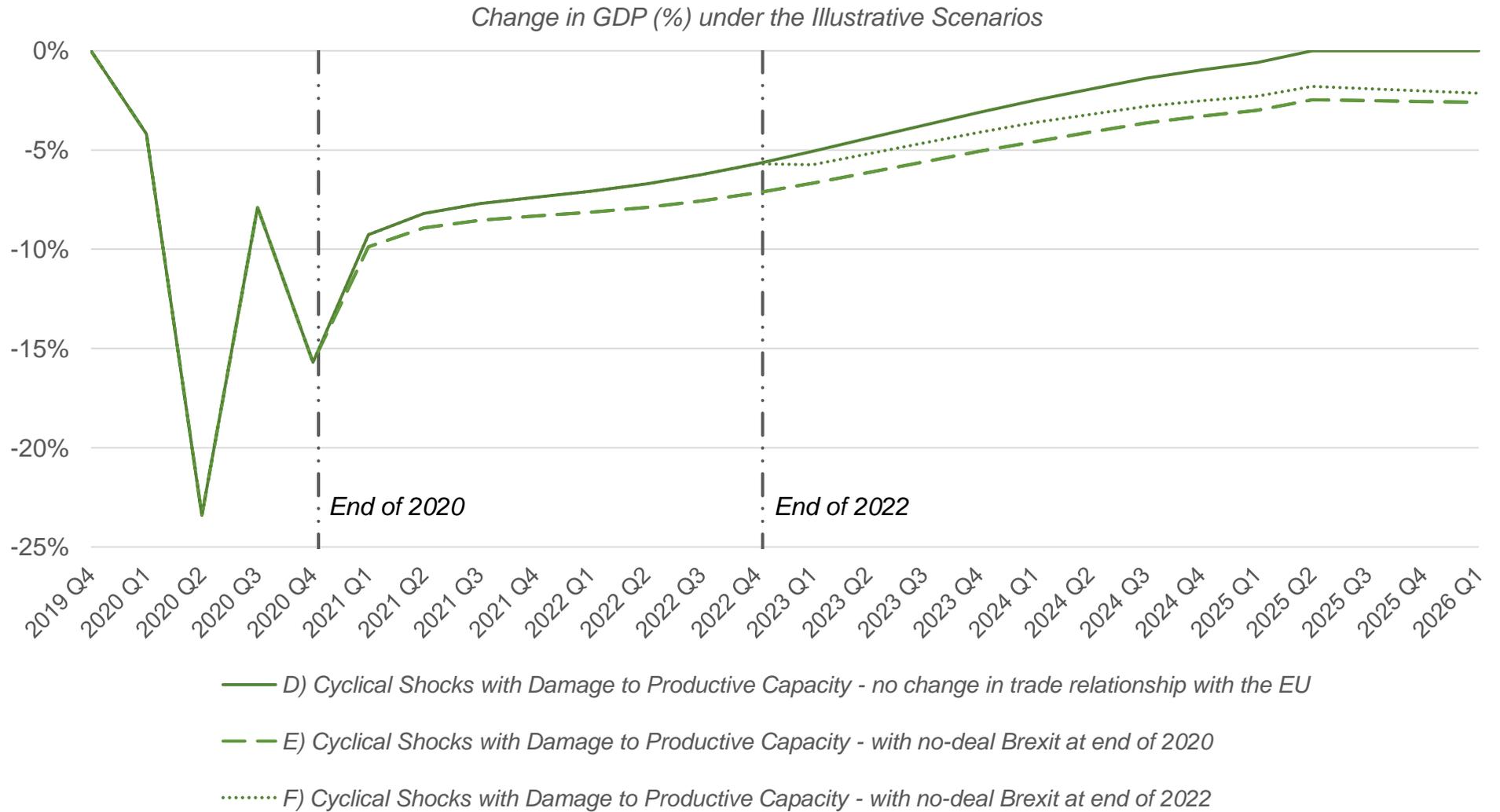
Illustrative Scenarios of Possible Macroeconomic Paths of the Scottish Economy with a V-Shaped COVID-19 Recovery and a No-Deal-Brexit Outcome at the End of 2020 and at the End of 2022



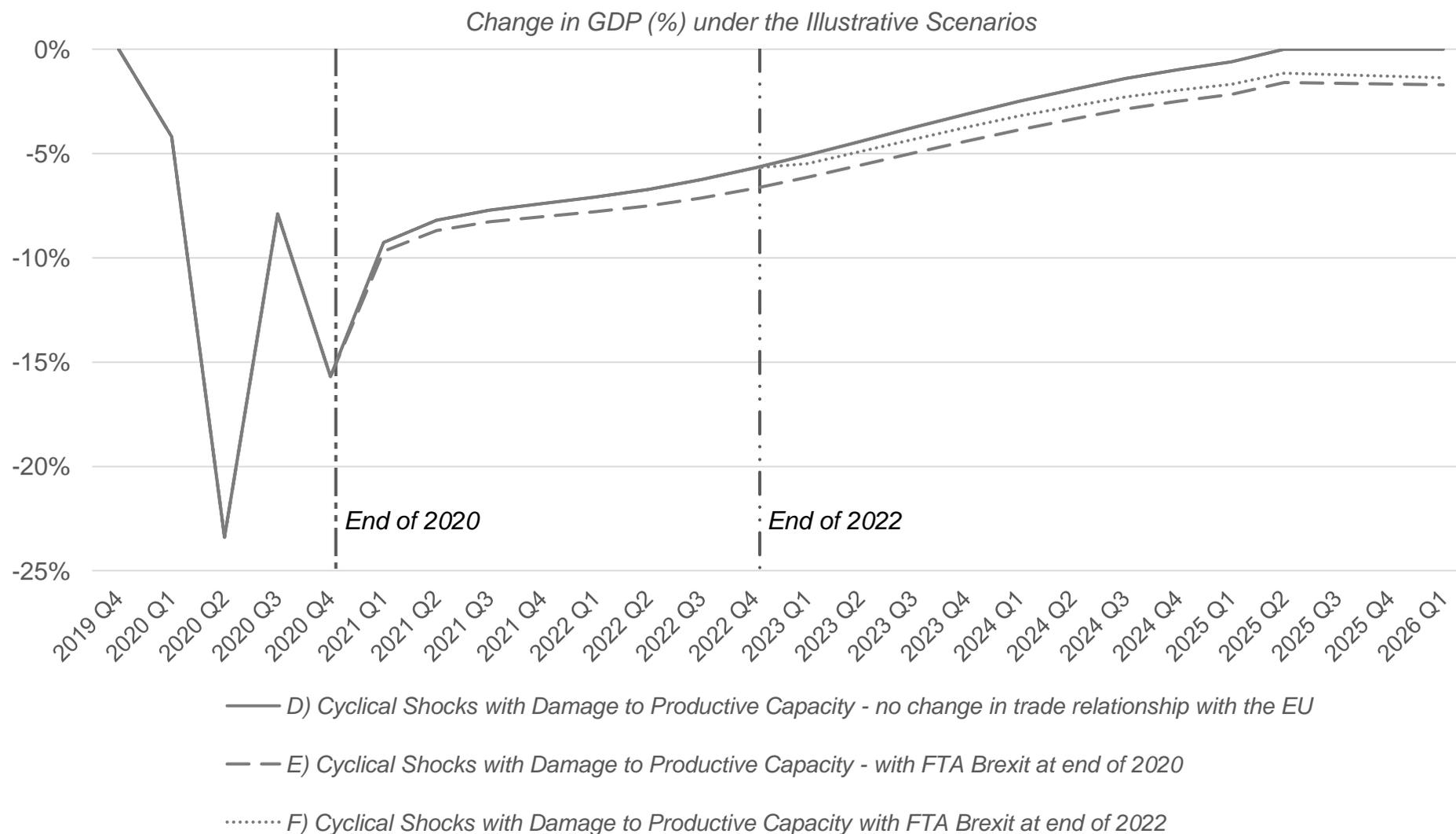
Illustrative Scenarios of Possible Macroeconomic Paths of the Scottish Economy with a V-Shaped COVID-19 Recovery and an FTA at the End of 2020 and at the End of 2022



Illustrative Scenarios of Possible Macroeconomic Paths of the Scottish Economy with a W-Shaped COVID-19 Recovery and a No-Deal-Brexit Outcome at the End of 2020 and at the End of 2022



Illustrative Scenarios of Possible Macroeconomic Paths of the Scottish Economy with a W-Shaped COVID-19 Recovery and an FTA Brexit Outcome at the End of 2020 and at the End of 2022



Annex B – Examples of Difficulties for Businesses if the Transition Period Ends on 31 December 2020

Hospitality, Tourism, Leisure

The tourism sector has been severely impacted by COVID-19, with demand collapsing steeply. Recovery is expected to be gradual and slow, lasting far beyond 2020: any additional barriers to recovery, will make that process all the more difficult and carry additional risks to jobs, businesses and growth. For example, six of Scotland's top ten markets for overseas visitors were in the EU, and seven were in the EEA. Workers from the EU have been essential to the sector, especially in hospitality. The ending of free movement of workers from the EU will make it more difficult to recruit the necessary workforce.

Food, Drink and Fisheries

Failure to secure a comprehensive deal with the EU will pose risks to key areas of the food and drink sector in Scotland and the rest of the UK including high EU tariffs and non-tariff measures, including requirements for Export Health Certificates for Products of Animal Origin (POAO). These potential impacts would be exacerbated should measures be applied for trade between Scotland and Northern Ireland.

Failure to reach a deal on the prioritisation of perishable products at the Short Straits crossing in particular would be detrimental for Scotland's seafood exporters. These discussions were put on hold following the UK Government/EU agreement late last year, and our understanding is that they have not yet recommenced.

Iain Wright, CEO of the UK Food & Drink Federation noted, on 3 February 2020, that:

“The EU market is the largest source of UK food imports and the largest destination for UK food exports. This fact is driven by geography, shelf-life and customer tastes. Introducing friction into those supply chains will have implications for our largest manufacturing sector and for all food and drink consumers”.

Some (EU) countries are already beginning to buy more locally as they look to restart and recover their national economies. As the UK leaves the EU's trading arrangements, goods from the UK could become less desirable in European countries.

The global markets that EU exit was meant to “open up” will be more difficult to enter with a reduced volume of air traffic (due to COVID-19). For example, over £100 million worth of Atlantic salmon from Scotland are flown out of London airports. Freight rates have doubled or tripled putting this at risk, until air travel recovers. This is likely to increase rather than decrease the reliance on easy access to EU markets. In the current situation, it is likely that many of these businesses and the exports they sell will collapse especially if EU markets cannot be relied on while the multi-year global recovery occurs.

The areas which will be hardest hit by marine industry disruptions from the double impact of Brexit and COVID-19 recovery time would be already vulnerable rural communities. For example, Peterhead, Fraserburgh, Kirkcudbright, Lerwick and Ullapool are all classed as highly vulnerable to seafood sector shocks due to having areas within their communities where more than 20% of employment is from the seafood sector. Similarly, this will be an issue for vulnerable island communities that rely on this sector for their food and income. Spain, in particular, is a big market for their live shellfish exporters.

The seafood sector in Scotland remains significantly dependent on non-UK labour; with EU nationals accounting for 58% of the workforce in the seafood processing sector, and non-EEA labour accounting for approximately 19% of crew in the Scottish fishing fleet. The ending of freedom of movement from the EU will, therefore, not only risk creating labour shortages in the seafood processing sector, it will also likely increase the dependence of the fishing fleet on non-EEA crew.

Without corresponding changes to immigration rules, it is almost certain that non-EEA labour will continue to be accessed through the use of transit visas. As well as creating an uneven playing field based on the geographic location and operational area of vessels, the transit visa route fails to provide basic employment rights and protections and may even be indirectly contributing to cases of maltreatment and exploitation. Along with “No Recourse to Public” status, this has also been the root cause of the significant hardship that non-EEA fishers have faced during the COVID-19 outbreak and will continue to leave non-EEA fishers in a position of acute, and wholly unacceptable, vulnerability.

One of the ways the fishing industry would have coped with the existing end of the transition period would be to temporarily adjust their operating models. For example Nephrops vessels could have reduced their catch/filled up cold stores and whitefish could have reduced their effort for a few months whilst things settled down. Having done this in response to COVID-19, it is unrealistic to expect surviving businesses to repeat this process for the end of the transition period.

The fishing and aquaculture sectors are also intrinsically linked to and heavily dependent on supply chains with the EU, for example the time critical delivery of ova from Europe. The trout sector is currently importing most of its feed supply from Europe. Any disruption could cause significant animal health and welfare issues. The sector is also dependent on imports of veterinary medicines and equipment.

From January 2021 EU seasonal migrant workers in the fruit and vegetables sector will be required to apply through the UK Government’s Seasonal Agricultural Worker Pilot Scheme (SWPS), subject to inclusion on the approved list of recruitment countries. There are also fees for both growers and workers. In Scotland the soft fruit sector was worth £134 million in 2017. The pilot is currently capped at 10,000 workers for the whole of the UK, but it is estimated that around 70,000 workers are required across the UK annually.

Retail

For the retail sector, the current end of the transition period comes with the worst timing. It clashes significantly with the run up to Christmas and January to March is the period of highest imports for fresh food. While there was considerable consumer demand during COVID-19, there were no problems with the Short Straits and availability of food. However, in relation to the requirements of the Northern Ireland Protocol, there are huge concerns that the infrastructure will not be ready in time, and consumer experience of COVID-19 has increased the risk of stockpiling and panic buying. To prepare for Brexit, many food businesses, especially in the SME sector, may decide to stockpile supplies and ingredients and are likely to struggle with cash flow and working capital. Dealing with the outbreak plus not extending the transition may well mean many businesses will not survive both.

Downstream Oil and gas

The downstream oil & gas sector, and refining sector specifically, is experiencing unprecedented market challenges at present. Refineries are strategically important to both Scotland and the UK's economies, as are the significant employment and resilience contributions of the sector. Refineries operate in a global market predicated upon high volume product output, returning narrow margins. The collapse in crude price and plummeting demand for fuels (attributable to global travel restrictions in lockdown) are placing significant pressures on the sector, expected to endure throughout 2020 and perhaps into 2021. The economic landscape the sector operates within won't become clear until the lockdown ends - and probably well into the recovery. This means that the sector does not have time to properly plan for leaving the EU on 31 December 2020. Its previous plans may well no longer be suitable, as the impacts of COVID-19 on international trade and supply chains are presently unknown.

The end of the transition period brings with it the potential imposition of tariffs, should no FTA be concluded. This will mean that at a time when it is already vulnerable, and attempting to trade its way out of a COVID-19 depressed market, the refining sector will be met with a potential further increase in commercial and logistical pressure with alternative trading arrangements.

The consultation on a proposed UK Global Tariff included rounding down the import tariff for petroleum products, which would go from 4.7% to 2.5%. This would have meant that, should the UK not have a deal with the EU, then petrol being exported from the UK to the EU would be subject to import tariffs in the EU of 4.7% but petrol imports from the EU into the UK would have been set at only 2.5% - placing domestic refineries at a competitive disadvantage with the risk of flooding the domestic market with foreign product. This particular tariff has since been revised from 2.5% to 4% in the UK Global Tariff published 19 May - affording greater protection for UK refineries. However, the tariff levels for petroleum products are still not entirely reciprocal, and we do not yet know whether a 0.7% disparity between imports and exports on petrol will have a material impact on the UK refining market, or will be absorbed by the supply chain.

An extra period of time within the EU's trading arrangements would allow time for the refining market to plan for any forthcoming disruption to existing trading arrangements and understand more fully the long term changes imposed on them.

Trade in goods

Disruption is occurring at the EU-UK borders caused by COVID-19 response, with cold storage capacity nearly full and foreign sales crashing, particularly in seafood and red meat (which have lost 90% of their market). In addition, this disruption could result in excise goods being seized if they exceed the indicated journey time. The preparation businesses will have to undergo for new border arrangements will be complex, with new compliance measures that could implicate at least 200 hours of training, or outsourcing to customs intermediaries, of whom there is a shortage.

Property

A primary concern for the property market with regards to Brexit has been the loss of European Investment Bank (EIB) funding for infrastructure and further skills shortages due to lack of immigrant workforce. These concerns haven't changed, and if anything, COVID-19 will make them worse; firstly, because funding put to COVID-19 supporting measures (Job Retention Scheme, business grants etc.) might have to come out of the infrastructure investment funds; and secondly, the recession saw a significant decline in the construction workforce. This has been particularly true for SMEs, many of whom left the sector and didn't return. Unless construction support is provided now and post-pandemic, we could see an equally negative impact.

Manufacturing

There are serious longer term repercussions on the skills pipeline for manufacturing sectors. Currently, the pipeline of engineering skills is at risk as businesses have either slowed or ceased recruitment due to COVID-19. Graduates and apprentices that make up our future workforce and are looking to begin their careers are left unemployed, and as time passes their skills will also depreciate. In addition, cash-flow issues have severely impacted on manufacturers. The skills and training budgets tend to be one of the first areas to take a hit when businesses are pressed to make critical decisions around their budgets. This has resulted in redundancies where businesses have made cut-backs or closed permanently. Many of these redundancies will be affecting the older, ageing segment of the workforce. The restrictions on migration and uncertainty to the ability as to employ foreign skilled labour to supplement the workforce will exacerbate the problem further.

Many manufacturing industries rely on broad transnational supply chains for end products and skilled workers, and whilst the potential for onshoring and creating more localised supply chains may be attractive, in terms of their recent benefits to resilience - the reality is that this will be difficult to achieve on the short term and within the limit of the current transition period deadline.

In terms of border and customs arrangements, the UK Government has confirmed plans to introduce import controls on EU goods at the border after the transition period ends on 31 December 2020, meaning that third country controls will be in place from 1 January 2021. As a result, traders in the EU and GB, including the pharmaceutical industry, will have to submit customs declarations and will be liable to goods' checks. The situation for Northern Ireland and the associated protocol is even less clear. Whilst the UK Government is taking steps to encourage companies to be ready to ensure a smooth passage across borders, there are many interdependencies, such as the risk of lorries waiting in queues which could be critical for supplies such as medicines and pharmaceuticals.

Medicines and Pharmaceuticals

The UK government's Department of Health and Social Care (DHSC) has a dedicated commercial supply team that plays an important role in managing shortages, receiving information that companies are legally obliged to provide. This involves tracking a limited number of reasonably manageable situations (approximately 80-100 at any one time), with a small number that can involve more serious clinical implications. The current pandemic is testing the capacity to manage shortages, and layering on potential EU related shortages could exacerbate this for DHSC and the industry.

Construction

The complex supply chains required in the construction sector are being affected by steep falls in trade during the COVID-19 response; according to Scottish Enterprise 95% of Scottish construction firms are reporting supply chain impacts. If the EU withdrawal transition period is ended in December 2020, the new costs and administrative measures needed to import raw materials and equipment will intensify the challenges of managing the supply chain, reducing productivity just as recovery is needed.

Trade in Services and Digital

As a result of COVID-19, there is an increased resilience on digital trade, with a shift towards digital delivery of services. Digital trade is dependent on a trading environment which supports cross-border trade in services ('mode 1'). Currently businesses trading digitally from Scotland and the UK benefit from the EU's Digital Single Market. This allows for free flows of personal and non-personal data, minimal administrative burden and self-regulation on e-commerce, among other advantages. FTAs typically include fewer services commitments under mode 1 than the UK currently enjoys with the EU. Ending the transition period without a satisfactory EU-UK deal on mode 1 and on data flows, alongside a lack of preparations needed to enable the transition, will put at risk the opportunity for digital trade to contribute to the economic recovery in Scotland and the UK.

Services trade could be hit hard in Scotland by the impacts of COVID-19, through transport and travel restrictions, as evidenced by the latest IHS Markit/Cips flash UK services purchasing managers' index.³¹ There are now limitations in the way services can be provided internationally – services previously traded via mode 4 (movement of persons) may now have to be provided via mode 1 (cross-border trade in services) due to global restrictions on travel.

The end of the transition period will intensify these reductions, by increasing barriers to trade in services at a time when modes of service supply are already limited. Unless the EU-UK negotiations deliver a satisfactory outcome on cross-border trade in services, mobility, domestic regulation and Mutual Recognition of Professional Qualifications and sufficient support and communication to businesses on the practical detail of new trading arrangements, many businesses will struggle to adapt to the new way of working. This could include the requirement to have a physical presence in the EU to continue trading. Businesses need time and support to transition, which will not have been provided by the end of the transition period.

ONS data shows SMEs have a higher reliance on imports from the EU, with the highest reliance on imports of computer programming services and to services auxiliary to financial services. Increased trade barriers would increase the cost of imports from the EU and result in increased costs for SMEs.

Transport

For some sectors such as ferry services in Scotland and rapid freight (HGV drivers), continued access to EU-based crew is important. For example, Eastern European crew are used extensively on the Serco Northlink Ferries' Freighter services from Aberdeen to Lerwick and Kirkwall and on the Pentland Ferries' services across the Pentland Firth. Before the COVID-19 pandemic, the road freight sector faced a shortage of HGV drivers, and any new barriers to employing EU drivers would exacerbate this.

EU goods and services, including parts, machinery and access to EU-based skilled engineers and technicians, are also important in order to build, maintain and repair ferries. Minimal delays are important in relation to the import of goods and to entry visas or permissions for specialists to enter Scotland, to keep ferry services running. Often, only EU nationals are allowed to repair and maintain specialist systems to maintain warranties on EU produced equipment such as engines, radar systems etc. Once the COVID-19 restrictions are relaxed, there will be a rush for the supply of materials and goods. That logistical challenge could be further compounded if new border restrictions are imposed following the end of transition, particularly where Scottish transport depends on contractors from Ireland and the rest of Europe, whose supply chains are often located within their home countries.

Brexit may lead to delays in ferry crossings between Scotland and Northern Ireland due to any increased checks for UK-EU traffic. The impact of these delays on freight traffic, and the consequent need to implement Operation Stack at Cairnryan, could

³¹ <https://www.markiteconomics.com/Public/Home/PressRelease/c2c5efa8283e40a4b780ff8f45d9c9e2>

be exacerbated if there are COVID-19 restrictions in place relating to physical distancing or there is reduced capacity to manage the challenges, due to sickness.

Culture and Creative

In the culture and creative sector, the COVID-19 pandemic has caused demand across the sector to severely decrease, following the introduction of restrictive measures. There have been severe disruptions to supply and the cross-border workforce. Recovery in some areas will be difficult, due to widespread lack of financial resilience and a reliance on public-facing activities such as performances which COVID-19 has halted. The sector is largely made up of freelancers, microbusinesses and SMEs which are often financially insecure. All of this will be exacerbated if EU funding streams, such as the Creative Europe Programme, are no longer available from January 2021.

Disruption to trade, and mobility, with EU countries from January 2021 would severely affect the sector's prospects of recovery, especially regarding the need for specialised overseas recruitment, and outward movement for touring and exhibiting. Scotland's international festivals have faced unprecedented disruption due to COVID-19, and immigration controls could severely hamper their recovery too. The important computer games industry also works extensively across borders and will be similarly affected.

Annex C – Government Readiness for 1 January 2021

Example: Pharmaceuticals

It was always the case that Brexit would create a risk of disruption to trade and delays at the border with the potential to cause medicine shortages in the UK. The COVID-19 situation has already resulted in difficulties in this area; it has created global shortages in areas like protective equipment and has disrupted supply chains.

The default position within the UK at the end of the transition period is that ‘no deal’ legislation covering a number of processes involved in the licensing of medicines should come into force. But given the very short time until the end of 2020, and the global focus on COVID-19, if there is no extension to the transition period then the timetable is very tight for ensuring that future requirements and processes are in place. For example, the Medicines and Medical Devices Bill, which seeks to create targeted and delegated powers that enable updates to regulatory systems for human medicines, clinical trials, medical devices and veterinary medicines, is currently paused.

The UK Government’s Approach to Negotiations document did mention medicinal products, and proposed that there should continue to be cooperation and information sharing with the EU. It did not include alignment with the European Medicines Agency (EMA).

One of the consequences of a more distant relationship between the Medicines and Healthcare products Regulatory Agency (MHRA) and the EMA could be the loss of access to the single marketing authorisation (licence) offered by the EMA. This would mean that in order for a pharmaceutical company to market a new medicine in the UK they would have to undergo a separate approval process by the MHRA. This extra regulatory hurdle for the pharmaceutical industry, and the additional costs involved in the process, could make the UK a less attractive market for pharmaceutical and biotechnology companies’ innovative new medicines. Emerging from a pandemic, and searching for a vaccine, is the worst possible moment to disrupt these approval processes.

It is far from clear what outcome this UK government approach might deliver – making it impossible at this stage to prepare with certainty the new regulatory arrangements within the UK which will be needed.

Example: New UK immigration system

Immigration is a matter currently reserved to the UK government, but one which has huge implications for the wellbeing of Scotland's economy and society. The Scottish Government has made clear that the approach to immigration being taken by the UK government will not meet Scotland's needs. The independent Expert Advisory Group on Population and Migration anticipate that, even after the UK government reduced its proposed salary threshold from £30,000 to £26,500, this would lead to a reduction of net migration to Scotland of 30-50%, and this would be particularly felt in rural and remote areas. 2017-18 data shows that there were 143,000 EU nationals (aged 16-64) employed in Scotland.

Implementing a whole new system by 1 January 2021 always presented a huge challenge for the Home Office which was also responding to the recommendations of the Windrush enquiry and implementing the EU Settlement Scheme. The Home Office has acknowledged this but has signalled no intention to review the timescale, despite the huge amount of work that would be needed between now and the end of 2020.

For example, the Home Office has tasked the Migration Advisory Committee with consulting employers on a new Shortage Occupation List and making recommendations by the Autumn. This task seems extremely challenging at a time when companies are focussed on coping with the impact of COVID-19, and when it is highly unlikely that they will know with any certainty what their international staffing needs for 2021 will be.

Moreover, the pandemic has confirmed the Scottish Government's view that the UK government's approach was never fit for purpose. In that approach there would be no general route for what the UK Government term 'lower-skilled migrants', who have traditionally come from the EU via free movement of persons. Yet the COVID-19 crisis has exposed the fact that individuals in these so-called 'low skilled' sectors play an essential role in our economy, and indeed many have been classified for COVID-19 purposes as 'key-workers': food processors and supermarket workers; delivery drivers; nurses and care workers. With the exception of NHS and higher-skilled health workers, none of these roles would be eligible for a visa from 1st January 2021. By their own admission the UK Government has no plans to revise or change their plans, despite the reliance on these individuals as highlighted by the current situation.

Workforce shortages arising from COVID-19 will be exacerbated by the end of the transition period. Clearly the UK government must rethink its approach to future immigration. But this is simply not possible within the timeframe the UK government has imposed upon itself with no extension to the transition period.

Example: Security and law enforcement cooperation

Ending the transition period at the end of 2020 creates serious risks to the security aspects of the EU-UK future relationship. Where new arrangements cannot be in place for 1 January, bearing in mind that they still remain to be negotiated, the inevitable consequence is at best a hiatus and at worst a permanent loss of the security cooperation from which we have benefited for so long.

EU exit means fundamental changes to the legislative and technical frameworks through which the fight against international and extraterritorial criminality takes place. The legislative requirements to deliver future co-operation with the EU need to be considered, drafted, scrutinised and passed in order to ensure continued and effective future cooperation with EU institutions and Member States, and the technical solutions which give effect to that legislation, if necessary, must be able to operate effectively with respect for data security and data protection standards. For example, technical changes to the way that Scotland can access information in the European Criminal Records Information System (ECRIS), if something akin to ECRIS access is negotiated, may take months to design and implement.

Similar challenges exist with regards to the Schengen Information System and Prüm Convention capabilities. Whatever the eventual outcome of the EU-UK negotiations for these instruments, it will be a significant institutional and finance challenge to implement and operationalise our future law enforcement and cooperation arrangements before 31 December 2020. The pandemic adds to the pressure on those resources, and dramatically increases the risk that even no-deal contingency plans may not be fully delivered come 2021.

Loss of access to cooperation platforms such as Europol and Eurojust, without any alternative from 1 January 2021, would be seriously detrimental to the work of our police and prosecutors. Without an extension, the EU will treat the UK as a 'third country' from that date. While cooperation between the EU and third countries without a specific agreement in place is possible in certain circumstances, the volume of cases and information that is shared between Scottish and EU partners means that such ad-hoc procedures are not a sustainable solution if the level of protection of the public we have enjoyed as a Member State is to be preserved.

As of May 2020, COPFS estimate that there are over 600 High Court and 1600 Sheriff and Jury pre-conviction cases which are indicted awaiting trial and cannot progress at this stage due to the pandemic and suspension of jury trials. In addition, there are 21,000 summary cases at pre-conviction stage. For as long as the pandemic affects the capacity of justice system to process cases, the backlog will increase. It is accordingly expected that the total number of outstanding trials at all levels of the Scottish criminal justice system will number in the tens of thousands by the end of the year and transition period. Although some jury trials will run from July 2020, the number of trials which can run simultaneously is likely to be less than would normally be the case. This backlog will require to be dealt with at the same time as the transition period ends, adding yet another challenge.



Scottish Government
Riaghaltas na h-Alba
gov.scot

© Crown copyright 2020

OGL

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.scot

Any enquiries regarding this publication should be sent to us at
The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

ISBN: 978-1-83960-798-1 (web only)

Published by The Scottish Government, June 2020

Produced for The Scottish Government by APS Group Scotland, 21 Tennant Street, Edinburgh EH6 5NA
PPDAS731806 (06/20)

W W W . G O V . S C O T