Economy, Jobs and Fair Work Committee
Economic Impact of Leaving the European Union
Scottish Council for Development and Industry

1. The Scottish Council for Development and Industry (SCDI) is an independent membership network representing a cross-section of the private, public and social economy sectors. Our purpose is to influence the agenda for Scotland’s long-term economic and social prosperity.

2. SCDI has always actively promoted Scotland’s international trade potential. Since our first trade mission in 1960, SCDI has delivered more than 370 trade missions comprising 6000 participants, to over 50 markets worldwide. This has generated tens of millions in pounds of export revenue for the Scottish economy. SCDI’s International Business Committee harnesses the expertise of industry leaders to help support more companies to achieve their international ambitions.

3. SCDI published *From Fragile to Agile: A Blueprint for Growth and Prosperity* at the end of 2015 after extensive and intensive consultation with members. It focuses on driving improvements in the areas of underperformance in the Scottish economy, including internationalisation.

*From Fragile to Agile - Key Internationalisation Challenge*

To achieve the Scottish Government’s target to increase the value of Scottish exports by 50% by 2017. To grow exports by a further 20% by 2020. To increase the contribution from across the Scottish economy towards this target and reduce the reliance on a narrow range of companies and sectors, by increasing the number of SMEs which are internationally active from around 12% to 30% or more by 2020.

Recommendations on Internationalisation

**Unleash the potential of genuine trade and investment partnerships**, including:

- Government should enable and actively support, aligning national agencies, business/sectoral-led resources and relationships, such as peer-to-peer learning, market intelligence and access to office facilities, and light up and capitalise on civic, educational and cultural resources and relationships
- The UK should remain in the EU, leading a growth agenda including the single services and digital markets, energy and trade agreements
- Potential Scottish exporters should have a clear front-door - a Single Portal – developed co-operatively by all the organisations, public and private, Scottish and UK, which support exports, to guide businesses to the most appropriate source of advice and support
- A network of Scottish Export Ambassadors, including individuals who have recently
stepped back from full-time positions, should be developed for peer-to-peer mentoring

**Deepen links with Commonwealth countries**, including:
- Business and the Scottish Government should develop a ‘Commonwealth Plan’ to promote and support businesses with trade and investment growth
- Greater use should be made of business networks and commercial diplomacy in market as well as Commonwealth representation in Scotland

**Strengthen and sharpen Scotland’s inward investment offer**, including:
- Reinvigorate Scotland’s approach in the face of stiffening competition in the UK, with specific objectives to diversify sources and for investment complementary to innovation clusters, to maintain Scotland’s status as the most attractive part of the UK outwith London for inward investment
- Scotland should make the most of opportunities from our EU membership, attracting more projects in key EU innovation and investment workstreams

**Welcome and retain international talent**, including:
- Post Study Work Visas for international graduates in Scotland should be reinstated, with eligibility to stay for 2 years for those completing at minimum a degree, equivalent level of qualification or an HND qualification
- The potential for the Scottish Rate of Income Tax to support a differentiated Scottish system for highly skilled/ post study migrants should be examined
- A plan to maximise the benefits of international students across the economy should be developed, with programmes to link them with businesses on a project/ internship basis and school/ undergraduate students for cross-cultural exchange, attracting friends and families to visit Scotland, and develop stronger alumni links as ambassadors for Scotland and its products

4. In line with our previously stated position on membership of the EU, SCDI and many of our members are disappointed that the overall outcome will mean that Scotland and the rest of the UK will leave the EU, however we respect the outcome of the Referendum vote. We believe that there is a need to develop an agreement which will support prosperity, maintain partnerships and progress common priorities across Europe. Following the referendum, SCDI and our members have engaged with UK and Scottish government ministers, parliamentarians from all parties and ambassadors from EU member states. We have also organised cross-sector discussions, including working in partnership with the Scottish Government on the recent National Economic Forum. We continue to develop, in close consultation with our diverse membership, our position on the negotiations on the future relationship between Scotland and the UK and the EU. This submission does not represent our final view, but rather some current feedback from members.
Possible impacts and opportunities for Scotland’s exporters;

5. Scotland and the EU have a strong trading relationship and maintaining access to these markets will be a key priority for Scottish exporters.

6. The EU is by far Scotland’s largest export market, accounting for £11bn or 42% of all Scottish exports by value. In comparison, comparison North America accounts for 16% of Scotland’s total exports.

7. While understanding the many interlinked political challenges, maintenance of access to the EU single market on the same terms as EU membership or as close to them as possible would be in the interests of Scottish exporters. Research by economic think tank NIESR estimates that UK service exports could be cut by 60% and good exports cut by 35-40% if the UK exporters do not have access to the EU single market. For Scotland this could translate into a £2.3bn hit for the service sector and £3bn hit for the goods sector¹.

8. Many Scottish exporters are intrinsically linked to the single market with operational and logistical aspects of their business being conducted across the EU. There are significant supply chain concerns over a future need to prove the origin of goods exported from the UK. This will interfere with modern supply chains and probably create an administrative cost that will need to be incurred regardless of what is kind of market access is negotiated between the UK and EU.

9. The recent volatility in exchange rates and devaluation of the pound has provided a short-term boost for some Scottish exporters, but increased costs for those exporters which have to import materials or components. Many exporters would rather benefit from sustained market stability.

10. Many technology companies have also expressed concern over the UK’s future relationship with the digital single market, the EU’s strategic plan for creating a continent-wide playing field for growth and innovation within the digital sector. There are concerns that the UK may now have to ‘follow’ rather than lead on this policy area and this could serious implications for exporters who may relocate to take advantage of the digital single market in the EU.

11. Scotland’s export activity is dependent on a small number of companies to deliver the majority of its export growth. The Scottish Government’s Global Connections survey found that 50% of the value of Scottish exports are attributable to just 50 companies while 100% of the value of our exports are attributable to just 60 companies. These statistics highlight a significant need for

¹ http://scotlandb2b.co.uk/2016/11/04/scottish-exports-face-2-3-billion-hit-if-removed-from-single-market/
Scotland to diversify its export base and encourage more companies to export. However, aspiring exporters may be deterred from exporting due to real and perceived layers of complexity surrounding Brexit. This will need to be overcome if the both governments want to reach their ambitious export targets of 100,000 new exporters by 2020 (UK Government) and an increase in the value of Scottish exports by 50% by 2017 (Scottish Government). SCDI welcomes the recent announcements by the Scottish Government of further action to support exporting. Recent reports, such as the Wilson Review of Support for Scottish Exporting and inquiries by predecessor committees of the Scottish Parliament, have made useful recommendations and it is important that the Economy, Jobs and Fair Work Committee continues to ask for regular updates on the progress which is being made with specific actions.

12. There are a range of options for the future UK and EU trading relationship which include membership of the European Economic Area (EEA), negotiation of bespoke market access based on existing models for non EU-countries (such as Switzerland), negotiation of customs union model (similar to Turkey), the negotiation of some form of free trade agreement between the EU and the UK, or operating under a UK membership of the World Trade Organisation. Negotiations between the UK and the EU will determine the arrangements. The different options will have significant implications for the UK’s ability to ‘grand-father’ existing EU trade agreements with non-EU countries and negotiate new bi-lateral trade agreements with non-EU countries.

13. The impacts on exporters from these options would vary from the relatively small (EEA) to highly detrimental (WTO rules). Discussions with the Scottish Government and businesses and civic organisations in Scotland should help to shape the UK’s negotiating priorities and deliver an agreement which meets as far as possible the needs of the Scottish economy. It is accepted that the negotiations will determine the interim and/ or final option and that the UK Government is not going to provide a running commentary, but greater clarity would be appreciated as and when possible - for example reassurances on options which have definitely been ruled out.

14. As much clarity as possible, would help to minimise the very significant amount of time and resource which Scottish businesses are making and will have to devote to planning future business scenarios. For instance, trading within the EU based on WTO rules would see costs for Scottish businesses rise significantly compared to their EU-located competitors.

15. The recent ‘Nissan deal’ and what this means for other companies and sectors has given rise to much commentary. The UK Government should ensure that bespoke arrangements must not come at the expense of other key sectors in our economy or be expensive and unsustainable.
16. Maintaining our trading links with the single market and grand-fathering the EU’s existing trade agreement with non-EU countries where possible should be key priorities. However, SCDI also recognises that there may be a significant opportunity to create new free trade agreements with international markets, such as the US, China and India.

17. Trade agreements between the EU and key high growth markets such as the USA, South Korea and Mexico have all stalled after a long negotiating process. Indeed, the Canadian-Europe Trade Agreement (CETA) has just been concluded after seven years of negotiating and almost completely collapsing just before the deadline when a Belgian regional parliament rejected the deal. The European Parliament still has to approve CETA before it can be provisionally applied.

18. The complexities of negotiating free trade agreements between the 28 EU member states cannot be underestimated as this has always been a challenging and time consuming process due to conflicting positions and priorities. Upon leaving the EU, the UK will be in a position to engage in quicker negotiation process to create bi-lateral trade agreements with other countries which wish to pursue discussions at the time.

19. Trade Policy is an area of expertise that the UK government will need to quickly re-develop in order to secure a good deal for UK businesses. The European Commission negotiates trade deals on behalf of the EU member states meaning Britain has not had its own dedicated team of trade negotiators since it joined the EU in 1973. The EU currently has around 600 trade policy specialists making it one of the largest trade policy organs in the world. In comparison Canada currently has around 300 trade policy experts. The UK must make a significant investment in recruiting trade policy experts.

20. There is potentially an opportunity for the UK government to advocate more positive trading terms for UK and Scottish exporters. If and when this becomes possible, SCDI recommends that both governments bring together and consult with key sectors and industries before starting to engage in any negotiations.

Possible impacts and opportunities for non-UK companies investing in Scotland;

21. Foreign Direct Investment (FDI) plays an important role in Scotland’s economy. Inward investors generally support higher rates of productivity, innovation and internationalisation in the economy.

22. Many large European and international corporates are heavily invested in the UK. The Ernst & Young (EY) 2015 UK attractiveness survey found that the number of investments into the UK from the EEA reached its highest recorded point in 2015, a 27.5% increase, and the EEA became the most important trade
region for FDI projects into the UK for the first time. The majority of Scotland’s inward investment comes from the USA (54%) and this is closely followed by European markets - France (14%), Germany (8%), Norway (6%) and Sweden (4%).

23. There are concerns that the commercial logic of investment in the future could be adversely affected by Brexit. The EY survey found that 79% of investors cited access to the European single market as a key feature of the UK’s attractiveness. This pre-referendum research found that 52% of investors surveyed said a slight change to the UK’s access to Europe would reduce the UK’s attractiveness compared to 10% who said it would increase the appeal, while for a significantly less favourable arrangement on access, 55% said that this would reduce the UK’s attractiveness compared to 7% who said it would increase the appeal.

24. It is possible that investors will direct their investment to other European markets. The EY survey found that just 36% of international companies interviewed found that the UK would be an attractive place to invest over the next 3 years - a figure which has declined from 54% in 2015 and is the weakest response since 2004.

25. According to the EY survey, in general terms, investors are attracted to the UK because of availability of skills, availability of business suppliers and strength of local business networks. The highest ranked investment criteria when considering investing in the regional location in the UK are the availability and skills of the local workforce, and transport infrastructures. Brexit will have implications across these areas and, therefore, for the future attractiveness of the UK for inward investment, and this needs to be taken in future arrangements.

26. The EY survey also found that investors believe that information and communication technologies and banking, insurance, wealth and asset management are the two sectors which will most drive the UK’s and Europe’s growth in coming years. The UK Government should, therefore, specifically consider the issues for these sectors, such as the digital single market and passporting for financial services, as well as those for the other sectors which investors consider have substantial growth potential.

27. Foreign investors must remain confident that the UK is open for business. Governments should ensure that the UK continues to be a desirable place to invest, trade and work. The Scottish Government should specifically review what more should be done at a practical level to attract, make more welcome and more closely support new and existing investors. There will be a need to continue to invest in modern infrastructure, world-class connectivity and key skills, and ensure that Scotland is competitive internationally and within the UK on tax.
28. The strength of Scotland’s higher education in supplying a highly-skilled workforce and in research is a significant attraction for inward investors in some growth sectors. Scottish institutions have been particularly successful in EU programmes such as Horizon 2020 (the biggest EU research and innovation programme). Future access to funding, partnerships and staff are critical issues on which clarity is needed.

29. Brexit may present opportunities for the UK and Scotland to re-orientate inward investment strategies towards non-EU, higher-growth economies. However, at least for some of them, significantly less favourable access to the single market than at present will make the UK less attractive. Brexit may also allow the UK and Scotland greater flexibility on issues such as tax, state aid, competition policy and regulation which could prove attractive to some inward investors. However, in some of these areas there are moves for more global harmonisation which will reduce any flexibility. The UK has also tended to strongly support EU rules in these areas so it is questionable to what extent they will be changed and whether any advantages will outweigh the disadvantages, such as fiscal, social or environmental.

**Potential impact on labour market issues, including migration and worker rights.**

30. Access to skills has been highlighted as the biggest concern for many employers in the post-Brexit period. Freedom of movement in the EU has supplied a much wider range of people from which to meet skills demands.

31. Industries in Scotland which currently rely to a considerable extent on the skills of EU nationals include Scotland’s agricultural, tourism, hospitality, construction, engineering and health care sectors. Restrictions on the articles to EU freedom of movement are likely to have a detrimental effect, at least in the short to medium term, on key industries which recruit significantly from the EU labour market. For example, research shows that, based on the current points based system, 90% of EU nationals currently working in hospitality would fail to get into the UK.

32. Barriers to the free movement of people post-Brexit will potentially result in very serious implications for Scotland’s higher and further education sectors, as 16-20% of Scotland’s academic staff is from the EU. This will have negative consequences for the international excellence of these institutions and knowledge exchange with EU-based partners. This will be counterproductive to increasing further the impact of universities and colleges in supporting higher rates of innovation within the wider economy.
33. Scotland’s is dependent on net migration to increase its population in the long-term, particularly of working age, and a significant reduction in migration is very likely to have serious implications for Scotland’s economy and the delivery of public services.

34. Maintaining access to the diverse skills and talents which businesses need in their workforces will be crucial to the success of Scotland’s economy post-Brexit. This includes the clear protection of EU nationals currently studying, living and working in Scotland, alongside the protection of UK nationals working and living in the EU.

35. While substantial efforts are already being driven by government, education and employers, the impact of Brexit on access to skills should spur further action on education and employment to enable more people in Scotland to enter and develop in the labour market. However, there are employability challenges which are likely to be addressed only in the longer-term.

36. Moreover, diverse labour markets and workforces tend to be more innovative. A SCDI report found that Scottish businesses are concerned that a lack of access to people with ‘global skills’ will limit their ability to grow and internationalise in the future. In the global economy, the attraction and movement of high-value and/ or specialised skills is key to competitiveness for many businesses.

37. During the referendum, there were suggestions that Brexit would make it easier to introduce a differentiated immigration system which better recognises the specific demographic, labour market and skills needs of the Scottish economy, and the broad support in Scotland from government, political parties, employers, education and trade unions for such a development. However, there is no sign yet that the UK Government is thinking in this way.

38. SCDI continues to strongly support the reintroduction of post-study work visa scheme and is working with a wide range of partners to present evidence to the UK Government on why it would grow the Scottish economy and how it would work within the current and future UK immigration systems. While it is of less benefit than the proposed post-study work visa scheme, we will also support the case that the UK Government’s Tier Four visa pilot programme, which is currently restricted to just 4 universities none of which are in Scotland, should be extended to Scottish institutions.

Scottish Council for Development and Industry