European and External Relations Committee

The EU referendum and its implications for Scotland

Written submission from ScotlandIS

Introduction

ScotlandIS is the trade body of Scotland’s digital technologies industry. We represent more than 250 companies in a sector that employs over 80,000 people and contributes more than £4.5 billion per year to the Scottish GVA. About two thirds of businesses in our industry are already selling outside the UK and another 19% are planning to do so in the future. A significant percentage of digital technologies companies are exporting to Europe. This illustrates the importance of Scotland’s relationship with the EU for the digital technologies industry.

ScotlandIS therefore welcomes this opportunity to help the European and External Affairs Committee to understand the implications of the EU referendum result for our sector and the potential knock-on effects for Scotland’s economy and society.

Our response is shaped by the results of a survey we conducted amongst our members at the beginning of July to assess how they believe the referendum result will impact their business. The survey results informed our five post-referendum priorities which are also the guiding principles for this response:

- **Markets** - Continued access to the European Single Market is the ideal outcome, failing that, tariff free arrangements for future trade with EU countries must be found.

- **People** - ScotlandIS is calling for a) all EU citizens currently living and working in Scotland to be granted indefinite leave to remain, and b) continued easy access to skilled EU workers in the future. Scotland and the UK must also refocus efforts to ensure we have enough homegrown digital professionals in the years to come.

- **Productivity** - We have an opportunity to counter the effects of uncertainty and stimulate the economy by making Scotland a more competitive and productive place to do business through the use of digital technologies.

- **Research and academia** - Our universities and researchers need continued access to EU research funding and talented staff and students from the EU and beyond so that they remain globally competitive.

- **Regulations** - British negotiators must take the requirements of digital businesses such as data hosting providers and FinTech companies into account when striking new deals for data protection and financial services.

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Case study on how the prospect of a withdrawal from the EU is affecting Scotland’s digital technologies industry

Our members are very concerned about the impact of the EU referendum result, with three quarters predicting it will negatively impact sales and customer confidence.

On exports, 62 per cent said that they anticipate a negative impact on their ability to increase sales overseas. Our members were split on the question of their ability to attract growth capital, with 53 per cent expecting a negative impact compared with 47 per cent predicting no change or a positive impact. 49 per cent expect the business environment for their company to get worse or considerably worse over the next 12 months. 35 per cent anticipate no change and 5 per cent expect the business environment to get better.

Another major concern is the access to skilled staff. Three quarters of our members think that the referendum result will have a negative or very negative impact on their ability to hire people with the skills they require for their business. Our member companies need clarity on future immigration rules, the status of their staff from EU countries working in Scotland as well as British employees based in EU countries outside the UK.

22% of respondents said that the referendum result has made them consider relocating their business and 23% consider opening offices in other geographies. The new locations for HQs or new offices mentioned were the US, and EU countries such as Ireland, the Netherlands, Belgium, Germany, France and Poland.

These survey results highlight the risks a major period of uncertainty and an exit from the EU are likely to have on profitability and growth across the digital technologies industry, which will impact the wider Scottish economy, and the labour market.

Businesses are already experiencing a serious shortage of people with digital technology skills. Restrictions to the free movement of labour from the EU would aggravate this problem and hamper growth and competitiveness.

The digital technologies industry makes a significant contribution to the Scottish economy. It will become even more important in the coming years due to the levels of innovation, and its increasingly international outlook. The application of digital technologies across all sectors of the economy will increase productivity through, for example, business and process transformation, ecommerce and the increased use of data analytics to inform decision making. Significantly increased productivity must be one of the key strategies for Scotland’s economy to remain competitive post-Brexit, and this represents an exceptional opportunity for our industry.
Scotland’s future relationship with the European Union and alternatives to EU membership

Our view on the value of Scotland’s membership of the European Union and what Scotland’s relationship with the European Union should be in the future:

A significant percentage of Scotland’s digital technology companies export to Europe and a large number of businesses employ staff from other EU countries because they are unable to find people with the required skills and experience in the UK. Our member companies and the wider industry are working in partnership with companies across the EU and some have offices in other European countries. EU legislation and common standards not only facilitate trade but enable it in the first place, e.g. in the case of data hosting and FinTech services. This shows that the European Single Market and the associated freedom of movement which come with the UK’s membership of the European Union are a vital part of the business environment in which the digital technologies industry thrives.

Our view on the alternatives to EU membership and the implications of these alternatives for Scotland:

We asked our members to indicate how preferable several scenarios would be for the future relationship of Scotland and the UK with the EU to provide the best operating environment for their business.

Respondents considered the ‘Norway model’ as the most preferable scenario with an average rating of 3.86 (out of 5) and 42% of respondents considered this option as ‘very preferable’ for their businesses. This scenario would imply Scotland remaining part of the UK and the UK negotiating a membership of the European Economic Area with access to the European Single Market, free movement of people and the automatic adoption of all legislation related to the Single Market.

Least popular was the scenario of Scotland remaining part of the UK and the UK failing to negotiate a trade deal with the EU. This would involve the UK and the EU applying the same tariffs and other trade restrictions to each other that they apply to the rest of the world. The average rating for this scenario was 1.35 (out of 5) and 78% of respondents considered this option as ‘not preferable at all’. The second least popular scenario was the ‘Canada model’ which was rated at 2.15 (out of 5) and would give the UK partial access to the EU single market without free movement of people. Most trade tariffs would be eliminated in this scenario but the services sector would be only partially covered.

These results indicate that our members tend to prefer a post-Brexit scenario that is as close to the full EU membership and includes access to the single market as well as free movement of labour. We call on negotiators to reflect the needs of our industry, including access to the single market and the European talent pool, when agreeing the terms of our new relationship with the EU.

Failing that, tariff free trade arrangements with EU countries, continued access to EU research funds (with financial arrangements similar to Norway) as well as a simple and efficient visa system for citizens would be the minimal requirements to allow our industry to operate in Scotland.
EU funding

Our view on the impact on Scotland’s economy of termination of access to the Horizon 2020 programme:

Scotland’s universities provide an exceptional research base in computer science, software engineering and informatics, underpinning the digital technologies industry in several ways. Firstly, the universities, together with Scotland’s innovation centres, help companies to innovate and develop new products, technologies and services. Secondly, the research excellence has a positive impact on student teaching which enables the universities to supply the highly skilled graduates required in Scotland’s digital technology companies. Thirdly, the universities also create a dynamic environment that attracts talented people from all over the world and facilitates the creation of cutting edge start-ups and spin out companies.

All of this is put at risk by terminating or limiting the access to Horizon 2020 and other EU research and innovation funding programmes. Our universities and researchers require this to remain globally competitive. Merely replacing the funding provided by the EU will not be sufficient. The collaboration opportunities, the ability to attract world-class researchers from Europe, access to world-class research infrastructure and equipment as well as the excellence associated with EU research funding are as important as the financial support.

The position of EU citizens in Scotland

Our view on the contribution that EU citizens make to Scotland’s economy and society:

Many EU citizens are employed by companies in our industry. In many cases, they were employed because candidates with the required skills and experience were not available in the UK labour market. These EU employees are helping Scottish businesses to succeed and grow and they can also be of assistance when entering new markets because of their language and intercultural skills. Some of these have gone on to set up Scottish based businesses.

With accelerating pace, the whole economy is turning to digital technologies to transform and differentiate their businesses. This nascent demand is driving up the demand for high-level digital technology skills even further. Demand is already outstripping the domestic supply. Our industry alone requires about 11,000 new people per annum to support expansion and replace people who are retiring or moving on to other sectors. However, only some 4,000-5,000 potential new entrants are created each year through traditional education and training routes. Restricting access to the EU labour market will only aggravate the skills shortage our industry is already facing.

We are therefore calling for a) all EU citizens currently living and working in Scotland to be granted indefinite leave to remain, and b) continued easy access to skilled EU workers in the future.