Introduction

HIE welcomes the opportunity to respond to this call for evidence. We recognise that the influence and impact of EU membership on the Highlands and Islands has been extensive and the terms of the UK’s withdrawal will have profound consequences for the region. These extend far beyond HIE’s remit. Our focus will be the impact of withdrawal negotiations on the socio economic development of the region. HIE recognises that there are still many uncertainties regarding the process, timing and outcome of negotiations and that the process will be fluid over the next 18 months or longer. Our thinking will evolve as the process develops and we therefore look forward to a continuing dialogue over coming months.

Who are we?

Highlands and Islands Enterprise (HIE) is the Scottish Government’s economic and community development agency for the north and west of the country. Our region comprises over half the Scottish land mass (including 94 inhabited islands) and is home to around 470,000 people.

HIE’s role is to lead regional growth and development in line with Scotland’s Economic Strategy (SES), improving competitiveness and building a fairer society across the Highlands and Islands.

HIE’s approach to regional development is drawn from to the national priorities described in SES: Investment, Innovation, Internationalisation and Inclusive Growth. We help build successful businesses, social enterprises and resilient communities; support the growth of industry sectors, and invest in the strategic interventions which create the conditions for a competitive region. Our current priorities, planned activities and budget information can be found in our Operating Plan 2017-18¹.

Background

HIE has previously submitted evidence to this committee (Sept 16) on the implications of Brexit on the Highlands and Islands. That submission highlighted the significant benefits to the Highlands and Islands of EU membership and key issues for the region in exit negotiations – access to markets, people attraction, policy / funding and collaboration. This submission provides updated and additional insight into these critical issues for the Highlands and Islands.

HIE recognises that Article 50 negotiations on the terms of withdrawal – particularly the status of EU27 citizens in the UK and of UK citizens in the EU; the financial settlement; and issues relating to the Irish border – will have to make significant

¹ HIE Operating Plan 2017-18
progress prior to discussions on the detail of the UK’s future relationship with the EU. Most of the issues of particular interest to HIE will be addressed in the second phase of talks. HIE does not intend, therefore, to comment on the specific detail of working papers published so far (at the time of writing these include position papers on future customs arrangements and Irish border proposals) but comments on the implications of these to the key issues of concern to the Highlands and Islands.

Access to Markets

The UK Government White Paper articulates its approach to trade as

“The Government will prioritise securing the freest and most frictionless trade possible in goods and services between the UK and the EU. We will not be seeking membership of the Single Market but will pursue instead a new strategic partnership with the EU, including an ambitious and comprehensive Free Trade Agreement and a new customs agreement”

HIE welcomes the recognition that retaining minimal barriers to trade is a clear aspiration of the UK Government. The EU market (and indeed, global markets currently accessed through EU negotiated trade agreements) are important to the region’s businesses and to the prosperity of the region².

- A third (33%) of Highlands and Islands businesses trade overseas and of these, 85% trade in the EU single market. Of those selling into the EU single market, 40% reported that it accounted for more than 15% of sales.

- Highlands and Islands businesses have expressed concern about potential future barriers to trade with the EU. More than half of those trading in the EU feel that new tariffs, increasing the cost of imports (64%) and exports (53%), potentially differing product standards / regulation (56%) and more complex customs arrangements (53%) will have a negative impact on their business.

While the detail of the UK’s trading relationship is still to be negotiated, the view of Highlands and Islands businesses is supportive of single market membership³.

- 49% of businesses consider membership of the European Single Market as important to them, rising to 67% for food and drink businesses

- Furthermore, 69% of businesses feel that membership of the Single Market is important to the Scottish economy, rising to 79% for HIE account managed businesses

Attraction of talented people to live, work and study in the Highlands and Islands

The UK Government White Paper states:

“we will remain an open and tolerant country, and one that recognises the valuable contribution migrants make to our society and welcomes those with skills and

² HIE Business Panel April 2017
³ HIE Business Panel July 2017
expertise to make our nation better still. But in future we must ensure we can control the number of people coming to the UK from the EU”.

The Highlands and Islands is an exemplar in being able to attract talented people to live, work and study in a rural region. Population has increased consistently since 1965 with an important component of that through in-migration, including significant numbers from the EU. They provide necessary labour and skills to our businesses and public services, and make a positive contribution to the communities in which they live. A priority must be to provide them with certainty on their status as residents. HIE welcomes, therefore, that this is an early priority in negotiations.

EU nationals are an important source of labour and skills for Highlands and Islands businesses

- Highlands and Islands businesses see EU nationals as a significant source of labour and skills. Almost a quarter (23%) of all business employing staff, employ non UK EU nationals, rising to 46% for tourism businesses and 71% for businesses with 25+ staff.4

- Highlands and Islands businesses see free movement of labour as important to them and to the Scottish economy. 39% of businesses reported that free movement is important to them, while 75% felt that is important to the Scottish economy as a whole.5

The ageing profile of the Highlands and Islands population is more pronounced than that of Scotland as a whole and this, together with the continuing challenge of retaining and encouraging our young people to return to the region means that in migration of working age population is, and will continue to be of great importance to the region.

Population projections to 2037 suggest a static overall population and a fall in working age population.6 The Highlands and Islands has, in the past, outperformed population projections, largely as a result of attracting people to the region. Future growth and prosperity is closely linked to our continuing ability to attract people and talent, including from the EU, to the region.7

The White Paper makes specific reference to attracting the best and most talented people to the UK. In some sectors, for example food and drink and tourism, there is a reliance on lower skilled migrant labour. An estimated 39,000 EU nationals work in the Scottish Food and Drink industry while 24% of hotel, and 30% of restaurant labour is from outside the UK, much of it from the EU. Future migration policy should take account of the differing skill and labour needs across Scotland’s growth sectors.

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4 HIE Business Panel December 2016
5 HIE Business Panel July 2017
6 National Records of Scotland
7 H&I Regional Skills Assessment Dec 16 - SDS
Favourable Policy and Funding Environment

**CAP / Agriculture**

As a predominantly rural region, the Highlands and Islands has been a beneficiary of CAP funding, supporting agriculture and land based industries, environmental enhancement, rural business development and community support.

As the UK exits the EU, Agriculture / Rural Policy will become UK / Scottish responsibility. The UK Government White Paper states that “leaving the EU offers the UK a significant opportunity to design new, better and more efficient policies for delivering sustainable and productive farming, land management and rural communities”. HIE welcomes these positive aspirations and expects to make a valuable contribution to these future policy developments. Recognising the current lack of further detail on UK government thinking, HIE makes the following comments:

- CAP / Rural Development policy and funding has had a major impact on the Highlands and Islands, supporting agricultural incomes and thereby underpinning fragile rural communities, and delivering environmental and social “public goods”.

- We acknowledge the opportunity to develop a bespoke UK / Scottish policy that reflects and responds to the particular socio economic and environmental challenges and opportunities in the Highlands and Islands, in particular our unique system of crofting and small scale agriculture.

**Regional Policy**

The Highlands and Islands has been a net beneficiary of EU funds over the last 25 years. The EU has been the principal driver in Regional Policy that has seen special attention paid to regions with lagging GDP (compared with the EU average) and / or particular economic and social challenges. Successive structural fund programmes have seen investment of almost €1bn of ERDF and ESF in the region, delivered through collaborative and co-ordinated programmes.

The UK Government White Paper does not make specific mention of Regional Policy. It is, however, important to recognise the continuing importance of a bespoke UK Regional Policy to address disparity and address regional challenges and opportunities.

**Collaboration funds (eg INTERREG, R&D funds (Horizon2020))**

The UK Government White Paper makes specific mention of collaboration on major science, research and technology initiatives. HIE welcomes recognition that continued collaboration with our European partners is desirable and makes the following comments:

- HIE agrees that collaboration with our European partners on science, technology, research and development is desirable. A collective approach to addressing common opportunities and challenges is sensible. In a Highlands and Islands context, the University of the Highlands and Islands (UHI) has
con contributed to, and benefitted from, a number of collaborative research projects funded through Horizon 2020 and its predecessor R&D programmes.

- The White Paper does not specify how future collaboration will take place. HIE’s view is that continued participation in EU programmes supporting R&D collaboration is desirable.

- In the context of Regional Development, participation in INTERREG programmes has delivered benefit to the Highlands and Islands. These programmes (for example the Northern Periphery and Arctic Programme) have supported collaboration between academia, business and public agencies to address common issues as diverse as business innovation, sector development, renewable energy development and community projects. HIE’s view is that participation in these programmes after leaving the EU is desirable, facilitating beneficial transnational collaboration that otherwise could be more difficult and complex.

**Conclusion**

Post referendum negotiations will be complex and lengthy. The issues highlighted above are all interrelated and difficult decisions and trade-offs will be required. For example, does the UK / Scotland prioritise the terms of single market access for food and drink products over freedom to develop a bespoke agriculture policy?

HIE looks forward to participating in a continuing dialogue, ensuring that the Highlands and Islands has a strong voice as the process evolves.