European and External Relations Committee

The EU referendum and its implications for Scotland

Written submission from Edinburgh Chamber of Commerce

Case studies on how the prospect of a withdrawal from the EU is affecting Scotland

The Committee recognises that there is considerable uncertainty for businesses, for organisations, for institutions and for individuals – particularly EU citizens – about the prospect of a withdrawal from the EU. It would therefore welcome case studies which illustrate the impact that the vote to leave the UK is having in Scotland. It would be helpful if you could describe the nature of your business and what impact the vote to leave the EU may have.

As a membership body, the Edinburgh Chamber of Commerce represents the views of our members. To aid our response to this Call for Evidence, we have canvassed the views, opinions and experiences of members from a representation of sectors through our Brexit Steering Group, and their views are reflected in our responses throughout.

Consequently, rather than provide a detailed Case Study, we have detailed below some of the issues these members have and may face in relation to the business impact of the vote to leave:

- The impact of uncertainty has been significant across a range of sectors, particularly in relation to workforce, funding streams and currency values for import/export purposes.
- In the hospitality sector, a very significant proportion of the workforce are EU nationals (for one of our members, 50% of full time and 75% of temporary staff are from mainland Europe, for another 75% of staff are EU nationals). Many of these are un-skilled, meaning any move to a points-based immigration system would have a major impact on the ability of this sector to recruit. The attitude and mind-set of any person coming into the labour market is very difficult to assess on a form, meaning potential talent may be lost.
- Currency issues are also forcing some of the EU workforce to their home countries, given the reduction in the value of the pound. It appears that working in the UK is not as attractive an option for some individuals as it once was from a financial perspective.
- In manufacturing, the initial panic amongst the EU workforce following the referendum seems to have subsided, however, members from this sector have difficulty recruiting UK nationals who will work in the way some EU nationals will. They report that the influx of Polish nationals which they have seen now seems to have stemmed. They are also concerned over the longer term about the impact of a reducing EU workforce on rising pay rates and therefore cost/the ability to be competitive.
- In terms of recruitment, the decision also seems to be having an impact on the skilled workforce. There is a view that unanswered questions about the future appear to be putting skilled people off from coming to the UK, creating
issues for sectors such as technology where there is a skills shortage. There is a need for good PR around how the country will move forward to reduce some of this uncertainty and encourage skilled individuals to our country.

- In outsourcing, the view is that uncertainty again seems to be putting staff and businesses off from locating their contracts etc in the UK. Due to language requirements, one of our members in this sector has 80% of their locally employed staff who are EU nationals.
- In professional services, there has been a slowing down of planning etc affecting investment and longer term opportunity.
- In the FE and HE sectors, there has been little short term impact due to the nature of the student cycle and re-assurances on guaranteed funding from the UK govt. However, there is concern over longer term arrangements, and the impact of attracting students and staff from EU countries to Scotland in future recruitment cycles. There are currently over 6,000 EU students in Edinburgh for the four universities, contributing to the life of the City and spending money who may be impacted. The labour issue also affects this sector, with a number of academic staff coming from the EU. The Universities Scotland are working with HE Sector on the Brexit issue.
- On a positive note, from one of our retail members, the impact initially seems to have been positive. There is a view that increased tourism into the UK has had an impact on increased spending, as has domestic tourism, possibly as a result of the ‘staycation’ trend. Even though footfall is not necessarily increasing, average spending is, though it is still early days and this may not be the typical retail experience.

In general, the opportunity cost of the current uncertainty needs to be considered. We cannot yet know how many people or businesses won’t now make the decision to locate in the UK.

Scotland’s future relationship with the European Union

The First Minister has indicated that it is her intention to protect Scotland’s relationship with the European Union and its place in the single market. The Committee would welcome views 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.

The Committee would also welcome views on how best Scotland can maintain its relationship with the EU as mandated by the recent vote in the Scottish Parliament.

As a group, our core objectives are:

1. Access to a single market (including the movement of labour). ie. the ability to retain use of migrant workers for specific labour needs which are not necessarily the same as other UK regions.
2. We are in favour of all initiatives (including funding) that stimulate economic growth.
3. We would urge the Government to accept that ‘Scottish solutions’ may apply to this issue.
4. We celebrate diversity and support socially inclusive solutions which promote social cohesion
Alternatives to EU membership

The Committee would welcome views on—

- the alternatives to EU membership
- the implications of these alternatives for Scotland

As a group, we feel that proposing alternatives to the EU is not practical until the UK Government has outlined the intended post Brexit relationship with Europe. That said we would draw your attention to our core objectives.

The withdrawal process

The Session 4 European and External Relations Committee established that it would be a long and complex process to negotiate withdrawal from the European Union. The current European and External Relations Committee would be particularly interested in views on—

- how the withdrawal process might be managed at the EU and UK level
- what steps would be involved in this process and how individual policy fields might be dealt with
- the amount of time that might be required to deal with the negotiations
- how the interests of Scotland and the other constituent parts of the United Kingdom can be represented in those negotiations and what role the Scottish Government should have in those negotiations
- the positions likely to be taken by other Member States in the negotiations

We would re-iterate our core objectives in response to this point, which are outlines earlier in this document.

The domestic process for dealing with a withdrawal from the EU

Withdrawal for the EU would have significant impacts on legislation. The Committee would welcome views on—

- the implications for the devolution settlement of withdrawal from the EU
- the implications for UK and Scots law of a withdrawal from the EU, particularly the need to repeal legislation and prepare new legislation to fill the gaps left by EU legislation
- the scale of the task the implications for the Scottish Government and Scottish Parliament

Our Group have no views on this currently, however, we are interested in engaging in further discussion to help shape this process.

Currently EU funding makes a significant contribution to Scotland’s economy, whether through the European Structural and Investment Funds (ESIF), Horizon 2020 and other competitive funding opportunities. The Committee would like to hear views on—
• the impact on Scotland’s economy of termination of ESIF support and access to the Horizon 2020 programme
• the implications for Scotland’s funding settlement of withdrawal from the EU

We currently have no views on the impact of the withdrawal of these specific funding initiatives. However, we have considered the issue of funding in general and would like to highlight the following points:

• There is concern amongst our FE and HE members about the impact on funding of this sector as a whole, particularly amongst the scientific and research community. This sector are heavily reliant on funding streams to protect and enhance the world leading reputation of Scotland’s educational institutions.
• For one of our HE members, 20% of their total research budget is EU funded. In addition, 20% of their staff are non UK nationals and a large number of these posts are funded by the EU.
• Whilst we accept that access to funding may still be available, our concern is on where this will be focussed moving forward. Traditionally, the UK Govt is not seen to focus on funding innovation and research and development initiatives in the way that EU funding does.
• We are also concerned about a possible short term funding gap as a consequence of longer term uncertainty.

A significant impact we have considered in our Group on this subject is our reliance on certain EU funding streams, such as ERDF, to finance smaller initiatives such as feasibility studies which will in turn inform larger, longer term investments in infrastructure/sustainability etc. Any impact on the availability of these funds we feel will ultimately impact larger investment, and ultimately policy initiatives, in these important areas.

The position of EU citizens in Scotland

Many EU citizens have made their homes in Scotland either on a temporary or more permanent basis. The Committee would welcome views on—

• the position of EU citizens in Scotland in the event of withdrawal from the EU
• the extent to which EU citizens in Scotland have acquired rights
• the contribution that EU citizens make to Scotland’s economy and society

As outlined in the response to the question on Case Studies, EU citizens make a very significant contribution to a number of sectors represented by our Group members, specifically hospitality, manufacturing, and Higher and Further Education.

We have already given examples throughout this response from some of our member organisations around how valuable and significant the contribution of EU citizens are.
Other Relevant Issues

- Social cohesion has been raised as an issue by our Group. Some EU nationals no longer feel wanted in our country, and we feel this needs to be addressed to ensure we maintain our reputation as a socially inclusive society, which celebrates diversity.
- We would like the Scottish Government to engage with businesses operating in this country to seek re-assurances on their commitment to Scotland. We feel this would help reduce uncertainty in some sectors.