

Annexe B: Submission from Prosper

Introduction

Prosper is the new trade name for the Scottish Council for Development and Industry (SCDI). Forging and increasing the value of Scotland's international trading relationships has been a high priority for our organisation since its formation. At a time of change in the UK's trading relationships with the world, Prosper re-established our International Business Committee (IBC) in 2021 to drive Prosper's international trade policy and engagement with governments. An early priority for its work was to investigate the economic impact of the EU-UK Trade and Co-operation Agreement (TCA) in its first year.

Prosper gathered evidence from a range of sectors and areas in December 2021 and early 2022, and published a report in March 2022. This proposed practical and deliverable actions by businesses, organisations and governments to improve UK-EU trade and cooperation in support of the Scottish economy in the near and the longer term.¹ This included a recommendation that Prosper should lead a delegation on a Policy Mission to Brussels to meet Scottish, UK and EU organisations. This took place in April 2023.²

Prosper has again gathered evidence from members for this submission. As a membership organisation, our submission comments on the effects of new trade arrangements across our membership rather than on Prosper as an organisation. Prosper is a member of the UK-EU Trade and Cooperation Agreement Domestic Advisory Group. Its recently published its 2024-2025 Priorities Report has also informed our submission.³

How have Brexit and the new UK-EU trade and economic arrangements affected your organisation?

The report on the TCA by Prosper's IBC highlighted a wide variety of challenges:

Goods

- Significantly increased paperwork at customs, time delays and costly processes
- Export health certificates for the export of live animals or animal products
- Groupage for Products of Animal Origin, especially for SMEs
- Introduction of import checks for Products of Animal Origin into the UK
- Lack of cohesion around definitions, certifications and systems between HMRC and the UK Department for the Environment, Food and Rural Affairs/ Animal and Plant Health Agency for the import of some products e.g. feed products for salmon farming
- Proposed high costs for exports through new Borders Control Posts into the European Economic Area (the EU single market, Norway and Iceland), and Switzerland
- Import duties for re-exporting into the EU

¹ Prosper's Report is available [here](#).

² Prosper's Review of the Policy Mission is available [here](#).

³ The Domestic Advisory Group's report is available [here](#).

- GB-Northern Ireland is effectively a full customs control system
- Large increases in the costs of importing raw materials from the EU for a range of sectors e.g. annual growth in construction materials cost rises are at a 40-year high⁴

Services

- Lack of detail in the TCA on financial services and of clarity on ratification by the EU of a Memorandum of Understanding (MoU) to follow through on the joint commitment to 'agree to establish structured regulatory co-operation on financial services'
- Greater uncertainty in areas such as mobility and rights of establishment, which will now be determined by each jurisdiction adding a significant degree of operational complexity

Education and Skills

- Uncertainty around UK association to future Horizon Europe funding impacting on research
- Student recruitment from the EU is continuing to decline at universities and colleges
- Reduced mobility of students and staff by the UK not participating in Erasmus
- Lack of clarity about mutual recognition of qualifications frameworks

Cross-Cutting

- Loss of EU customers who will only trade with EU companies
- Staff recruitment and retention (compounded by the pandemic)
- Costs and administrative workload of new immigration visas and surcharges
- Difficulties caused by potential regulatory divergence
- Uncertainty about the UK Subsidy Control Bill to replace the EU state aid regime and the UK and Scottish governments' plans for public subsidies e.g. public investment in infrastructure for offshore renewables developments, such as ports and harbours

Many respondents reported challenges due to differing implementation of the TCA by EU states or authorities. Some of these appeared to be due to a lack of understanding of the rules. There was a perception among some respondents that some states or authorities were being more deliberately unhelpful. There was also a view that some of the challenges were not transitional, but simply a fact of life in trading with the EU as a non-member.

Companies responded to the challenges in different ways, but most respondents said that they had stopped or reduced some activity. Other businesses continued to trade, but were burdened by extra admin, handling and storage costs, reducing their competitiveness. Some businesses had opened warehouses or subsidiaries in EU markets to serve customers and clients or meet EU market rules, reducing economic activity in Scotland.

⁴ [Construction materials cost increases reach 40-year high \(rics.org\)](https://www.rics.org/news-and-insights/industry-news/construction-materials-cost-increases-reach-40-year-high)

Has this position been improving or not for your organisation as the new arrangements settled down / are developed?

The position varies between organisations and sectors. In general terms, businesses did what they could to prepare for the new arrangements and have adapted to the new realities. Depending on the business and sector, this new reality may, for example, include:

- Liability for export tariffs
- Compliance with both EU and UK rules
- Time consuming customs procedures
- Running EU-based warehouses and offices
- Fewer transport companies delivering from the UK to the EU
- Increased shipping lead times for some non-EU imports

While upfront investments (such as opening warehouses or offices and changing tooling to comply with both EU and UK rules) have been made, there are ongoing operational costs. Overall, a wide range of businesses have faced higher costs, decreased export values from sales into the EU and/or cancelled or delayed plans for expansion into the EU market.

Major challenges persist for many businesses in Scotland's food and drink sector, especially for those exporting perishable and often time-sensitive foods to the EU market.

The agreement last year of a Memorandum of Understanding establishing a framework for financial services regulatory cooperation was overdue but nonetheless welcome. This fell short of full equivalence and the UK must continue to negotiate bilateral Memorandums of Understanding and agreements with Member States. It will be essential that the Joint EU-UK Financial Regulatory Forum makes more rapid progress as regulatory regimes evolve, with a focus on working together on topics of mutual interest and global standards. The financial sector continues to face compliance uncertainties and complexities due to legislative differences, which are resource intensive and leads to questions from clients.

We welcome the agreement between the UK and EU for the UK to reassociate with Horizon Europe. The UK was amongst the most successful countries in bidding for funding under its predecessor programme. It is vital that Scottish businesses and researchers are ready to take advantage of the opportunities to secure funding for collaborative research projects. However, the loss of Erasmus programme mobility for students in Scotland has significantly limited mobility of students and impacted education and development, especially for those from deprived backgrounds. The UK Government's Turing Scheme has neither the scale nor the traction to make a major difference to the student experience.

What are the major barriers to EU trade and cooperation for your organisation?

Major barriers vary between organisations and sectors. In general terms, the new UK-EU trade and economic arrangements are significantly more costly and complex.

They have been introduced at a time of serious business and supply chain difficulties. SMEs face particular challenges in ensuring their ongoing compliance - for instance with complex rules of origin requirements. Some companies have struggled to maintain cost competitiveness with EU rivals. Some EU-based customers have come to view buying from UK firms as more difficult and time consuming than from their EU located competitors.

Regulatory drift (passive) or divergence (active) is a barrier to trade and cooperation that will only become more disruptive over time without joint monitoring and management.

Decisions about the regulation of new technologies will be particularly important and challenging. Given the greater size of the EU market and regulatory influence of the EU, there are benefits to the UK aligning with EU regulations, but if the UK waits (as increasingly seems to be the case) for the EU to regulate more tech businesses will locate in the EU.

Labour and skills shortages are a critical concern for many businesses. These have been exacerbated by the end of Freedom of Movement and changes to immigration rules.

Which improvements in UK-EU trade and economic arrangements could support opportunities for your organisation?

Businesses' top priority for Government is the delivery of long-term economic growth.

In Prosper's manifesto for the General Election, we recommended that the next UK Government should build on the EU-UK Trade and Cooperation Agreement by working with the EU to address gaps and weaknesses (e.g. mutual recognition of professional qualifications, youth mobility and a veterinary agreement) and increase mutual benefits (e.g. market access for supply chains and cooperation on energy and financial services).⁵

Food and Drink Federation Scotland and Salmon Scotland are members of Prosper's IBC and businesses in the food and drink sector are often members of both their trade associations and Prosper. Food and drink is the UK's largest manufacturing sector and salmon is the UK's leading food export by value. The sector is key to productivity and employment in rural areas of Scotland. Prosper has seen the written evidence submitted by the Food and Drink Federation Scotland and Salmon Scotland to this inquiry and fully supports the recommendations that both organisations have made in their submissions – such as creating a bespoke and mutually convenient Sanitary and Phytosanitary (SPS) agreement, and removing the unnecessary requirement for UK-wide 'not for EU' labelling.

The UK-EU TCA UK Domestic Advisory Group's report identified a range of key priorities which, as members, Prosper would support. In addition to the priorities already stated above, this includes Implementation of the UK Border Target

⁵ Prosper's Manifesto is available [here](#).

Operating Model, alignment of the planned EU and UK Carbon Border Adjustment Mechanisms, UK participation in North Seas Energy Cooperation, and rules and rights for people travelling on business.

Prosper also recommends that the EU and UK should work towards equivalence (e.g. labelling) in new Sustainability Disclosure Standards for companies. If this is not achieved then businesses will face the costs and complexities of compliance with two regimes.

The report on the TCA by Prosper's IBC proposed 6 key actions:

| Action | Including by: | Primary Responsibility |
|---|---|--|
| 1. Work with industry to capture and act on trade frictions | <ul style="list-style-type: none">• Creating domestic TCA advisory groups• Tasking Government overseas offices with resolving trade frictions• Sharing examples of successful actions | UK and Scottish governments, industry |
| 2. Work with EU counterparts to close gaps in the TCA | | UK Government and regulators |
| 3. Deliver secure and efficient digital borders | | UK Government |
| 4. Secure future Horizon Europe access | | UK Government |
| 5. Engage positively with the EU on policy development and impact | <ul style="list-style-type: none">• Scaling-up Scotland House Brussels' engagement with EU institutions and Scottish industry/stakeholders• Facilitating a programme of regular Policy Missions from Scotland to EU institutions | Scottish Government, industry and civic organisations |
| 6. Increase industry/ civic engagement with EU counterparts | | Scottish industry and civic organisations, Scottish and UK Governments |

Prosper welcomes the positive progress in relation to some of these actions.

Prosper's IBC has also frequently raised the importance of a dedicated, widely known and regularly updated trade information portal to support SMEs with compliance with existing and new trading requirements, and signpost them to sources of advice and assistance.