Dear Secretary of State,

UK Internal Market White Paper

The Finance and Constitution Committee in the limited time available over our parliamentary recess has carried out an initial examination of the proposals in the UK internal market white paper. The Committee has been able to draw upon previous evidence which we have received in our inquiry on the UK internal market as well as briefings from our Adviser, Professor Kenneth Armstrong, and SPICe.

Consultation

It is deeply regrettable that the proposals within the white paper were published during the Scottish Parliament’s recess period and the consultation lasted only four weeks. We agree with the Welsh Parliament’s Legislation, Justice and Constitution Committee that the “timeframe for consideration of your proposals is wholly inadequate.” We also agree with them that as your proposals contain “little detail as to how the mechanisms for managing an internal market will work in practice, there is little scope for meaningful engagement by the devolved legislatures and stakeholders before the introduction of a UK Bill.”

__1 Alexander Burnett MSP, Donald Cameron MSP and Murdo Fraser MSP do not support this submission.


__3 https://www.parliament.scot/S5_Finance/General%20Documents/Briefing(1).pdf

__4 https://business.senedd.wales/documents/s103831/Correspondence%20from%20Chair%20of%20the%20External%20Affairs%20and%20Additional%20Legislation%20Committee%20to%20the%20Right%20%20.pdf
It is also regrettable that you declined our invitation to provide evidence to help inform our response to the consultation on the morning the Committee took evidence on the white paper. It would have been very helpful for the Committee to have been able to explore the policy objectives of the proposals with you before submitting our views.

In general the Committee’s view is that there is an onus on all four governments and legislatures across the UK to work constructively together to seek a solution to this complex and challenging issue. This must be achieved through mutual trust and respect for the existing constitutional arrangements within the UK. In particular, as this Committee has emphasised on numerous occasions, the UK Government post-Brexit must respect the devolution settlement.

There must be a transparent and inclusive public debate on the white paper proposals which allows all interested parties and the wider public to contribute. The significance of the proposals for all citizens across the UK means that the solution cannot be left to the UK Government to decide. A consensus needs to be achieved and this requires a much longer, inclusive and more detailed debate than what is currently being proposed.

The Committee provides our initial views on the white paper below but intends to carry out further work in this hugely important area once the legislation is published. The Committee’s view is that a draft Bill should be published for a full consultation before the legislation is introduced. The Committee invites you to respond to these initial views and to give a commitment that you are willing to give evidence by video conference to discuss your response.

**The Internal Market – What We’ve Been Told**

The white paper states that the UK’s Internal Market “is the set of rules which ensures there are no barriers to trading within the UK.” However, the evidence which the Committee has received suggests that the concept is much more complex and contested.

The evidence which we have received tells us that from the experience of the EU internal market we can learn four general lessons –

- An internal market is not an uncontested concept
- Trade-offs and balances are involved in making an internal market
- The operation of an internal market depends upon its governance architecture and its relationship with constitutional settlements.
- There is more than one way to design an internal market.

Responding to the Committee’s call for views on the UK internal market earlier in the year, the Royal Society of Edinburgh (RSE) state in written evidence to the Committee that the UK internal market “is a contested term with no single agreed definition.” This stands in stark contrast to the EU’s well-defined internal market and the RSE suggested that the EU principles of subsidiarity and proportionality should be adopted.

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within the UK internal market. Professor Keating’s view is that an internal market is a “complex and contested concept” which raises socially and politically sensitive questions.

The Food and Drink Federation Scotland view the internal market in terms of its impact on the economy, noting that “many businesses within the Food and Drink manufacturing industry view the UK (and the Republic of Ireland) as an internal single market.” In its view, the internal market “should be seen as a process and a set of institutions rather than a definition of policy”. It also suggests that a UK internal market “would have common regulatory standards and a common trade policy across the devolved nations”.

The Scottish Retail Consortium (SRC) noted that “Scottish consumers and our economy as a whole benefit enormously from the UK’s largely unfettered internal single market” through, for example, economies of scale. “When that is allied to regulatory consistency retailers are able to reduce their costs and increase productivity, which in turn keeps down shop prices and provides more choice for customers.”

The National Farmers’ Union Scotland (NFUS) told us that it “is crystal clear that the UK market is by far the most significant market for Scottish agricultural produce.” Therefore, maintaining “the integrity and competitiveness of the UK internal market is therefore extremely important for Scottish agriculture and the producers which NFUS represents.”

The Committee recognises the economic benefits to businesses across the four nations of the United Kingdom of having a set of rules which ensures there are no barriers to trading within the UK. Equally we recognise the benefit to society of effective regulation of market activity, and the role of all parliaments including the Scottish Parliament in deciding how best to strike the balance between these objectives. The Committee’s view is that how this is achieved, monitored and enforced is highly complex, contested and must take account of the existing constitutional arrangements within the UK. At a minimum, this must be based on an inclusive dialogue with the devolved governments and parliaments as well as interested parties and the wider public and must not be imposed. More substantively, the legal design of an internal market involves choices, balances and trade-offs that demand detailed consideration.

Lessons from the Design of the EU Internal Market

The Committee has previously noted that the EU internal market is governed by a complex set of treaty provisions, legal principles and legislative measures proposed by the European Commission, accepted by the Council of the European Union (by qualified majority vote among the member states) and interpreted and enforced by the national courts of the Member States under the supervision of the European Court of Justice (ECJ).

EU rules are also subject to the principles of proportionality and subsidiarity which stipulate that action should be taken at the lowest level of government which is practicable and should only be broad enough to achieve its aim. EU legal frameworks,
therefore, seek to achieve common outcomes despite the different legal and constitutional frameworks in each member state.

The Committee’s Adviser explains that there are three principal ways in which harmonisation within the EU internal market works –

- **No Harmonisation at EU level**: Each member state is competent to regulate and to make its own determination of what level of risk its inhabitants and consumers are willing to accept. A jurisdiction can seek to impose high standards provided there is a recognised justification for doing so and the response is proportionate. Recognised public interest goals include the protection of public health, animal welfare and consumer protection;

- **Total harmonisation at EU level**: Goods and services must be permitted access to the internal market if they comply with common EU rules. Member States cannot adopt or enforce local rules that are incompatible with these harmonised EU rules;

- **EU law sets minimum requirements**: Where there is an internal market dimension then the rule is that goods that comply with minimum requirements demanded by EU law MUST be permitted market access to another jurisdiction even if that jurisdiction imposes more stringent rules for its own producers.

The Committee also notes that the EU has established common rules and standards to facilitate the workings of the Internal Market in areas such as employment and social policy, environmental policy and common rules on competition. The effect of this is to establish a level playing field for economic activity across all 27 EU member states.

Finally, it is important to pay attention to the key role played by national and EU courts in the interpretation and enforcement of this body of law. Despite the EU’s competence to enact common rules, the legal principles developed and applied by the ECJ have been paramount in opening up the markets of the EU Member States.

It is, therefore, apparent that the legal design of the EU internal market involves making choices about the role to be played by different levels of governance, different legal instruments and different institutions. The choice of model creates a particular balance of values and interests.

**The Committee has previously considered evidence which suggests that two fundamental questions in considering the concept of a UK internal market are –**

- The degree to which the internal market requires the harmonisation of laws and regulations and how far the requirement of harmonisation extends; and

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• What range of goods and services should be included in the internal market?

The Committee notes that the white paper does not sufficiently address these questions and therefore it is difficult to understand the model of internal market being proposed. The Committee invites the UK Government to provide a detailed response to these fundamental questions.

The Committee's view is that, other than the principles of mutual recognition and non-discrimination, it is striking that there is no discussion within the white paper about what other principles should underpin the design and operation of a UK internal market. Without such an approach, it is unclear how a commonality of approach to the internal market can be agreed across the four governments and legislatures within the UK. In particular, there is no discussion about how baseline standards or fundamental principles in relation to environmental policy can be achieved across the UK given that this is a devolved competence.

The Committee recognises that the current devolution settlement and EU law already allows for often significant policy divergence and, in relation to common frameworks, the JMC has agreed that frameworks will “maintain, as a minimum, equivalent flexibility for tailoring policies to the specific needs of each territory as is afforded by current EU rules.” However, without a broad set of principles and a commonality of approach to agreeing minimum standards, it is unclear what “equivalent flexibility” means in this context.

**Common Frameworks**

In the absence of a broad set of principles, the UK and devolved governments have sought to deliver a commonality of approach through common frameworks at a specific policy level. The white paper proposes that common frameworks “aim to protect the UK Internal Market by providing high levels of regulatory coherence in specific policy areas through close collaboration with devolved administrations to manage regulation. They do this by enabling officials to work together to set and maintain high regulatory standards.”

The key elements of common frameworks as set out in the white paper are that they will –

- maintain, as a minimum, the same degree of flexibility for tailoring policies to the specific needs of each territory as was afforded by the EU rules;
- aim, in some policy areas, to establish and maintain common standards in order to maintain our high regulatory standards; and
- be the vehicle for discussing and maintaining standards in relevant policy areas.

The Joint Ministerial Committee (EU Negotiations) in October 2017 set out a definition and set of principles to guide negotiations on the agreement of common frameworks. Frameworks “may consist of common goals, minimum or maximum standards,
harmonisation, limits on action, or mutual recognition, depending on the policy area and the objectives being pursued." Frameworks would also –

- enable the functioning of the UK internal market, while acknowledging policy divergence;
- ensure compliance with international obligations;
- ensure the UK can negotiate, enter into and implement new trade agreements and international treaties.

In addition, the Committee has previously stated its belief that the application of general principles of EU law to common frameworks is a critically important area of work.

The UK and devolved governments already have experience of managing policy divergence within the requirements of the EU internal market underpinned by principles such as subsidiarity and proportionality. These principles enable flexibility for tailoring policies which common frameworks also seek to achieve. The Committee has, therefore, previously asked whether consideration has been given to underpinning the development of common frameworks with such principles.

A significant area of dispute between the UKG and SG is whether the proposed internal market legislation is required in addition to common frameworks. The white paper suggests that the proposals provide a baseline level of regulatory coherence across a wider range of sectors than covered by frameworks. The Scottish Government suggest that the common framework approach means that the proposals are not needed to address the overall objective of the white paper to ensure that seamless trade is maintained across the UK.

The NFUS have told us a number of times that Common Frameworks “must be introduced, both to preserve the UK Internal Market and to ensure that the UK does not breach its international obligations.” They are “greatly concerned that the proposals within the White Paper could overrule any progress that has been made in the negotiation of Common Frameworks.” In their view, “a more common-sense approach would be to introduce internal market legislation after the development and implementation of Common Frameworks arrangements.”

The Committee’s view is that there is a real lack of clarity regarding how the preferred approaches of both governments would work in delivering a UK internal market which respects the current devolution settlement. In particular, in the absence of an agreed set of principles and working methods, how a commonality of approach and baseline rules and standards can be jointly agreed between the UK Government and the devolved governments. More significantly, there is a real lack of clarity regarding what happens if agreement cannot be reached in individual policy areas where it is accepted that minimum standards and rules are required to facilitate the internal market.

The Committee recommends that any agreement to common UK approaches, in the absence of EU rules, must be agreed between equals and not imposed. For

the internal market to work effectively within the existing UK constitutional arrangements there needs to be a commonality of approach to agreeing the necessary trade-offs and balances that are inherent in the design of any internal market. This includes agreeing policy areas where minimum or maximum standards and/or harmonisation is required to ensure a level playing field for market access across the UK. The Committee agrees that consensual common frameworks remain the most effective way of delivering this approach. But the Committee recommends a more extensive and inclusive reflection on the broad set of principles that could underpin a UK internal market similar to those principles, including subsidiarity and proportionality, which govern the EU single market. This should involve and be agreed by all four governments and legislatures.

Mutual Recognition and Non-Discrimination

The white paper states that the “proposed legislation will be based on the principles of mutual recognition and non-discrimination and will apply across both goods and services”. While these principles are key to the operation of the EU internal market, the Committee notes that it is essential that they are properly understood and the implications of their application outside of the context of twenty-seven sovereign EU states are fully appreciated.

Mutual recognition

The white paper explains that the fundamental aim of mutual recognition, while accepting that it will not be appropriate or possible in all areas, is to “ensure that compliance with regulation in any one territory is recognised as compliance in the other(s)”. This means, for example, that a good produced in one nation in accordance with the regulatory requirements of that nation, can also be sold in other nations within the internal market without the need to comply with any additional regulatory requirements in those nations.

The Committee’s Adviser suggests that this approach is an example of a model of home country control in which the local jurisdiction is denied the competence to regulate the cross-border access of goods and services. In his view, this model is potentially more far-reaching than the basis of mutual recognition within the EU internal market.

Within the EU, goods and services cannot be excluded from a market simply because they originate outside of the jurisdiction. There is also a strong presumption that, once a good or service is placed on the market in one jurisdiction, it should be permitted access to the markets of the other jurisdictions. But this presumption is capable of being rebutted if the local jurisdiction can demonstrate a legitimate public interest justification for the proportionate application of local rules. In this way, the competence of the host state is controlled but not denied.

The NFUS are concerned that, in the absence of common frameworks, “the ‘mutual recognition’ proposal within the White Paper could in fact have adverse impacts for
the competitiveness of Scottish agricultural producers.” They provide a hypothetical example of the Scottish and UK governments adopting differing policies to the regulation of a Plant Protection Product (PPP). This could mean producers elsewhere in the UK who have access to a (hypothetical) PPP could sell a product treated with the PPP in Scotland, to the competitive disadvantage of Scottish producers whose access to said hypothetical PPP is restricted.

Professor Michael Dougan told us that “mutual recognition means that there are significant limits on the ability of any given territory to set and enforce its own social policy choices in a truly effective and systematic manner.” For example, “Territory X might ban the production of GMOs within its own borders – but it cannot stop the importation of GMOs which have been lawfully produced in Territory Y.” In his view an approach based on mutual recognition might in effect force the other nations of the UK to follow the approach of England due to the size of the English market.

Professor Keating has also made this point highlighting that in the UK, as England has 85% of the population, in the absence of harmonisation, it will be English standards, set by the UK Government, that prevail. If unmediated, this extraterritorial effect risks undermining the regulatory autonomy of the devolved nations.

Our Adviser points out that the proper function of the mutual recognition principle is to prevent the duplication of regulatory controls - including testing, certification, or authorisation procedures - which have already been conducted when a good or service is first placed on the home market and which are comparable or equivalent to those that can be legitimately demanded by the local jurisdiction where market access is sought. Mutual recognition is a limit on the exercise of the competence of the local jurisdiction to regulate not a means of excluding that jurisdiction entirely.

The Scottish Government has suggested that these proposals could mean that a reduction in standards in one part of the UK would have the effect of pushing down standards elsewhere in the UK. Equally a decision to adopt higher regulatory standards would place a greater burden on businesses subject to them therefore placing them at a competitive disadvantage. The implications of this sort of regulatory competition require further consideration.

Non-discrimination

The white paper also states that the “mutual recognition system will be combined with a non-discrimination principle.” This will ensure that “an authority must regulate in a way that avoids differential and unfavourable treatment to goods or services originating in another part of the UK to that afforded to its own goods or services.”

The non-discrimination principle prohibits obstacles to market access deriving from direct discrimination based on the origin of a good in another constituent jurisdiction of the UK. Our Adviser explains that the White Paper implies that – but solicits views on whether – this should extend to rules that are indirectly discriminatory. This has the potential to encourage a large number of legal challenges to be brought to local rules alleged to prevent or impede market access.

9 https://www.parliament.scot/S5_Finance/General%20Documents/Michael_Dougan.pdf
Our Adviser states that it “is unclear whether this principle entails the balancing of economic freedom with the public interest in local regulation and if so, which public interests are recognised as legitimate interferences with market access.” Our Adviser also suggests that “with different legal principles in operation, the demarcation of the dividing line between the application of the “mutual recognition” and “non-discrimination” principles will be both crucial but also difficult.”

The Committee is concerned that adopting the principles of mutual recognition and non-discrimination without addressing the fundamentals of what the UK internal market will look like creates significant risk for how devolution works. In particular, as noted above there is a need to address

- the degree to which the internal market requires the harmonisation of laws and regulations and how far the requirement of harmonisation extends; and
- What range of goods and services should be included in the internal market?

While common frameworks may to some extent ameliorate that risk progress on these has been slow and there has been very little parliamentary scrutiny or public engagement on the content of these arrangements. Furthermore, it is likely that many of these frameworks will be non-statutory arrangements at an inter-governmental level.

Consequently, it is unclear, especially in the absence of robust inter-governmental institutions including effective dispute resolution mechanisms, what happens if agreement cannot be reached on harmonisation in specific policy areas. The Committee’s view is that there is a real risk therefore that the regulatory competences of devolved nations will be challenged either because regulatory standards are determined by UK legislation – particularly if necessary to comply with the UK’s international obligations under new trade deals – or because legal challenges in UK courts seek to enforce market access principles.

We reiterate our view as stated in our report on common frameworks that “we strongly agree that the ongoing work to define the UK internal market also respects the devolution settlement such that enabling the functioning of the UK internal market must not and will not be at the cost of adjusting the devolved competencies without the consent of the Scottish Government and Scottish Parliament.”

Governance, Independent Advice and Monitoring

The white paper states that governance arrangements “will seek to build on the existing collaboration between the UK Government and devolved administrations, ensuring a strong basis for political decision-making, oversight, and dialogue in

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relation to the Internal Market.” This includes taking account of common frameworks, the review of intergovernmental relations and ensuring that any existing dispute avoidance and resolution mechanisms can address potential disagreements on the Internal Market.

SPICe point out that it is not clear from the white paper, how the role of an independent body would be developed or how an independent body would be composed. For example, whether there would be an opportunity for the devolved administrations to feed into either the membership or workings of such a body. SPICe also point out that it is unclear what relationship an independent body would have with the devolved administrations and whether it could influence the nature of legislation that might be relevant to the UK Internal Market in the devolved legislatures. More generally, SPICe point out that the white paper makes little reference to how the devolved institutions will be involved in the governance of an internal market.

In January 2019 the Committee reported that that “the current structure of IGR has been widely recognised as not fit for purpose for a considerable period of time. The process of Brexit requires that this situation is finally addressed as a matter of urgency.” Since then it would appear that there has been very little progress in addressing this and there is concern that relations have in fact deteriorated.

It is not clear to the Committee how the approach which the UK Government has adopted to developing its proposals to the internal market white paper is conducive with its description of existing governance arrangements in the white paper. In particular, it is unclear how this approach amounts to a strong basis for political decision-making.

The Committee’s view is that, in the absence of governance arrangements which recognise a parity of esteem for the four governments of the UK in areas which are devolved, it is very difficult to envisage how the proposals in the white paper can work while respecting the devolution settlement.

Independent Advice and Monitoring

The white paper recognises that, while not wishing to replicate the role of the European Commission in monitoring the EU single market, “there remains an important role in relation to the Internal Market for independently-delivered functions removed from its own political influence and that of the devolved administrations.” These two functions are –

- providing regular ongoing monitoring of, and reporting on, the health of the UK Internal Market as it develops;
- proactively gather business, professional, and consumer views to strengthen the evidence-base needed for independent advice and monitoring.

11 https://spice-spotlight.scot/2020/07/30/the-uk-internal-market-proposals-intergovernmental-relations/
With regards to the first of these functions the white paper states that, while assessing the likely costs and benefits of policymaking is standard practice across the UK, “no administration currently explicitly considers the impact of their regulatory decisions on other parts of the United Kingdom on an individual or collective basis, including whether their proposals may be discriminatory.” The UK Government therefore proposes that “independent expert advice should be available on the potential impact of a proposal on the Internal Market, including to legislatures, rather than being isolated to individual administrations.” The Committee’s Adviser points out that whatever body is established for these purposes, outputs will be in the form of advice and non-binding recommendations.

The Committee notes that given the independent advice and monitoring functions are non-binding there is a risk to the devolved governments that the UK Government would be the arbiter in areas of dispute even in devolved policy areas.

The Committee further notes that the White Paper is entirely silent on which body would be responsible for taking binding decisions on market access. The clear implication is that this will be the courts. Further clarification is required as to what role courts will be asked to play and what remedies will be at their disposal to enforce market access requirements.

External Trade

The White Paper locates its proposals in the context of the competence of the UK Government for international relations and the responsibilities of devolved administrations to observe and implement the UK’s international obligations. For the UK Government, a well-functioning internal market facilitates its ability to enter into ambitious new trade deals while making the UK an attractive location for foreign investment.

Our Adviser notes that there are mechanisms contained in the Scotland Act to ensure that the UK’s international obligations are complied with but the White Paper does not elaborate what, if any, alternative mechanisms might be desirable to manage an internal trade policy where competences are divided with an external trade policy which is reserved to the UK Government.

The Committee notes that the proposed market access commitment will have an impact on the negotiation of future trade deals. If a good placed on the market in one nation of the UK can go into free circulation in all the nations of the UK, then it would only require the UK Government to ensure that the law allowed goods covered by any trade deal to be placed on the market in England for those goods also to go into free circulation. As noted above, the fact that goods could be legally sold in England would then mean they could be legally sold in the other nations of the UK. As such, this proposal could enable the UK Government to make commitments in its trade deals knowing the Devolved Administrations would be unable to prevent the sale of goods, if those goods could legally be placed on the market in England and benefit from the market access commitment.
The Committee would welcome clarification from the UK government in relation to how the proposals in the white paper will impact the negotiation on future trade deals. In particular, the Committee would welcome assurance that the proposals will not undermine the need to ensure that the devolved governments are effectively involved in these negotiations in respect of devolved policy areas. Furthermore, the Committee seeks assurance that the UK Government does not intend to use the proposed powers in the white paper to impose policy alignment in regulatory standards where agreement cannot be consensually agreed with the devolved governments.

**A Coherent Approach to Subsidy Control**

The White Paper notes that until now the UK “had a single subsidy control regime as it has been subject to the EU rules on State Aid regulated by the European Commission.” It states that the UK Government “remains committed to maintaining open and fair competition between businesses in all parts of the UK and it will do so by clearly moving away from the EU’s State Aid rules to create our own, sovereign subsidy control regime.”

The UK Government’s view is that State Aid is a reserved matter. However, the white paper states that “while this reservation would be sufficient to encompass an approach to subsidy control that mirrored the EU State Aid regime in the UK, the existing devolution settlements do not contain any general reservation for subsidy control.” Consequently, the White Paper proposes to “expressly provide that subsidy control is a reserved matter (or ‘excepted’, in line with the terminology used in Northern Ireland).”

The Scottish and Welsh Governments consider state aid to be a devolved matter. Their views are set out in written evidence to the Secondary Legislation Scrutiny Committee of the House of Lords. The Scottish Government said that the “effective functioning of the internal UK market [would] require close co-operation on State aid between all the UK administrations”, and emphasised it would be “vital” for the devolved administrations to be fully involved in developing the post-Brexit UK State aid regime.

The Scottish Government’s view of the white paper proposals is that “there is no reason for the UK Government to have exclusive competence over subsidy control, especially as decisions on subsidies are very particular to local circumstances and industrial concerns as has been seen in Scotland over recent years.”

The Committee intends to take further evidence on State Aid/Subsidy Control as part of its further work on the proposals in the White Paper and any subsequent UK legislation. To assist us in this work the Committee invites the UK Government to set out the rationale for its view that State Aid is currently reserved.

**Conclusion**

In general, as noted above, the Committee’s view is that there is an onus on all four governments and legislatures across the UK to work constructively together to seek a solution to this complex and challenging issue. This must be achieved through mutual
trust and respect for the existing constitutional arrangements within the UK. In particular, as this Committee has emphasised on numerous occasions, the UK Government post-Brexit must respect the devolution settlement.

There must be a transparent and inclusive public debate on the white paper proposals which allows all interested parties and the wider public to contribute. The significance of the proposals for all citizens across the UK means that the solution cannot be left to the UK Government to decide. A consensus needs to be achieved and this requires a much longer, inclusive and more detailed debate than what is currently being proposed.

Yours sincerely

Bruce Crawford MSP
Convener