OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Jobs and Fair Work Committee

Tuesday 27 September 2016

Session 5

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ECONOMY, JOBS AND FAIR WORK COMMITTEE
6th Meeting 2016, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

Jackie Baillie (Dumbarton) (Lab)
*Ash Denham (Edinburgh Eastern) (SNP)
*Liam Kerr (North East Scotland) (Con)
*Richard Leonard (Central Scotland) (Lab)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Gillian Martin (Aberdeenshire East) (SNP)
*Gil Paterson (Clydebank and Milngavie) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Erik Geddes (Edinburgh Airport)
Graeme Jones (Scottish Financial Enterprise)
David Lonsdale (Scottish Retail Consortium)
Mari Tunby (Confederation of British Industry Scotland)
Gareth Williams (Scottish Council for Development and Industry)
David Williamson (Scotch Whisky Association)

CLERK TO THE COMMITTEE

Alison Walker

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Jobs and Fair Work Committee

Tuesday 27 September 2016

[The Convener opened the meeting at 10:47]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): I welcome everyone to the sixth meeting of the Economy, Jobs and Fair Work Committee. We have apologies from Jackie Baillie, who is a member of the committee.

I ask everyone to turn off any electronic devices that may interfere with the smooth running of proceedings.

The first item on the agenda is to decide whether to take items 3 and 4 in private. Does the committee agree to take those items in private?

Members *indicated agreement.*

Big Business

10:48

The Convener: We move to our round-table discussion with our guests from the big business sector, which we are looking at. We are interested in hearing as much as possible from them. If anyone wants to come into the discussion, they should raise their hand and I will note that and bring them in as soon as I can. There is no need to switch on your microphone—broadcasting deals with that.

I ask our guests to introduce themselves, giving the organisation that they represent.

Graeme Jones (Scottish Financial Enterprise): I am the chief executive officer of Scottish Financial Enterprise.

David Lonsdale (Scottish Retail Consortium): I am director of the Scottish Retail Consortium.

Erik Geddes (Edinburgh Airport): I am communications manager at Edinburgh airport.

Gareth Williams (Scottish Council for Development and Industry): I am head of policy at the Scottish Council for Development and Industry.

David Williamson (Scotch Whisky Association): I am the public affairs director at the Scotch Whisky Association.

Mari Tunby (Confederation of British Industry Scotland): I am assistant director for policy at the Confederation of British Industry Scotland.

The Convener: I want to ask about the apprenticeship levy. What will our guests who are interested in that aspect of Government policy look for from the Scottish Government in that area? Does David Lonsdale want to comment on that?

David Lonsdale: Thank you for that invitation and for the opportunity to be at the meeting. I am very happy to comment on that and will follow that up with other information if there are any questions afterwards.

Our industry has a great record of investing in staff. It is in our interests to do so. Obviously, our members often have extensive branch networks, they deal with customers on a day-to-day basis and they deal increasingly with technologies, so they need to keep abreast of those things.

On the apprenticeship levy, we have supported the call for more apprenticeships in industry, but we would not have started from the position that we are in if we were designing the apprenticeship levy. If truth be told, it came somewhat out of the blue from the chancellor last year.

In a Scottish context, we ask that firms that contribute to the apprenticeship levy be allowed to benefit directly from it. That was one of the recommendations that we put to the Cabinet Secretary for Finance and the Constitution in our budget submission a few weeks ago.

That is our starting point on the apprenticeship levy. Obviously, it was designed at Westminster and it came somewhat out of the blue, but we are keen to ensure that firms in Scotland benefit directly from it.

The Convener: What form would or might that benefit take, if I might put things a bit more generally?

David Lonsdale: We published a position paper a couple of months ago and we have responded to the Scottish Government's consultation on the issue. Essentially, we would like firms in the retail sector in Scotland to be able to access that cash, ideally to spend on skills in the round and not necessarily on apprenticeships. Obviously, firms will require different types of skills at different points in their history or the development of their business. In one particular year, apprenticeships might be required, but something different might be required in a subsequent year as the market changes. That is particularly true in the retail industry, given the structural challenges. It is a matter of the ability to tap the funds that will be raised in Scotland.

We estimate that the apprenticeship levy will generate around £12 million to £15 million from the Scottish retail industry. Obviously, a number of retailers focus their operations just in Scotland, so they will pay the levy but not necessarily benefit from it under the current envisaged arrangements. Allowing what I described to happen would be a huge step forward.

The Convener: Does any of our other guests want to come in on the apprenticeship levy?

Gareth Williams: It is important to say that we have a very strong apprenticeship model in Scotland and that we want to protect its quality and not just go for a volume approach. That is an important consideration for us in the design of any new support.

We think that there is scope to increase the number of apprenticeship starts to 30,000 in line with what the Scottish Government has planned, and we welcome the increased diversity in the apprenticeships that are being made available, but we have strong concerns about the lack of clarity in how the apprenticeship levy was announced—that has been touched on—and we have a continuing concern about the details of how it will operate. There are specific concerns about the sectors that already make industry contributions towards training, such as the construction sector, and how the apprenticeship levy will operate alongside those sectoral levies.

We would certainly agree with the points that David Lonsdale has made. There are concerns not only in big business but in the public sector, such as universities and colleges, about how organisations can benefit from the money that they will pay towards the apprenticeship levy. I encourage the United Kingdom and Scottish Governments to consider delaying the introduction of the levy and to consider how to ensure that the additional funding that will be generated can support the needs of businesses and others in relation to apprenticeships and wider skills needs.

Mari Tunby: Our latest education and skills survey has found that 79 per cent of the Scottish businesses that we work with participate in apprenticeship training schemes in some form. Apprenticeships are a hugely important part of the skills investment that companies make.

Other witnesses have pointed out the concerns about the apprenticeship levy. However, in terms of our contributions to the Government on the issue, we have been seeking solutions as to how we implement what is quite a tricky policy. We have said to the Scottish Government that it should treat it as a skills levy rather than an apprenticeship levy. Apprenticeships are an important part of the skills investment that companies need, but they are not the only part. Changing demand and global competition mean that there is a huge demand for reskilling the existing workforce.

As I said, we ask that the apprenticeship levy be treated as a skills levy, which would mean giving employers direct access to the funds and giving them the flexibility to continue to invest in skills in a broader sense for both apprenticeships and the needs of the existing workforce. A welcome additional flexibility would be to expand the age range for apprentices in order to give companies more flexibility to expand their offer.

More broadly, we need to look at cross-border arrangements and ensure that companies that have operations in Scotland but that are headquartered elsewhere have the opportunity to use in Scotland the levy funds that they get returned, if they deem that necessary. We also need to ensure that delivery systems across the devolved nations of Wales, Northern Ireland and Scotland, as well as those in England, communicate with one another. That requires transparency, collaboration and consistency so that we can help as much as we can continued skills investment.

The Convener: Mr Jones, do you want to come in on that?

Graeme Jones: I do not have anything to add, except to express my support for the views of Mari Tunby and David Lonsdale, who articulated them extremely well.

Liam Kerr (North East Scotland) (Con): I have two questions, the first of which is principally for David Lonsdale, who spoke before the meeting about the large business supplement potentially having a negative impact on the sector. I understand that the large business supplement might add about £62 million to business rates bills. Can you give us more detail about that? Does anyone else have any input on it? Further, are there any thoughts on the abolition of empty buildings relief?

My next question is for David Williamson of the Scotch Whisky Association. There has been a mushrooming of the craft ale industry as a result of a tax break given by Gordon Brown 10 years or so ago. Should we be looking for your sector to do something similar? You spoke before the meeting about encouraging craft distillers. Is that something that we can be doing?

11:00

David Lonsdale: Thank you for that question. We have a broader challenge with the business rates system in Scotland. There are two aspects to that: the system does not reflect economic and trading conditions in the country, and bills get ratcheted up every year regardless of whether the economy is doing well or less well. We have seen that happen through the recession and the recent economic cycle. So, the system does not reflect the economy and bills keep rising. In that context, unsurprisingly, the introduction of the large business supplement does not help but adds to the burden. Our estimate is that the rates bill will cost the retail sector in Scotland about an extra £15 million a year on top of the £700 million or so contribution from the sector. That is in a context where retail sales have been flat at best over the past 12 months, even when we factor in that shop prices are falling at the moment. There is therefore an issue.

There is profound structural change and people do not have a tremendous amount of money at the moment, and at the same time costs such as rates are rising. That is certainly front and centre for our industry at the moment. It is why we were one of 13 organisations that earlier this month wrote to the finance secretary to say that those costs are a common issue across all our sectors and business organisations and their memberships. We made a plea to him to try to take action in his budget when it comes up in a couple of months.

The Convener: Before we go to David Williamson, Gil Paterson has a question for David Lonsdale.

Gil Paterson (Clydebank and Milngavie) (SNP): It is a general question on rates, but it impacts on his members.

The Convener: We will take the question now and then go to David Williamson.

Gil Paterson: The small business bonus came about because of the difficulties during the recession for small businesses, and it was aimed at them. However, has there been any research on the wider impact of the small business bonus on, for example, the retention of shop property in shopping centres and how the buying power of small businesses extends into bigger businesses? Small businesses tend to buy local services from plumbers, joiners, lawyers and so on. Has any research been done on how the small business bonus has helped big businesses in that way?

David Lonsdale: My understanding is that the Scottish Government has commissioned external research a couple of times on the small firms rates relief scheme, but not on the particular aspect to which Mr Paterson refers. However, we support the small firms relief for the simple reason that it is an implicit acknowledgement that business rates and other costs are an issue for business. We think that they are an issue for all businesses. The Scottish Government has commissioned a review of rates under Ken Barclay, and we are engaging with him at the moment and will put in a submission to his review. We are looking for the changes that I outlined a few moments ago. Rates are an issue for industry, and not just in retail. As I said, we pay about a quarter of all business rates, but in my experience it is an issue that permeates many sectors of the economy.

The Convener: We will go back to David Williamson on the earlier question.

David Williamson: I have been in the Scotch whisky industry for nearly 20 years and I cannot remember a more interesting time in terms of the number of new distilleries that are being opened across the country. Just last week, two new distilleries were announced, in Speyside and in Islay. Over the past three years, more than 10 new distilleries have opened. Going by conversations across the industry, we reckon that around 40 new distilleries are planned and are at different stages of development. To give the committee a sense of why that is important, we need only another five or six distilleries to open in Scotland for us to reach a post-war record high in the number of distilleries.

There is an exciting trend of new small distillers coming into the sector, although they face high barriers to entry into our market. They have to lay down stock for at least three years before it is even regarded as Scotch whisky and will have to mature it for significantly longer than that before they sell it as a single malt or blend it. Looking at different ways to support companies investing in that part of the industry is important.

I have no doubt that we will talk a lot about the challenges of Brexit during this evidence session, so I will hold my fire on that subject. Since June, the industry has also tried to look at where there may be potential opportunities, and Mr Kerr's question about taxation and small distillers highlights an area in which there is such potential. Currently, European Union legislation restricts the tax rate reductions that member states are able to offer to smaller distillers. Directive 92/83/EEC allows member states to apply a tax reduction of up to 50 per cent for producers of up to 10 hectolitres of pure alcohol. That is not very much and, over the years, the UK Government has not availed itself of that mechanism.

There is the potential for the Government to take a different approach in future, should it choose to do that. The industry campaigns around the world for fair and equal taxation of Scotch whisky, making sure that there is no discrimination. If we could put in place a system that offered reduced rates for all distillers up to a certain production threshold, there might be an opportunity to support small new entrants into the industry while maintaining the important principle of non-discrimination in taxation that the industry argues strongly for in markets around the world.

At the moment, because of the framework in which tax policy is set, we could not do that. However, further down the line, that might be an area to look at. I can outline many challenges of Brexit if the committee wishes, but that is an area in which there is an opportunity to do something different that would support the wide range of small new producers that are coming into our sector.

Mari Tunby: I have a quick point to make. Mr Kerr mentioned the removal of the empty property rates relief. That creates a bit of a challenge for commercial interests that have a presence in local communities where there is an economic challenge in terms of making things work. We would encourage the Government to look at giving local authorities some discretion to work with businesses to encourage their continued presence in the community. There is anecdotal evidence of some local authorities being better at reaching out to their local businesses to talk about how they can work through the removal of the rates relief. Looking at that a bit more systematically might help local communities and businesses.

The Convener: David Williamson wants to come back on that point, and Gareth Williams wants to add something.

David Williamson: It is more a general point about business rates, as the subject has been raised. We are consulting our members in the context of the Barclay review. I am not going to prejudge where our members will land on that, but they have raised issues in the past about individual assessors taking different approaches in different parts of the country and what that might mean for different companies' tax burdens. They have also highlighted anomalies in the system. For example, a distillery that has invested in its renewables capacity faces a higher burden of business rates than others. We are exploring such areas with our members.

More generally, as we look at business rates and the tax environment at a time of uncertainty in the economy following the Brexit vote, we are getting the very strong message from our members, small and large, that we must ensure that the tax environment for businesses in Scotland is at least as competitive as the tax environment anywhere else in the UK—ideally, it should be more competitive. Areas such as business rates are important in that context.

With taxation, whether devolved or reserved, we must ensure that any system that we put in place delivers the revenue that is required—that is very important—but is also fair, transparent and as simple as possible. You will not be surprised if a representative of the whisky industry who is sitting in front of a parliamentary committee looks at taxation carefully in the context of excise duty, and excise duty would fail each of the tests that I have just set out. There is an opportunity to make sure that the country is as competitive as possible at a time of economic uncertainty.

Gareth Williams: I agree with everything that has been said. To add to what Mari Tunby said about empty property, there is an issue with speculative development, which is necessary for business growth, and varying application of the tax in different areas. It can be applied at the point of the property being complete or at the point of the property becoming occupied. We could try to get a more consistent approach to that that focuses on taxation at the point when the property is occupied and returns start to be made.

The Convener: John Mason has a question.

John Mason (Glasgow Shettleston) (SNP): It is on a different subject.

The Convener: Does anyone want to come back in on the issues that have just been discussed?

Andy Wightman (Lothian) (Green): I am interested in David Lonsdale's point about non-domestic rating. Given that it is a levy on rent, not turnover, should rents, and consequently non-domestic rates, not fall if the economic conditions are deteriorating? Why are rents not falling?

David Lonsdale: We have a revaluation coming up, which will take place seven or eight years after the last revaluation. You and I may have touched on some of this last year, when you were on the commission on local tax reform. One of the challenges of the rates system is that it does not reflect the economic conditions. An option is to have more regular revaluations to make the system better reflect the economic circumstances.

The structure of rents is an issue particularly in and around such things as commercial property and landlords. Many leases are structured on an upwards-only rent basis, and there are profound structural issues with that particular aspect that knock on. The reality is that the business rate poundage is, in effect, ratcheted up every year, which is causing issues. We then have the large business supplement on top, which makes things more challenging. All that comes at a time when retailers, in particular, have options for where they invest—whether in physical stores or in an online presence.

Andy Wightman: However, in an ideal world, rents would fall when economic conditions deteriorate.

David Lonsdale: We will see what comes out of the upcoming revaluation in due course. We have not had one for seven or eight years. At the moment, every firm in Scotland is paying a business rate that is based on what the conditions at the top of the market were at the beginning of 2008. That is the reality. Firms are paying that and are being asked to pay more every year, and there is the large business supplement on top of that.

I would like to respond to David Williamson's point. I understand that the purpose of today's evidence is to influence the committee's work programme, and David made the excellent point that it is the job of the Finance Committee—I appreciate that some members of this committee are also on the Finance Committee—to look at whether taxes are sound and whether they are going to generate the required revenue. We would like this committee to take an interest in whether taxes—whether they are business taxes or personal taxes, which are now the preserve of the Scottish Parliament and the Scottish Government—are the right thing for the economy. That is where we think that this committee can add its weight, for example, in relation to rates relief for small firms and the large business supplement. Is there an economic dynamic behind such things? Has that been explored, or are they simply revenue-raising measures?

11:15

Gordon MacDonald (Edinburgh Pentlands) (SNP): We touched on the possibility of the removal of empty property rates relief. What would we put in its place? In my constituency, a large supermarket site has remained empty for 10 years. The community is concerned that it is a deliberate policy to stop competition—that is, to stop a competitor taking over the site. When there is so much pressure to build housing on Edinburgh's green-belt sites and a large site has remained empty for more than 10 years, what mechanism should be put in place to encourage development, if empty property rates relief is not removed?

The Convener: Do you have any ideas on that, David?

David Lonsdale: Empty property rates relief is not something that we have touched on. A few weeks ago, we produced a budget submission for the Cabinet Secretary for Finance and the Constitution that covers all the priority issues for our industry. There is a simple reason that we did not alight on empty property rates relief, which goes to the heart of Gordon MacDonald's question. The retail industry is in a pretty difficult position, as it has been for a number of years. Retail sales have been flat for the past few years and not many retail businesses are expanding their footprint. As I said, there has been a retrenchment and there are now about 1,700 fewer shops in Scotland than there were six or seven years ago, according to Scottish Government statistics. Our indications and forecasts are that that drop will continue.

We would love to be in a position where there are people and companies—

Gordon MacDonald: My concern is about a supermarket that trades in an area over a number of years, moves a mile to a mile and a half down the road to new premises and does not sell off the old piece of land, either because it does not want a competitor at its back door or because it is land banking for the future.

David Lonsdale: It is difficult to comment on specific cases. Given the discussions that we have with most of our members, it would seem that they would bite off your hand for money, whether that is income from receipts or from selling capital assets. There may well be something in what you say.

The grocery market is changing. People are buying online and they are getting groceries delivered to their house. There are one or two retailers in the grocery sector that are picking up large properties, but the vast majority of them are not developing huge new estates. The market has fundamentally changed. We have talked about the end of the weekly shop. In a sense, people are using convenience purchasing more often.

The idea that another grocer is going to come along and take over a huge superstore is going to be much less common than it was before. Obviously, I cannot comment on particular cases, and I do not know the one to which you refer. Most companies in our sector would be delighted to try and offload assets, frankly. I do not know whether anyone has made a bid or whether the planning regime would allow a change of use.

Mari Tunby: This is not in any way a silver bullet, but I reiterate the point about the importance of giving local authorities the discretion and flexibility to have conversations with the businesses that are based in their area, to try to work out solutions that are mutually beneficial when it comes to sites or properties that they are struggling with, because there will be multiple reasons for those struggles. Those would be valuable conversations to have.

While we are on the topic of business rates, when looking at the business rates review and business rates more broadly, it is incredibly important to find ways of better reflecting economic realities in the rates system. As we are working on the solutions for how we can at least move in that direction—we are consulting with our members, as well as inputting into the Barclay review—it is important find ways of slowing down the vast increases in the business rates multiplier. A way to do that would be to index the multiplier against the consumer prices index rather than the retail prices index.

As David Williamson asked, what should we do about plant, machinery and productive investments that companies are making, mainly for environmental efficiency? We say that new investment should be exempted from business rates.

We would also encourage more frequent revaluation of business rates. A way to do that would be to value Scottish properties every three years, which would address some of the challenges that we see in the system today.

The Convener: Would revaluing every three years not also introduce uncertainty? If businesses know what the rates are for longer periods—perhaps even periods of 10 years—at least they know more or less precisely where they are.

Mari Tunby: The issue of the rates hikes that you see from the more infrequent valuations would be addressed, because there would be a smaller incremental rise with a three-year revaluation.

The Convener: It would be easier to plan for.

John Mason: I will move on to a different subject. One of the witnesses mentioned Brexit, which I will ask about. I have a short question. I would be interested if each witness could give us one threat and one opportunity from Brexit. The committee has the opportunity to feed back to the Scottish and Westminster Governments about how they should negotiate Brexit. Is there anything that we should press for from the two Governments?

David Williamson: Having raised the subject originally, I am happy to field your question. The Scotch whisky industry argued strongly for the UK to remain in the European Union. We did so for a number of reasons, which are worth reflecting on as we look ahead. A third of our exports go to the European single market, so retaining the best possible access to and influence in that market is important to our members.

I will give the committee a sense of what that means once we scratch the surface. The size of the bottle that we sell our whisky in, the label that we put on that bottle and the definition of our product that goes in the bottle are all set at European level. In the past, we have had the opportunity to be part of discussions about those fundamental issues, and retaining the ability to have influence and to discuss key issues is really important.

We argued strongly that the Scotch whisky industry has done very well out of the EU's trade deals around the world over the years, including through reduced tariffs, the removal of discrimination and the protection of the Scotch whisky geographical indication. There are questions and uncertainties about how we maintain those benefits.

John Mason: Let us say that the EU has a deal with Australia and we are part of that deal. Do you fear that, if we leave the EU—and we are leaving the EU—we would in effect have no deal with Australia?

David Williamson: That would depend on the country involved; it is hard to pick on just one market. In principle, the position will depend on the model that we decide to negotiate with the rest of the EU for the future relationship.

To take on your challenge, I will say where the priorities for us are. In answer to your second question, on the trade side it is fundamental that we grandfather or maintain the existing benefits that the Scotch whisky industry has secured through previous trade deals. As I said, the position will depend on the market but, in some markets, the challenge will be tariffs going back up and the protection that we have secured for Scotch whisky reducing. We think that we can manage that as an industry in a variety of ways, which will depend on the market.

A top priority in discussions with the UK and Scottish Governments is to make sure that what we have secured over the years that has helped to grow Scotch whisky exports around the world is, at the very least, maintained. After that, we can have a separate discussion about what trade deals we want to prioritise.

We have been doing that piece of work over the summer and we would be more than happy to share our analysis with the committee in writing if that would be helpful. It is no surprise that a top priority is some sort of trade deal with India, which could be a massive opportunity for the Scotch whisky industry. We currently have a 1 per cent market share, but we face a 150 per cent tariff. Removing that or reducing it significantly would be a transformational opportunity for the Scotch whisky industry.

An important point for the wider Scottish food and drink industry is that the Scotch whisky geographical indication is well protected. The sector is active in that. Domestic legislation protects Scotch and the geographical indication is protected at the European level.

Other Scottish food and drink products need to look carefully at how they secure their protected denominations because, to date, they have relied on European legislation. They have no domestic legislation in place. Protecting the intellectual property of different food and drink products from Scotland is really important. We are working with a number of organisations to understand which mechanisms might do that. The issue should not fall away from sight just because it is quite technical.

The Convener: Ash Denham wants to come in on Brexit.

Ash Denham (Edinburgh Eastern) (SNP): I have a point about the financial services industry, which is a large sector for Scotland and in the city of Edinburgh. As we have heard, we do not know the precise model that we might end up with after the Brexit negotiations, but several of the possible models could have an impact on the trading of services. Will you explain the implications of such Brexit arrangements for financial services in Scotland?

Graeme Jones: I think that you are alluding to passporting. Passporting means that a bank, an asset manager, an asset servicer, a wealth manager, an investment bank or even those in the legal profession or accountancy profession who are involved in similar activities can manufacture their product—whether it is mergers and acquisitions, a deal or whatever they are doing—and trade their services across European borders effortlessly.

At present, article 50 has not been invoked. It is a bit of a phoney war just now so, as far as we are concerned, we are trading as normal. Our asset management sector in Scotland is second only to the City of London in scale, with £880 billion of funds under management.

The asset management sector would not want to lose passporting. As David Williamson said, we would have preferred to remain in the EU. It was clear that that was what our members preferred. However, on the basis that we are coming out of the EU, we need the next best proxy to the existing EU agreements. From our point of view, it is very important that passporting rights are protected.

A further observation, which David Williamson alluded to, is on the level of complexity of the path that we have chosen and are embarking on. Does anybody in the committee know how many EU regulations there are in banking and finance? There are 8,000 and counting. Does any of you know how many trade agreements whereby the EU agreement is the primary agreement are enjoyed by banking and financial services? There are 35. Therefore, how the situation is unpicked is important for us. The devil will be in the detail.

The operating models of our member companies are diverse. We have something like 100 members and all of them have different operating models. Some of our banks and our research and development tech centres for global banks will be, by and large, unaffected by Brexit. Some of our members have underlying operating models for which passporting is integral and which will be hugely affected.

The issue is not just that the situation is complicated. The impact on organisations will be felt at an individual level, even though they are in a common sector. I hope that that gives the committee a flavour of what we are contending with. We are being clear, when we engage with the Government, that we would prefer to have the best possible deal with the EU. That is essential.

11:30

The Convener: I understand your point about regulations. However, many regulations or EU rules are enacted as laws or regulations at the Scottish or Westminster level, so they will not be affected, in the sense that they will remain law until and if they are changed at the UK level. Is that correct?

Graeme Jones: Yes, but there are a couple of things to add. We could just adopt all the rules but, once we exit, we could have divergence through time, although it would not happen immediately. Through time, we could have different capital adequacy rules.

I was party to a debate in which somebody said, "Wouldn't it be really good if we could relax some of the regulation around banking and finance?" The reality is that, if we want to have access to the European market, that market will, in negotiating with us, demand equivalency. We do not want Scottish banking and financial services—or UK banking and financial services—to end up being a rule taker.

At the moment, we are part of the rules, but we also have a seat at the top table so that, when things such as capital adequacy are negotiated, we are there. We could run the danger of being a rule taker, whereby we would have to take the rules from Europe but would have no influence over them.

The Convener: Perhaps we could move on. Gillian Martin has the next question.

Gillian Martin (Aberdeenshire East) (SNP): The work of the fair work convention is woven throughout the Scottish Government's recent labour market strategy. How is that informing the operations of big business? What work has been done by business and by your members to identify and address the gender pay gap?

Mari Tunby: The CBI is doing work on the gender pay gap and gender pay reporting. That work is still being developed and I will be happy to share it with the committee as soon as I have it.

Gareth Williams: Work is happening on a sectoral basis in Scotland. The Law Society of Scotland has been looking at the issues and we think that that is the right approach.

Businesses and sectors are increasingly aware of the issues and the long-term implications for them in attracting and retaining talent. We want the fair work convention, the Government and industry to work together positively to address those issues. The labour market strategy is the basis for those conversations. There is not a whole lot that is new in that. The most significant point is the creation of a strategic ministerial group. If that leads to further input of expertise and if it raises awareness not only in larger businesses but, as important, in all levels of business, we will support it.

The Convener: Erik Geddes has not been involved in the discussion. Would he like to comment on the most recent question or any other issues that have been raised?

Erik Geddes: It is probably more relevant to go back to Brexit, if that is okay. It is such a big, overriding issue that I am keen to state where we are at with it.

I very much agree with David Williamson about making Scotland as competitive as possible, which is vital. We supported the remain campaign, but we are where we are and we are confident that Edinburgh airport can continue to grow as a business despite the result and any constitutional changes that might happen. We are aware of industry concerns about the knock-on effect of leaving Europe, so we are monitoring the situation closely.

I will talk about air passenger duty for a moment. The cut to APD presents an opportunity to mitigate the uncertainty and risk that come with Brexit. It sends a signal to Europe—indeed, to the whole world—that Scotland is open for business and competitive. It is an opportunity that will help big and small businesses, and the knock-on effect will be good for all of Scotland.

The Convener: Does Mari Tunby want to come back on that?

Mari Tunby: I will comment on Brexit and the importance of sending signals about our competitiveness. It will be important for all politicians to send a clear signal of openness. In purely practical terms, we need a clear timetable and plan for the UK and EU negotiations. We also need close partnership between business and the Scottish Government, between business and the UK Government and between the Scottish and UK Governments.

The implications of leaving the EU for all the nations of the UK need to be understood by everybody around the negotiating table. We all need to give a clear message that we remain open for business, still want to attract investment and skills and want to keep trading. Those are immediate priorities as we wait for the framework for the negotiations from the UK Government.

Erik Geddes: I reiterate that and will give some context for why we are banging on about APD so much at the airport and across the industry. Independently prepared calculations by Biggar Economics show that a 50 per cent cut in air passenger duty in one move will mean an additional 18 million passengers coming to Scotland between the implementation of the change and the next five years—so that is potentially up to 2021-22. That will create 10,000 new jobs in tourism and related sectors in Scotland and add more than £300 million of gross value added per year to the Scottish economy.

The Convener: On what are the figures for the increased passenger numbers based and where will the passengers come from? Will they be new people coming to the United Kingdom or passengers coming to Scotland rather than going to, say, London?

Erik Geddes: They are passengers using Scottish airports. The biggest growth area in aviation—particularly at Edinburgh airport—involves international passengers. Therefore, although there are well-documented opportunities for people to go on holiday, the great gain from cutting APD is in inward investment and the ability not of the 6 million people in Scotland to go elsewhere but of the 7 billion people throughout the world to come here. That will create jobs and the knock-on effect will create greater wealth and opportunities for the Scottish economy.

The Convener: Perhaps my question was not clearly enough phrased. Is the increase in international passengers a total net increase for the United Kingdom or does it mean some passengers choosing to come to Scotland rather than to fly through London, for example?

Erik Geddes: It is passengers coming to Scotland. The great gain from cutting APD in Scotland is that it gives us a competitive edge and, in much the same way as Dublin airport attracts many more passengers than any airport in Scotland does, it will attract passengers directly to Scotland. If an airline such as easyJet or Ryanair is considering setting up new routes, one of the key factors is desirability, but another is the cost to fly to the destination. Scotland is further away, so the fuel costs are higher. It is more expensive to land planes here. Together with the APD cost, that means that airlines are less attracted to come here. So if we take away the APD cost, we make Scotland more competitive.

The Convener: Are those additional passengers transit passengers who then fly on somewhere else or ones who remain in Scotland and do business here?

Erik Geddes: We hope that, further down the line, there will be opportunities for us to have a hub airport but, at the moment, people are coming to Scotland because it is a great country to come to and visit, to do business here, to go to university and to drink whisky. Scotland is an attractive prospect, but it is disincentivised by APD so, if we take that away, we will attract more people.

David Williamson: I will follow up a point that Mari Tunby made and respond to Gillian Martin. Open markets matter to the Scottish economy. As we advance Brexit, it is important to ensure that we have an open trading policy and that we have pragmatic, non-disruptive transitional arrangements. That is a big message that anybody in Scotland can take out as we move the negotiation forward. A starting point would be ensuring that the EU legislation that is in place is transposed into UK law so that we have certainty for at least the interim. It would then be up to politicians to decide to what extent that legislation stays in place or whether a different approach is taken in the future.

On Gillian Martin's point, there is a perception that my industry is male dominated, but it is working hard on that. At our annual general meeting this year, there was a focus on getting women into leadership roles in our sector. That is work in progress, but there is a clear focus on it in the industry. A significant number of the new master distillers and master blenders in our sector are women who have come into the industry from different paths.

We have not touched on the role for the business pledge. Is it up to individual companies to decide whether increasing the number of women is the right way for them to go? Our industry would measure up well on any of the considerations around internationalisation, innovation, the youth workforce and a balanced workplace, but there is a role for trade associations such as ours to keep growing awareness so that companies can take that forward.

Erik Geddes: Forgive me for skipping around, but I was asked about Gillian Martin's point as well. Edinburgh airport has signed up to the Scottish business pledge and broadly supports moves for greater gender equality in the sector and beyond.

David Lonsdale: I did not reacquaint myself with our submission and our paper on the gender pay gap, but I am happy to share that with Gillian Martin and the committee later. We have a position, but I am afraid that I cannot remember off the top of my head what it is, although I am sure that it is progressive. [*Laughter*.] I will stop digging now, but I believe that the position is progressive.

In the document that I brought today, which is our budget submission to the Scottish Government, we made two points about the opportunity of Brexit, which goes back to John Mason's point. The first point was that, because we are leaving the EU, control over powers will be repatriated and not all the powers will necessarily go to Westminster—some might come to this Parliament or some of the other devolved Assemblies in the UK. We therefore recommend that we should get a handle on that and get a sense from the Government and the Parliament in Scotland of what they would do with those powers.

Secondly, somebody put it to me recently in light of Brexit that we should not waste a good crisis. Our perspective is to ask whether there are things that the Scottish Government can do to improve the business environment. We have set out some of those measures and have talked about some of them today.

The Convener: For the record, what is the paper to which you refer called?

David Lonsdale: I will not give you the full Sunday name, because it is quite long, but its short title is “Open for Business”. I am happy to share it with the clerk.

The Convener: I asked that question for the *Official Report* so that people know exactly what we are referring to.

Dean Lockhart (Mid Scotland and Fife) (Con): I have some follow-up questions for our guests, whom I thank for coming this morning.

My first question is for Erik Geddes and concerns what is happening post-Brexit with inward-bound tourism to Scotland. We have heard from different bodies that they have seen an increase partly due to the depreciation of sterling. I will give Mr Geddes a couple of seconds to think about that.

I have a question for David Williamson on whisky and on food and drink more generally. I ask him to talk us through the possible international export opportunities post-Brexit. He mentioned India. I believe that exports to India went up 40 per cent in the first six months of this year. Japan is one of the fastest-growing whisky markets and the depreciation of sterling against the Japanese yen has been quite significant, so perhaps there will be opportunities there as well.

Finally, I have a question for Graeme Jones. We spoke earlier about the financial services industry in Scotland contributing about 10 per cent to GDP. Could you briefly talk us through how the industry is preparing for financial technology—fintech—opportunities? Also, how critical is it for Scotland’s financial services industry and investors to have a central bank—a lender of last resort—with sufficient reserves to underpin the sector?

11:45

Erik Geddes: The immediate effect on currency has not been problematic for us. We would have expected to see good passenger numbers in July and August anyway, and we did. The overall point is that, regardless of the vote to leave the EU, we remain confident that Edinburgh airport will continue to thrive and grow as a business. However, there are airline concerns. Two of our big airlines have made noises that they are very dissatisfied with what this will mean to aviation in the UK, and indeed US services have talked about withdrawing from the UK as well. We are monitoring the situation closely and more will become obvious as we approach the invoking of article 50. However, there has been no negative impact, particularly as the vote happened early in the summer.

David Williamson: I will preface my answer by talking quickly about the conditions that we are facing in the market anyway. The Scotch whisky industry has had 10 or 20 years of growth in terms of value and volume of exports. Certainly over the past two years, it has become much more difficult in a range of markets for many reasons, so export success cannot be taken for granted.

Our starting point on Brexit is one of uncertainty and challenge for the reasons that I outlined earlier. However, we are a long-term industry so we have done a lot of thinking already about the trading environment in markets around the world in the future. Looking further ahead, I think that the challenge for us—and therefore the opportunity—is that trade deals will be revisited or struck for the first time with markets that have the biggest potential commercial opportunity for Scotch whisky.

Dean Lockhart mentioned India. That would certainly be the industry’s top international trade priority, given the challenges that we face because of the tariff to get into the market and the growth opportunity once we are there.

If we look more widely, though—this is an area where the industry sees real opportunity—there are markets that are perhaps not front of mind for the wider economy. In Latin America, there is already growth for Scotch whisky, but there is space to grow in the future. I am thinking of markets such as Mexico and Brazil.

There is a lot of industry interest at the moment in how, over the next 10 years, sub-Saharan African markets for Scotch whisky are going to grow—markets such as Nigeria, Ghana and Kenya, where economies are developing with consumers who want to buy aspirational products such as Scotch whisky. In south-east Asia, markets such as Vietnam are seen as being potentially important for Scotch whisky in the future. In all those markets, we are seeing aspirational consumers who, as they have more disposable income, want to make a statement about how the economy is growing and how they are doing personally.

In the same way that people might buy a nice watch or a nice handbag, Scotch whisky is seen as being a desirable but affordable luxury product. The opportunity is there, but the challenge is to make sure that, in this post-Brexit vote environment, the trade deals that are struck prioritise products such as Scotch whisky.

On the challenge for the wider Scottish food and drink sector, I think that the same applies. The Scottish food and drink sector is looking at exports in terms of provenance, authenticity, heritage and high quality. The Scotch whisky industry and the wider sector are working together in an export collaboration initiative to make sure that we take full advantage of those opportunities. Where Scotch already has networks or experience in a market, the wider sector can try to benefit as a result of that.

Graeme Jones: Dean, can I just ask what your second point was? I managed to get the first and last points.

Dean Lockhart: It was about the importance of having a central bank with sufficient reserves to underpin confidence in the banking sector and about international investors who invest in the Scottish banking sector.

Graeme Jones: Thank you. I will start with financial technology, or fintech, as it is more widely called. It might be worth giving a quick description of financial technology. Technology has been applied in banks since world war two and typically it was large mainframes that sat in cooled bunkers. Other than the programmers, people did not really access the technology. When I started working in banking and finance in 1980, that was the case. There were no terminals on people's desks; there were no laptops, no computers, no personal digital assistants and no mobile phones. Somehow, we coped.

The important thing about financial technology today is that it is the digitisation of banking processes—every banking process that you can think of—either through blockchain, artificial intelligence or robo-advice. It is happening now to our organisations and we cannot control it because it is a global phenomenon. Someone somewhere in Manila right now might be writing a program that does away with the bank automated clearing system, or BACS, and the clearing house automated payment system for cheques, or CHAPS. For all we know, somebody could be doing that today. It is likely to be a non-banking person. It is likely to be a PhD student who wants to do something with their life and wants to try to invent something in the financial technology space.

When those organisations do something and get it right, they become what are called unicorns—billion-pound companies. It is typical for most developed countries to have a fintech hub. The US has one in California and one in New York City. Germany has Factory Berlin—you can google it. Stockholm and Copenhagen have declared to their Governments their intent to become fintech hubs, because such hubs are associated with a brand of smart, savvy, cool people who are capable of transformational change and innovation. It is a halo-effect brand for the country and it attracts other smart and savvy organisations. They want to go into that country because they see it as a good landing point to tap into that intellectual property.

From a Scotland perspective, we are incredibly well placed, because the first component that you need is a diverse financial services sector. Second only to the City of London, we are it. We are in a different league from Leeds or Manchester. I have been in banking and financial services for so long—38 years now—that I know the sector. Leeds, which is going to be one of the northern powerhouse towns, has two building society groups. All its financial technology is aimed at mortgage origination because that is what it has to deal with. Scotland has asset management, asset servicing, wealth management, independent financial advisory services, retail banking, corporate banking, investment banking and merchant banking. We have a fantastic legal profession that goes across and supports all those businesses and we have a fantastic accountancy profession.

If you imagine it as a cake—the fintech hub cake—we have all the ingredients to make that cake, but we must put them together; otherwise all that will happen is that the situation will continue as it is, but we will never leverage the position and we will not achieve our true potential.

For Scotland's large banking institutions and asset management institutions, we have to win this battle—simple as—because we are competing in a global marketplace. It is one of these things where either we do it to them or we wait for someone in Dublin to do it to us. If we come up with the smart fintech apps and export them, there is an upside for Scotland—if we get good at it, we can export our technology and our applications across the globe.

The big message from SFE and its members is that we want to be on the front foot, we want to be proactive and we want to ensure that we have a fintech hub that serves two purposes. One, it protects the back book—226,000 jobs, and that is probably at the light end of what the sector has. Job number 1 that we are doing for our members is asking how we protect the 226,000 jobs. Job number 2 is asking how we get more jobs to Scotland. Our universities—the quality of the students and the education system—and the quality of transport and ease of access in the country make it a very attractive place for foreign investors, or even for fintech companies that are based down in London, which might say that their next biggest market is Edinburgh and Glasgow.

That is a quick snapshot on fintech. We are hugely excited by it. We have it as one of two major items on our agenda for the financial services advisory board meeting on 4 October and we are working very closely with our partners, Scottish Enterprise and Deloitte.

Richard Leonard (Central Scotland) (Lab): I am looking for illumination on two points. One has been covered already—trade agreements—but I want to understand the situation a bit better.

Graeme Jones mentioned that 35 trade agreements struck through the European Union affected his sector. What proportions are we talking about here? Do nearly all the agreements that we are now party to come under the umbrella of the EU? If so, what is the implication of Brexit? Does it mean that we have to renegotiate all those agreements or is there a way of ensuring continuity? My understanding is that trade agreements can run to thousands of pages and take years and years to conclude. I am looking at David Williamson here. I want to understand better where we are, and where you think we are likely to be, on trade agreements.

Secondly, as far as you are aware, are any of your member organisations considering relocating overseas as a contingency plan?

Graeme Jones: Will I open the batting?

The Convener: Please do.

Graeme Jones: I do not actually know; work has just started on figuring those things out, because the fact that we voted to leave was a bit of a surprise all round. The process of beginning to understand how we are linked has started. Please do not take this as read, but I understand that our main agreement with China is through the EU. I do not know how long that took to set up but I would reckon it to be in the order of 10 years or so.

David Williamson was alluding to the fact that we do not know what negotiation we are going into and what negotiation will come out of it, but clearly it will be important to unpick extremely carefully those trade agreements and to understand the linkages, dependencies and interdependencies. We want, and our members are urging, the best possible proxy for what we currently have, so that we protect those agreements as much as we can. I imagine that on the other side of the table the Europeans will be driving a hard bargain. We have to be mindful of that.

I have an example of some Swiss people I spoke to, which might make it come alive for you—it is better sometimes to give examples. The Swiss have 126 bilateral agreements and garrisons of people who fly round the world maintaining those 126 bilateral agreements. The reason why Swiss banks such as Credit Suisse and UBS Phillips and Drew are in London is because they said, “This is a really difficult way to do things so we will move our headquarters out of Zurich, Bern and Geneva and put them in London.” The access—the passporting rights—comes from being located in London. That practical example of what the Swiss have done is in the public domain, but they still have 126 bilateral agreements that they have to maintain. I hope that that gives you a feel for what life is like outside the tent, if you like.

David Williamson: Trade deals and trade policy have been my life so forgive me if I go on for a bit. The simple answer to Richard Leonard’s first question is yes: because of the EU common commercial policy, the existing trade deals are all channelled through the EU. Part of the challenge to come will involve setting up the relevant capacity and expertise to negotiate the large number of trade agreements that we are talking about.

12:00

There are different options. The deals could be renegotiated as and when the UK leaves the EU, or mechanisms may be found for some form of continuity. For example, the EU-South Korea deal could be turned into a tripartite EU-UK-South Korea agreement, because it already has terms that the UK could simply say that it would like to sign up to as the UK rather than as part of the EU. However, that mechanism takes time and is very difficult.

I led for the Scotch Whisky Association on the EU-Canada deal, which took seven years and is still not signed off and implemented. It is notoriously difficult to get consensus and agreement on such things. I have also been around long enough to have led for us on the EU-Swiss deal, which goes back a number of years. That was inherently complex. Graeme Jones has already alluded to the number of different sectoral agreements that had to be struck, including one on wines and spirits. The parties have to get down to the real technical detail and still come out with an agreement at the end of the day.

Members should not be under any illusions about how difficult it will be either to get in place continuity with current arrangements or to strike more advantageous deals. However, such things are possible; certainly, we have to pursue those opportunities now, although they will be difficult.

In answer to Richard Leonard’s second question, which was about relocation, production of Scotch whisky cannot be outsourced because of the geographical indication issue, so we will be staying here.

Richard Leonard: But there is a big white spirit industry in Scotland too.

David Williamson: Yes. That is part of a wider issue. Part of the challenge in our sector is maintaining investment in the sector across companies, which then attracts and creates a cluster so that we are able to produce and bottle white spirits as well in Scotland. We have done well on that in the past.

Gordon MacDonald: I will continue on the Brexit theme. If we do not retain the principle of the free movement of people, what will be the impact on your members?

The Convener: We will finish shortly, so I will take Andy Wightman's question now as well.

Andy Wightman: My question is for Graeme Jones. He talked about protecting 226,000 backroom jobs in the context of financial technology development. I ask because I do not know, but is it the case that some of that technology and the use of peer-to-peer lending and digital currencies threaten to demolish large sections of the financial services industry as it is currently constructed?

Graeme Jones: I do not think that those things will demolish the industry. For example, the technology requires time to be adopted—I am thinking of blockchain development or distributed digital ledgers, which are still many years away but which will come in time. The time to mend the roof is when the sun is shining, and the industry is perfectly able to see and understand what the changes are and then repurpose staff. Someone spoke about reskilling or retraining, and the smart thing is to recognise that a range of more operational jobs are going to go, but as there is going to be massive growth in regulatory compliance, staff can be redeployed to deal with regulation and unpicking all of the agreements that we have been talking about.

We have 226,000 jobs just now. The view of SFE members about what will happen is that in five years we will have the same number of jobs but they will be different jobs. Instead of counting cheques for small and medium-sized enterprises in a bank branch, people might be working on the digital app for SMEs for accessing asset finance and trade finance at advantageous rates or whatever. Large numbers of people will require to be reskilled and will have to transform.

When I started off, there were no computers, mobile phones or laptops and no Microsoft Windows or Excel—I just had to learn and adapt as I went on. We are very confident that the staff in our large banks and financial institutions are more than capable of being reskilled. That is the deal. You are absolutely correct: if we just wanted things to stay as they are, big swathes of banking would be taken out. However, no one is thinking that way. Everyone is saying that we need to adapt and reskill as we go. That is how we will keep those jobs.

The Convener: Gordon MacDonald asked about the freedom of movement of workers. Does Mari Tunby want to comment on that, or on what Graeme Jones has just said?

Mari Tunby: Yes. The freedom of movement issue will be challenging, but it is important that we somehow manage to work towards an immigration policy that not only recognises the need for business to have access to skills wherever they come from but has the confidence of the people of the United Kingdom. European citizens who are already working here face a profoundly uncertain future. We are still waiting to see what will happen, which is why we have said that the Government must confirm that people from the EU who are already working here can stay.

The Convener: Which European nations have confirmed that British citizens will be allowed to stay after Brexit, regardless of the agreement reached?

Mari Tunby: I do not have that answer for you.

The Convener: I think that the answer is none. Is that correct?

Mari Tunby: Yes, but we need to acknowledge the contribution that those European citizens make to the UK economy and society and make it clear that we value them and want them to continue to make that contribution.

The Convener: That may be a different question. Do others want to come in on Gordon MacDonald's question?

Gareth Williams: Freedom of movement is the number 1 issue for some but not all sectors. Some sectors are more concerned about single market membership, access to the single market, trade deals and so on.

There is also the issue of the range of skills—not just high-level skills but lower-level skills. Moreover, we are talking not just about business but about the public sector, social care and so on.

We have to acknowledge that there is a demographic challenge for Scotland, in contrast with other parts of the UK, because of a projected decline in the working-age population from the early 2020s. We believe that there should be a differentiated approach to immigration in Scotland to reflect the different needs of the economy, the different demographic issues and the different levels of political support. One example would be the reintroduction of the post-study work visa.

To tie that into the issues that I raised earlier about productivity, innovation and internationalisation, we have a large number of EU students at our universities and we want them to stay and to contribute to the Scottish economy. A large percentage of researchers in Scottish universities come from other parts of the EU. When we are addressing the long-term challenges, the last thing that we want is an economy that is less open to talent and investment. We understand the challenge for the

UK Government, because it needs to be seen to respond to public concern about the issue, but we have to find a way to ensure that we have access to those skills. As I said, we hope that a differentiated approach can be found for Scotland.

The Convener: If there are no further comments from our guests, I thank you all for coming and taking part in this round-table discussion.

12:09

Meeting continued in private until 12:57.

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Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

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