



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Culture, Tourism, Europe and External Relations Committee

**Thursday 1 December 2016**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



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**CULTURE, TOURISM, EUROPE AND EXTERNAL RELATIONS COMMITTEE**  
**13<sup>th</sup> Meeting 2016, Session 5**

**CONVENER**

\*Joan McAlpine (South Scotland) (SNP)

**DEPUTY CONVENER**

\*Lewis Macdonald (North East Scotland) (Lab)

**COMMITTEE MEMBERS**

\*Jackson Carlaw (Eastwood) (Con)

\*Ross Greer (West Scotland) (Green)

\*Rachael Hamilton (South Scotland) (Con)

\*Emma Harper (South Scotland) (SNP)

\*Richard Lochhead (Moray) (SNP)

\*Stuart McMillan (Greenock and Inverclyde) (SNP)

Tavish Scott (Shetland Islands) (LD)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Keith Brown (Cabinet Secretary for Economy, Jobs and Fair Work)

George Burgess (Scottish Government)

Ian Duncan MEP (European Parliament)

**CLERK TO THE COMMITTEE**

Katy Orr

**LOCATION**

The Robert Burns Room (CR1)



## Scottish Parliament

### Culture, Tourism, Europe and External Relations Committee

Thursday 1 December 2016

*[The Convener opened the meeting at 09:00]*

### European Union Referendum (Implications for Scotland)

**The Convener (Joan McAlpine):** Good morning and welcome to the 13th meeting of the Culture, Tourism, Europe and External Relations Committee in session 5. I remind members of the committee and members of the public to turn off their mobile phones. Any committee members who are using electronic devices to access their committee papers should ensure that they are switched to silent. We have received apologies from Tavish Scott MSP, who will be slightly late.

Our first item of business is evidence on the implications of the European Union referendum for Scotland and our future trading relationships. I welcome to the meeting the Cabinet Secretary for Economy, Jobs and Fair Work Keith Brown MSP; and George Burgess, deputy director, EU and international trade and investment policy, and Russell Bain, team leader, analysis and policy, both in the Scottish Government.

I invite the cabinet secretary to make any opening remarks.

**The Cabinet Secretary for Economy, Jobs and Fair Work (Keith Brown):** Thank you for the opportunity to come to the committee this morning to contribute to your investigation into the potential future trade relationships for Scotland, following the EU referendum. First, it is important to reiterate that Scotland did not vote to leave the European Union. Our priority therefore is to protect Scotland's interests and we are considering all possible steps to ensure Scotland's continuing relationship with the EU.

That path is quite uncertain, given the conflicting information that we continue to hear from the United Kingdom Government. Apparently, the Foreign Secretary is telling ambassadors that he is in favour of the free movement of people, so there are very conflicting messages coming from the UK Government. For that reason, we have to be prepared for the possibility that the UK Government will go for what we believe to be the worst of all possible options, which is a hard Brexit. It is not inevitable, but we must prepare for it.

The Scottish Government is clear that Scotland's relationship with the EU and its place in the single market must be protected. Our aim is to get the best deal for Scotland in circumstances that are not of our choosing. Retaining membership of the single market for Scotland to protect our trading relationship with the EU and the rest of the world is extremely important. Any relationship that falls short of that risks increasing barriers to trade, reducing exports and lowering migration, all of which will affect growth rates and reduce productivity. That is not a risk that we are prepared to take.

In the longer term, we know that independent economic forecasts point to a range of possible impacts for the economy from a redefined relationship with the EU. There is widespread agreement that a UK-EU trade relationship that relies on World Trade Organization rules—which would effectively be a hard Brexit—represents the worst possible outcome for trade and the economy.

The Fraser of Allander institute has estimated that leaving the single market under the WTO scenario could result in our economy being worse off overall by about 5 per cent, or approximately £8 billion, after a decade, in comparison with our position if we were to remain in the EU. That equates to about 80,000 fewer jobs and real wages lower by £2,000 a head per year. Those figures, which were produced by the Fraser of Allander institute, are underlined by some of the Chancellor of the Exchequer's projections from the autumn statement.

Through membership of the single market, Scotland currently enjoys the free movement of goods, services, workers and capital within the EU without any internal borders or other regulatory obstacles. The single market removes barriers to trade with a market of over 500 million people and opens up opportunities for citizens, workers, businesses and consumers.

The EU is the world's largest trading bloc: it is the largest trader of goods and services in the world; and it ranks first in both inbound and outbound international investments. Of Scottish international exports, 42 per cent go to the EU, and eight of Scotland's top 12 export destinations are within the EU. Scottish exports to the EU were worth about £11.6 billion in 2014. Scottish businesses wishing to export to or import from the EU face no tariffs, quotas or duties applied to the goods that they trade. A common set of regulations and rules apply.

We want to do more to boost exports from Scotland even further, not just to the EU but across global markets, and we are taking a range of measures to do that including establishing a

trade board. I can confirm that we have started the appointment process for that board.

That is not to say that we prioritise our trade with the EU at the expense of our trade with the UK. We are clear that we want to maintain our relationship with both vital partners—the two are not incompatible, in our view. We have heard from David Davis that there will not be a hard border between Northern Ireland and the Republic of Ireland, and I am confident that the same would be the case between Scotland and the rest of the UK, should Scotland be able to secure our relationship with the EU.

Having mentioned the trade benefits of being in the single market, I think that it is also important to mention that the benefits go substantially further than those. Free movement of people is particularly important to Scotland, to help grow our population and drive economic growth. There was an example in London of a hotel that had around 208 members of staff, 200 of whom were EU nationals. Our hospitality and other industries are similarly very reliant on EU nationals for their growth.

Finally, inward investment into Scotland has been an area of substantial success in recent years, with EY figures consistently showing that Scotland is the top location for inward investment in the UK outside London. Our place inside the single market is a critical factor in attracting that investment, with 79 per cent of investors citing access to the single market as a key feature of the UK's attractiveness as an investment destination in 2016.

In conclusion, the vote to leave the EU is an unwelcome barrier on the road towards fulfilling our economic ambitions, and that is why the Government's goal is to keep Scotland—and, of course, the whole of the UK if possible—inside the single market. In the coming weeks we will be able to table specific proposals to protect Scotland's interests and to keep us in the single market even if the rest of the UK decides to leave. For that part, I am very keen to hear the work and views of the committee and to try to answer any of its questions.

**The Convener:** Thank you very much, cabinet secretary. You will be aware that the committee has taken a lot of evidence and had a lot of discussions about the differences between membership of the single market and access to the single market. What is your thinking on the differences between those two positions? Would access to the single market be acceptable, as opposed to membership of it?

**Keith Brown:** Membership of the single market gives us the position, which I outlined in my statement, of not having barriers to trade, whether

they are tariffs or other regulatory barriers. It is true to say, as others have, that virtually anybody can have access to the single market; it is a question of the terms on which they have that access. There is nobody—not even the members of the European Economic Area or the European Free Trade Association—who has access to the single market on the same terms as countries that are members of the single market. It really is about the absence of obstacles to trade.

The single market has grown up over a substantial period of time. One of the main proponents for it, as I have mentioned before, was Margaret Thatcher—she was a staunch proponent of the single market. Obviously, that was in the mid to late 1980s, and we have seen the single market develop over a long period of time. It is not something that has just happened—it is not that it was not there one day and appeared the next. It has had to grow over that period. Disentangling that to any extent, even if it allows a degree of access afterwards, is not a substitute for membership, in my view or the Government's view. With membership we do not have the barriers, regulations or practices that can be limiting for trade and economic business.

Those are the main differences between having access to and being a member of the single market.

**The Convener:** What consultation has the Scottish Government undertaken with various sectors across Scotland about our future trading relationship, and how has that informed the Government's thinking in relation to its position?

**Keith Brown:** I have undertaken a huge degree of consultation, and I think that that is true of other ministers, too. For example, Mike Russell and I met the major Japanese companies that operate in Scotland. That was after the note from the Japanese Government to the UK Government, which at that time was perhaps the most rigorous analysis of the implications of Brexit for business. The Japanese Government consulted heavily with business before putting that note together.

The Financial Services Advisory Board, which we are on along with the financial sector, has a huge interest in this, as you can imagine. Other colleagues have also been talking to the agriculture and fisheries sector. In addition, we have had a meeting of the national economic forum at which Paul Wheelhouse, the business minister, and I spoke, along with the First Minister. We met the Confederation of British Industry last night and the big six energy companies immediately afterwards, and we will meet the CBI again later today.

On the morning of 24 June, after the vote, the First Minister and other ministers had a call with

the governor of the Bank of England. Over the course of that weekend, I spoke to almost all the chief executives of the major financial institutions. Since then, there has been an almost non-stop series of discussions with different sectors and business organisations about the impact.

At the top of the list of things that have been mentioned is the movement of people. The higher education sector has been very concerned about that from early on, as have other sectors. It involves parts of my portfolio through the major projects that we are involved with. Substantial numbers of EU nationals are involved in completing projects such as the Queensferry crossing, the M8 bundle and the Aberdeen western peripheral route. For the financial sector, it has been about passporting and the continued beneficial effects of being in the single market. There has been substantial consultation across all sectors.

**The Convener:** Have any of the businesses that you have spoken to reflected on the effect of the falling value of the pound on their businesses?

**Keith Brown:** Yes, and it is fair to say that some of those—businesses that export—have seen an advantage from that. We have been in contact with the Scotch Whisky Association, whose members will see a benefit from that. Against that, we have people who have been badly affected. I visited a company in Ayrshire that produces patio doors and double glazing and so on. It manufactures the units as well as fitting them, but it gets the glass from Ireland. It was talking about a 16 per cent increase in their costs because of the exchange rates. The input costs to business have been substantially increased because of the exchange rate, whereas other businesses will have benefited from that change.

**Lewis Macdonald (North East Scotland) (Lab):** Cabinet secretary, I think that I heard you say in reply to the convener's first question that even EFTA countries that are members of the EEA do not have the same access to the single market that we enjoy as full members of the single market. Does that reflect what you said?

**Keith Brown:** Yes. Apart from anything else, those countries do not have any say in how the single market is formed. They can access it, but they do not have the same rights to decide how the market is taken forward.

**Lewis Macdonald:** A couple of weeks ago, the committee took evidence from Dag Wernø Holter of EFTA, who said that, in his view, full membership of the single market would normally imply being part of the customs union but EFTA and EEA states are not part of it. I am interested to know whether that also reflects what you have in mind. Do you agree that the customs union will

also be a significant loss if we are not members? Not only would we not have a say in the rules and regulations, we would be outwith the customs union and that is significant.

**Keith Brown:** As I have said, we believe that having membership of the customs union and full membership of the single market is the optimum position and anything that moves us away from that will be to the detriment of the Scottish economy and the UK economy.

It might be an obvious point, but it is important to say that, when people voted on 23 June, even those who voted to leave the EU did not necessarily vote for leaving either the customs union or the single market. It now seems to have become a shorthand for some people that the vote means leaving the single market. It was in the minds of many people—I appreciate that—but some people were explicitly saying that they did not want that when they voted to leave.

That is the optimum position just now, and we want to maintain that optimum position.

09:15

**Lewis Macdonald:** Referring to countries such as Norway and Iceland, which are members of EFTA and of the EEA but not of the EU, people rightly say that the four freedoms are implicit in the single market. You would recognise, however, that areas such as agriculture and fisheries lie outwith the terms of the EEA. Therefore, although, in principle, full freedom of movement of goods and services is part of the single market arrangement, in practice there are some qualifications to that.

**Keith Brown:** There will always be qualifications but, over the course of the evolution of the single market since the mid-1980s, those qualifications have gradually been removed. However, I recognise the reality of the position that you mention.

Even now, the uncertainty over whether there will be changes or the extent to which there will be changes is a dampener on economic activity. I recognise the exceptions that you mention, but we do not want to see further changes to that, because we think that it would be detrimental to the Scottish economy.

We had a meeting with one of the major business organisations within 10 days of the vote. One member said that they had lost a contract already at that stage, because the people involved in placing the contract did not have certainty over Scotland's place in the EU. That involved a specific EU-related project in Dundee.

We have enough to contend with in ensuring that the economy grows. We do not want further obstacles to be placed in our way.

**Lewis Macdonald:** You mentioned that specific proposals will come forward shortly on how to address some of the issues. Do you envisage that those proposals will cover the issue of the customs union and trade and goods that are not included within the terms of the EEA agreement?

**Keith Brown:** We will have to wait and see what is brought forward, but it will cover how we envisage Scotland maintaining the current benefits of membership of the single market. I am sure that it will also discuss the hierarchy of concerns and the positions that we want to achieve. Our preference is for the UK to stay in the single market, which would be beneficial to Scotland, as well as for Scotland to stay in the single market. We will cover a number of different options and priorities and will make clear what our preference is.

**Lewis Macdonald:** I accept that the Scottish Government has been clear from a very early stage that the single market is a desirable outcome. There has been less clarity around the customs union. Many of the tariff and non-tariff barriers that you have mentioned would arise in the absence of membership of the customs union. Could you cast some light on the Scottish Government's view of the importance of the customs union?

**Keith Brown:** That is better done when we publish our proposals. We will of course be open to question on such aspects, but I would not want to unveil the proposals before they are unveiled. It will be for others, the First Minister in particular, to bring that forward. However, I think they will cover those areas, and we are of course open to question on what we put forward.

I have gone round business organisations and economic stakeholders, including as recently as last night. Every member here must have heard the same from business organisations: how concerned they are not just about the continuing uncertainty but about what they perceive as a lack of focus as to where the UK Government is going. Correspondingly, for my part, I have had fairly encouraging responses to the fact that the Scottish Government will make clear its proposals, as best it can, very shortly. When that happens, not just this committee but all the committees of the Parliament and the various economic actors will be able to interrogate our proposals. There is not long to wait now for them coming forward.

**Richard Lochhead (Moray) (SNP):** Good morning, cabinet secretary. We do not know what will happen at the end of the next two years' process and where Scotland will be left. However, do you believe that there will be opportunities for investment in Scotland if the UK ends up going down the road of hard Brexit and Scotland manages to negotiate a softer Brexit and if, at the

same time—given what the UK Government has said about Ireland—there is no hard border between Scotland and England? Do you believe that we will have a competitive advantage in that scenario, because any company that wants to invest in the UK but also wants access to the softer Brexit conditions will be attracted to invest in Scotland?

**Keith Brown:** Yes, I do. That follows from what I said in my opening statement about our attractiveness as a location for inward investment. Many companies that decide to invest do so if not on the basis of the access that we currently have to the single market then taking it into account. It follows from that, depending on the exact outcome, that the more akin our arrangement is to membership of the single market, the more attractive we will be to inward investors. It is not easy to quantify at this stage, but there would be a definite benefit from Scotland retaining such access. The same benefits would accrue to the rest of the UK were it to decide to remain in the single market but, if there is a differentiated outcome on the relationship to the single market, those with the relationship closest to the current one will be in a position of advantage.

**Richard Lochhead:** My second question relates to a pet subject: the food and drink industry. It is the most successful exporting sector in recent years and still has huge opportunities in global markets. Given that we do not know what will happen to our relationship with Europe, what thought is the Government giving to putting in place an insurance policy to exploit the opportunities in the wider global markets for food and drink in particular? Securing opportunities in the emerging markets in the far east and so on could create tens of thousands of new jobs. Do you agree that we have to redouble our efforts to make the most of those opportunities around the world?

**Keith Brown:** I do. As well as trying to plan for the future, we are actively undertaking that kind of work now, building on the work done not least by you. Over recent years, there has been a phenomenal increase in food and drink exports. Even the Foreign and Commonwealth Office tweeted this week about how important the Scotch whisky sector is to the UK economy, for example. There has been huge success. I acknowledge that you will know this better than me, but I think that exports of shellfish to China went from zero to more than £20 million in a short period.

We are aware of the potential. In the short term, we are trying to upscale our presence around the EU—we are doubling the number of Scottish Development International staff in the EU—and continuing to consider markets such as China and Brazil. The size of those two markets alone will



give you an idea of what the potential is. We have not exploited them nearly enough as yet, but we have made inroads. For example, I recently met a series of chief executives from India to talk about their desire to invest in Scotland and about exports to India.

That work is not only about planning for the future, although we are doing that in the way that we are configuring SDI. It is also part of the rationale for the review of the enterprise and skills agencies in which we are currently involved. We are working on the matter now. You are right to say that we have achieved a huge amount, but there is much more that we can achieve.

**Richard Lochhead:** I am impressed by your knowledge of the statistics for the shellfish sector in Scotland but I urge the Government to accelerate its efforts to exploit those opportunities around the world and to learn from New Zealand and Norway—small countries that have refocused their export strategies in past decades with huge economic success.

**Stuart McMillan (Greenock and Inverclyde) (SNP):** Good morning, cabinet secretary. Last night, I attended a meeting of the cross-party group on tourism. One of the points that was raised regarded Scotland's and the UK's reputation for being open for business. Mike Russell gave the example of a report that appeared in a newspaper in India in the past few weeks giving five reasons not to study in the UK because of the implications of Brexit. Do you think that access to the single market and membership of the customs union are crucial to Scotland's reputation and thus its economic opportunity?

**Keith Brown:** I do and, notwithstanding the example that you have just given, Scotland has a very good reputation. That is true of the whole of the UK, but it is particularly true of Scotland. I have not seen the five reasons not to come here that were given in the report in India, but I imagine that the ending of the post-study work visa would have been top of the list. That was a prominent issue when the Prime Minister visited India recently. The absence of any movement on the part of the UK Government was one of the reasons why we got so little from that visit.

The international reputation of Scotland and the UK as visitor destinations is extremely good, and there has been significant growth in tourism over recent years. Lewis Macdonald asked about the exchange rate, and it is true to say that that has had a beneficial impact. As somebody who was born and brought up in Edinburgh, I have never seen the Edinburgh festival and the fringe as busy as they were this year, nor have I ever seen them reach as many parts of the city as they did this year.

We must make sure that we capitalise on that through things such as the north coast 500, which goes round the top of Scotland and opens up new areas to visitors. Some of the hospitality establishments there were struggling to cope with the demand that that initiative has brought. There are substantial benefits, but we could probably do without tweets such as the one from the Foreign and Commonwealth Office that showed the wrong bridge when it was trying to claim credit for the Queensferry crossing. Rather bizarrely, it showed a picture of the rail bridge, although that is a pretty good attraction for Scotland.

Our international reputation is extremely important. I mentioned the initiative to increase the number of SDI staff in the EU. We often talk about India and China, which are becoming increasingly important, but Germany is an extremely important market for tourism in Scotland. We must make sure that we do more across the EU as well as elsewhere. North America is also extremely important, from the point of view of not just the number of visitors but the amount that is spent by them when they come to Scotland.

We have an extremely good product to sell. I hope that the large amount of international activity that is being undertaken, especially by the First Minister and Mike Russell, among others, will have the benefit of raising Scotland's profile. I am sure that people will have different views on the effect of the 2014 referendum but, along with the Ryder cup and the Commonwealth games, it certainly raised Scotland's international profile to a significant extent. We must try to capitalise on that to help the tourism industry in Scotland, which is already very strong.

**Stuart McMillan:** What assessment has the Scottish Government made of the potential costs to Scottish businesses of non-tariff barriers, such as customs checks, rules of origin checks and product testing, in the event that the UK leaves the customs union?

**Keith Brown:** I have mentioned some of the work that has been done already. The studies by the likes of the Fraser of Allander institute give indications of what the implications of such barriers might be. Those of us who are old enough to remember having to go through such barriers when travelling around Europe will know that they are a disincentive. Some people always had a fear that they would not get access to a particular country when they came to a customs barrier. It is pretty obvious that, if we were to have such barriers, that would act as an inhibition on the movement of people for purposes other than employment. I do not think that anyone would argue against the position that having barriers where previously there were none will be anything

other than a bad thing for the movement of people in relation to tourism.

**Stuart McMillan:** I have an interest in cruise tourism, particularly in relation to Greenock ocean terminal. Over the past two years, more than 200,000 people have come into Scotland on cruise ships that have arrived in Greenock. As you will be aware, there has been concern about face-to-face passport checks, and the extra time and additional financial cost that they entail.

To come back to the issue of reputation and the welcome that people get when they come here—bearing in mind that most of the passengers are European and the additional time constraints for staff—how important are some of those non-tariff barriers to the issue of encouraging people to come to Scotland?

09:30

**Keith Brown:** I remember discussions that we had on that issue at that time, when I think I was transport minister and had an interest in that. There is an effect. When an EU citizen is going round EU waters, they do not expect to have that kind of face-to-face interrogation, as it sometimes was, about the right to be there in the first place. That certainly came as a surprise to some people; they would, of course, relate that experience to other people and that is not what people want when they are trying to relax on a cruise. The industry has huge importance to Scotland, including in Mr McMillan's area. We have recently agreed with the UK Government to invest substantially in the Aberdeen city deal, part of which is about the enhancement of the harbour to try to attract more cruise ships. The sector is also extremely important in the northern isles, and the Western Isles are looking to do a lot more on that.

We are looking to grow that trade. If large cruise ships come and people visit onshore, the benefits for local businesses can be substantial, whether that is in the Forth, the northern isles or elsewhere. If we have a growing perception that this can be a difficult place to come to and people might be stopped and checked, that can have a detrimental effect. Also, with the approach that was taken then, it happened quickly and people had no understanding that those face-to-face interviews would happen. At the time, we made representations to the UK Government on that.

The member is right. That points to the general principle that the more straightforward it is for people to visit other countries—in this case by cruise ship—the less likely they are to feel that kind of intrusion. Obviously, there is a legitimate role for the security services and other parts of the state to be able to provide protection, but that acts as a disincentive to such recreational activity. We

could see more of that sort of approach as a result of Brexit.

**Stuart McMillan:** I have one supplementary on that, convener.

**The Convener:** I am afraid that we have to move on—perhaps later.

**Emma Harper (South Scotland) (SNP):** Good morning, cabinet secretary. Richard Lochhead mentioned the food and drink industry. I want to highlight agriculture and the businesses that might be affected because of our exit from the European Union. We have heard previously about World Trade Organization tariff options in relation to agriculture. Has the Government assessed the impact on Scotland of trading under WTO rules, particularly with regard to agriculture? How is the Scottish Government working with the UK Government to ensure that devolved interests, such as shares of tariff-rate quotas and allowances for agricultural subsidies, are firmly considered as the UK seeks to negotiate new trade deals?

**Keith Brown:** Yes, we have done that assessment. A Scottish Government paper in August, which was based on recent studies, summarised the impact that leaving the EU could have on Scotland. The analysis indicates that, if WTO trading relationships are the result, Scottish gross domestic product could be up to £11.2 billion lower by 2030 compared to the forecast GDP in the absence of Brexit. We also applied an analysis by the Treasury on the impact of UK tax revenues on Scotland, which suggested that our tax revenues could reduce by between £1.7 billion and £3.7 billion a year by 2030. I mentioned the separate modelling that has been undertaken by the Fraser of Allander institute on the WTO scenario.

Perhaps Mr Burgess could help to answer the particular point about agriculture.

**George Burgess (Scottish Government):** Certainly. Together with colleagues leading on agriculture and food areas, I have been in touch with the Department for International Trade specifically on the tariff quotas issue, to ensure that Scotland is a full and equal partner in the UK Government's considerations of its approach to the WTO on that. Otherwise, there is a risk that the Department for International Trade will look simply to the Department for Environment, Food and Rural Affairs and not to the whole of the UK.

There is also an issue about not just what quotas the UK and the EU set, but the quotas that are set by other countries for exports from the UK and the EU. My sense is that the UK Government is only beginning its consideration of those, but you can rest assured that we will make sure that

Scottish interests are well represented and heard in that consideration.

**Keith Brown:** Engagement with the UK Government has been quite frustrating in a number of areas. DEFRA, however, has previously engaged with devolved Administrations, so that relationship has been a bit more productive than some others. Some of my colleagues could talk about that more than I can.

As Mr Burgess says, it is not just about the EU. Through the trade agreements that the EU has made, we have agreements with over 50 countries. We are working closely with industry to understand the full implications of Brexit for those agreements. The public debate has not focused so much on the power of the EU in achieving those agreements. If we end up with a hard Brexit for the whole of the UK, in trying to come to the trade agreements that everyone is talking about we will have to contend with a large and powerful EU that might have different interests. That is an extremely important consideration.

For example, 80 per cent of Scotland's red meat exports are destined for the EU, and figures from the industry show that the value of beef and lamb exports from Scotland to the EU in 2015 was approximately £73 million. If we were to be subject to the tariffs that currently apply to countries outwith the EU, which would potentially be the outcome of a hard Brexit, the same volume of beef and lamb would cost around 50 per cent more for importers to buy, and you can see the disadvantage that we would suffer as a result of that.

**Jackson Carlaw (Eastwood) (Con):** Good morning, cabinet secretary. The reasons why many of us voted to remain were neatly summarised in terms of our international trading relationships in your opening remarks. In so far as you are working to secure new business for us wherever around the globe, we commend you for that, and I hope that the whole Parliament would support you in those endeavours.

As the convener of the committee that recommended the design of the Forth road crossing to Parliament, I should say that the Foreign and Commonwealth Office is often lacking in understanding of domestic matters.

I will ask about the broader international trading relationships that are emerging. The Scottish Government and the Green Party have been hand in glove with President-elect Trump—which is a happy thing—in relation to their view on the transatlantic trade and investment partnership and the route to international trading through large bloc arrangements. The prospective new trading secretaries of the United States have said that they are very much in favour of bilateral

agreements. What conversations have you had about that? Have you, like the mayor of London, had an opportunity to have conversations with Liam Fox, the Secretary of State for International Trade, about how Scotland's interests—irrespective of the environment that we might find ourselves in—are reflected in what appear to be moves towards more bilateral agreements with major countries rather than trading bloc agreements? That will be crucial for many of the products in the food and drink sector that we have talked about. What opportunities have you had to meet the Department for International Trade? Your colleague touched on that, and it will be a crucial part of the future environment, irrespective of how the whole issue of the European Union settles.

**Keith Brown:** Jackson Carlaw is right to say that, whatever scenario transpires, we must make the best of it and work within it. However, I am not sure that I would describe our approach to TTIP as being hand in glove with President-elect Trump.

We have had that discussion. I met the secretary of state just before he made his comment about British businesses being fat and on the golf course every Friday—I am not sure how that was promoting trade either from Britain or from elsewhere. We came to a constructive agreement, whereby I laid out for him some of the things that I have mentioned already about how we intend to upscale our activity in the EU and elsewhere in what I suppose would have to be characterised as trade promotion, as the Scottish Parliament is not allowed to strike trade agreements. I said that I wanted that to be done with the United Kingdom Government. Whatever we might think of the current political settlement, the UK Government has a wider network of offices around the world than Scotland does, and they are also meant to represent Scotland, given that Scottish taxpayers pay into that. We do not, however, think that we get the support that we should in relation to the way in which international trade is promoted through that network. I laid out to Liam Fox that I wanted our work on expanding Scotland's presence, because of the oncoming threats of Brexit and so on, to be done with the UK Government.

As with the economic development and skills review, we have tried to achieve a much more focused international presence so that we can have a situation for Scotland in which people are at least not working against each other. For example, we could have a minister visiting a country one week, somebody from a university visiting the next week and perhaps a trade organisation such as a chamber of commerce having an event in the country a month later. We have to be more focused, and the focus should include what the UK Government can offer through its network. I have spoken directly to Liam

Fox about those matters, including the international trade element, and both Governments have had that conversation at official level.

It might be the case that we have to rely increasingly on bilateral trade agreements. That would be extremely problematic, because that cannot be begun until after we have exited the EU, given the nature of our obligations to the EU, and such a hiatus will not be good for trade. However, the bottom line is that we have not accepted that hiatus and we are trying to upscale what we are doing in the markets that are important to us, not just in the EU but around the world. I am keen that that should be done in conjunction with the UK Government.

**George Burgess:** Lord Price, the Minister for State at the Department for International Trade, visited Scotland recently and met Paul Wheelhouse. Lord Price outlined the approach of his department, the priority of which is sorting out the UK's schedule of commitments at the WTO, followed by getting a trade arrangement in place with the EU and then with the countries with which the EU has a trade arrangement. New bilateral trade agreements with other countries seem to be relatively far down the queue, even though there have been, as members will have seen from the press, engagements with Australia, New Zealand and India. There is an assumption that bilateral agreements will be faster than multilateral agreements. However, the comprehensive economic and trade agreement—CETA—took about seven years to negotiate. The EFTA countries already have a trade agreement with Canada, but even though that involved a smaller bloc dealing with Canada, it took about 10 years to negotiate that agreement. So, bilateral agreements are not necessarily—

**Jackson Carlaw:** But is that not the distinction? Dealing with a bloc is different from two countries dealing bilaterally with each other. The arrangement in a bilateral agreement is between two countries, but it is not an arrangement between two countries that then has to be endorsed by half a dozen others in a bloc. I think that that has been the problem with TTIP, which the United States is now dissociating itself from; many other Governments, or representatives of various countries that have been affected, have expressed concerns about TTIP, too.

I am encouraged, however, by what you said about your meeting with Dr Fox, who I think has volunteered to come to a meeting of this committee at some point. Given your comment about the golf course, by definition that meeting was some time ago. Is there an opportunity in prospect for an on-going schedule of meetings between you and the Secretary of State? I feel

strongly that we need to ensure that Scotland's interests are fully represented in whatever new arrangements the Secretary of State seeks to negotiate on behalf of the United Kingdom. If the outcome is not the one that is preferred by the Scottish Government, it will be fundamentally important that Scotland's opportunities are maximised in the new arrangements.

**Keith Brown:** Yes, and we have agreed to have further meetings. That agreement was easier to achieve than agreement in many other areas with the UK Government. However, we had that willingness and we agreed that we will have further meetings.

09:45

Returning to the point about bilateral agreements, I note that one of the major issues is that we do not have, in either Scotland or the UK, the expertise to create the large range of potential bilateral agreements. Somebody whom I will not mention but whose name everyone would know said that, if the UK had had to carry out the discussions on CETA, it would have been "eaten alive" by the trade negotiators that Canada has, because they have been doing this for a long time.

I think that I am right to say that the UK Government has tasked something like KPMG with casting around the world to get people who have that expertise, with limited success. It seems to me that that represents a reversal of its approach to the free movement of people, in that it is trying to get people around the world to come here to help to negotiate Brexit.

It is a genuine concern. If things go according to the timetable that the UK Government has set out, we will have article 50 in March next year and then leave the EU in two years' time. Within that period, we will have to scale up massively in order to discuss trade deals with some extremely hard-headed and experienced trade negotiators around the world. Doing that for one country, such as Canada, is a big enough task, but to do it simultaneously for India, China, Australia and the US seems to me to be a pretty big task.

You asked about continuing engagement with the UK Government: we want that. As Mr Burgess said, Lord Price has been here—I think he has been here twice; he certainly met Paul Wheelhouse on one occasion—and we will have further meetings with Dr Fox.

**Jackson Carlaw:** Thank you.

**Ross Greer (West Scotland) (Green):** Cabinet secretary, you mentioned the immediate post-Brexit period. If we were to be part of the UK in the event of a hard Brexit and a default to WTO rules, that period would be shocking and potentially quite

damaging to the Scottish economy. Has the Scottish Government considered what actions it would be able to take to mitigate as much of the damage as possible if we were in that situation?

**Keith Brown:** Yes. I suppose that understanding that that is a potential outcome is one of the things that underlie the activities that we are undertaking. As I said, we cannot reach trade agreements, as that is not within the remit of the Parliament or the Government in Scotland, but we can promote those relationships, and we are doing a lot of work on that. In the situation that you rightly ask about, there would be a sudden and huge shock to people who are active in the economy in Scotland, because their trade relationships would be altered in a dramatic way as we moved to WTO rules.

I should add that work is also going on within the UK Government to try to disentangle some of the quotas that are laid out in EU law but not disaggregated.

Preparation for that kind of shock is implicit in what we are doing. At the same time, as I mentioned, and as we intend to propose shortly, we are trying to see whether we can avoid that scenario.

**Ross Greer:** Going back to Jackson Carlaw's point about trade deals, I would not want to put words into your mouth, but the Green Party has always felt that we come more from the Bernie Sanders school of thought on such deals than from the Trump school. Given that, last week or the week before, we found that the Scottish NHS is not exempt from CETA, and given your comments a moment ago about the relative inexperience of the UK's trade negotiators, is the mix of ideological motivation and inexperience at the Department for International Trade a recipe for huge risk to Scottish public services in any future trade deal?

**Keith Brown:** In future, yes. The CETA negotiation was carried out by EU negotiators who are pretty experienced. Unfortunately, we did not carry out that negotiation. CETA has still to be ratified, I think, by the UK Parliament, as it will have to be by all the EU states. We did not carry that out, but we can make our views known, as we did on TTIP.

The situation that you mention is a concern and it should not be brushed under the carpet. If we are going to move to carrying out all our own trade negotiations on a global basis, whereas all our current trade deals and the current trade environment are set by the EU, which is a large, powerful trading bloc—the biggest in the world—we really have to go into that prepared. If we are desperately casting around to get people from overseas to come and do that, we have to

consider how sufficiently aware they will be of UK trade and industry and its requirements, in addition to the other aspects that you mention. That is a threat that has not been given sufficient focus. You are right if what you are saying is that, in that scenario, having too few people, with too little experience, trying to do too much, too quickly, means that there is quite a lot of potential for things to be missed, to the disadvantage of Scotland and the UK as a whole.

**Ross Greer:** There has been discussion—certainly in this committee—about the potential need to re-evaluate the devolution settlement in the event of Brexit and to look at whether powers are repatriated to Westminster or directly to here. Would there be a case for a wider look at Scotland's relationship with the rest of the UK? CETA is a good example. The Canadian provinces had a huge level of involvement, because deals cannot be approved without them. Is there a case for the Scottish Government to start arguing for a serious statutory role in the negotiations, or at least in the approval of any final deal?

**Keith Brown:** It is almost our standing position that we want to have the maximum possible role. You are right about Canada. It is a confederal system, in which the provinces have substantial powers. A UK Government of whatever political persuasion and a Scottish Government of a different political persuasion might have very different priorities. I am not by any means likening Scotland to a province, but if a confederal country such as Canada can take a substantial cue from the needs of its provinces, we should be able to do that in the UK.

You have seen that debate develop further. It is perhaps difficult to focus on a specific outcome because so much is uncertain at the moment. I have talked to the business community in the past week and it feels that it has never had a period quite like this in which so much is uncertain and there are so few cues about how things might go. As I said, though, our position has always been to maximise the role of Scotland in any situations like this.

**Lewis Macdonald:** You talked about increasing reliance on bilateral agreements being extremely problematic. Do you acknowledge that increasing reliance on bilateral agreements is likely under almost any imaginable scenario? I am thinking, for example, of EFTA and the EEA. Those countries—within or without the EEA—have access to arrangements with the European Union but also have bilateral agreements and the freedom to negotiate such agreements elsewhere. EFTA members can also collectively negotiate, as we heard in relation to Canada. As Mr Burgess said, there are 50 countries outwith the European Union with which the European Union currently

has trade arrangements. Any scenario of being outwith the European Union presumably means that those agreements have to be negotiated again, even were we to remain in the single market.

First, would you acknowledge that increasing reliance on bilateral agreements is inevitable? Secondly, will you say a bit more about how the Scottish Government is able to put across to the UK Government and others what our international trade priorities are?

**Keith Brown:** It goes back to the uncertainty about how things will develop. If there is increasing reliance on bilateral agreements, EFTA countries will want to ensure that they do nothing in their negotiations with other countries that upsets or undermines their relationship to the single market. They will be very conscious of that. If we take one example, despite its wealth of experience, the EU has not managed to reach a trade agreement with India. If we imagine a hard Brexit, and the UK or Scotland trying to strike a deal with India, what will be further up the list of priorities for India—

**Lewis Macdonald:** I am sorry to interrupt, but my question is really about the softest imaginable Brexit. In the view of the Scottish Government, are there any circumstances in which bilateral agreements will not be required in order to take forward trade in future?

**Keith Brown:** Yes, if we retain membership of the EU, which we have said that we want to achieve.

**Lewis Macdonald:** But only in those circumstances.

**Keith Brown:** If we retain membership of the single market, it depends on the terms on which that happens. There are circumstances in which we can avoid having to do that.

**Lewis Macdonald:** Finally, in relation to the ability of the Scottish Government to discuss these matters with the Department for International Trade, what departmental support do you have in the Scottish Government for such negotiations? What expertise do you have in-house?

**Keith Brown:** You will know the configuration of the Scottish Government and you will appreciate that, since the Brexit vote, there has been a substantial amount of reorganisation to ensure that the civil service is configured to provide support. A specific economy unit has been established and, as I mentioned, we are upscaling our activities through SDI and through the enterprise and skills review to focus more clearly on those aspects. However, we do not have the resources that the UK Government has in those areas. When I started in my job, Brexit did not

exist. The difference that it has made to the job that I do is amazing, and that is reflected in the civil service report that I get.

**The Convener:** Before we wind up the session, I will go back to Mr Burgess. You said very politely that you felt that the Department for International Trade was at the very beginning of the process of considering what WTO rules might mean for a post-Brexit UK. A few weeks ago, the committee took extensive evidence from WTO experts, who spoke about the Nissan deal, whose details we do not know. They said that, if Nissan had been promised that any tariff implications would be mitigated by the UK, that would be against WTO rules, which insist that free trade deals must cover all sectors. The Government cannot single out—and certainly cannot pay the tariffs for—one particular sector. From your discussions with the Department for International Trade, do you think that there is an understanding of that kind of thing?

**George Burgess:** I do not want to do the Department for International Trade a disservice. There are a lot of good, experienced people in there, and the department is growing rapidly. My earlier comment was on a specific point about tariff quotas in third countries' schedules. At present, the EU benefits from being able to export a certain amount of a particular commodity to the United States, for example, and my point was about how those quotas might be divided up between the rest of the EU and the UK. My comment about the Department for International Trade being at the beginning of the process was specifically on that point.

The department has experienced staff, and so far that experience has been directed towards working as part of the EU's negotiations rather than negotiating in the department's own right. Nevertheless, there are people in the department who know and understand the WTO mechanisms well.

What we are seeking to do—quite successfully so far—is to work with the Department for International Trade to understand what it is working on and to see how best we can provide input to that work and ensure that Scotland's interests are represented. The dialogue with the department at official level and, as the cabinet secretary mentioned, between ministers has been relatively good so far, and I certainly hope that that continues.

**The Convener:** Thank you very much, and thank you, cabinet secretary. We will now have a short suspension before we move to the next evidence session.

09:58

*Meeting suspended.*

10:01

*On resuming—*

**The Convener:** Welcome back for our second item of business, which is further evidence on the implications for Scotland of the EU referendum. We are joined by videoconference by Ian Duncan MEP. I understand that Mr Duncan has to leave at 10.25 in order to vote, so he may feel that there is too much time pressure to make any opening remarks.

**Ian Duncan MEP (European Parliament):** You will be pleased to hear that the President of Tunisia is overrunning, so the votes have been postponed. I now have plenty of time to speak to you. If you are amenable, I will make some opening remarks.

It is a pleasure to speak to the committee. You are probably aware that I served on the committee for almost a decade, latterly as a clerk, and I have a strong appreciation of its work.

Let me cover some of the areas in which I can offer some insight from Brussels. I cover fisheries, energy and climate change. Each of those areas is of vital importance to Scotland and they all have a serious part to play in the Brexit deal. Let me begin by talking about climate change. I attended the recent climate change conference in Marrakech and I have been a parliamentary delegate to each United Nations climate change conference. The Paris accord is an essential element in addressing global climate change. Brexit risks impacting on that negatively.

The European Union depends on contributions from a number of member states to help eastern Europe—those states that have Soviet era technology that relies primarily on coal—decarbonise. I am the Parliament's lead negotiator on what are called the carbon markets. The carbon markets rely on a series of funds to move money to eastern Europe to help it decarbonise. We are the second biggest contributor to those potential funds and our contributions amount to billions of pounds. If we do not give that money, the reform of those carbon-fuelled power stations will struggle. That is not insignificant.

In addition, when the targets for the European Union were set, it was recognised that the UK would be able to shoulder a larger part of the burden. If the UK steps outside that commitment, that will represent a significant increase for each of the remaining member states. For some of those states, that will be difficult to meet.

The issue of climate change is so important that I have recommended to my Government—and to

anyone else who will listen—that those climate change commitments should not be part of the Brexit negotiations. I suggested that we take them out. We are already committed on a global level to funding decarbonisation and committing that money to eastern Europe would be a good thing to do—good for the United Kingdom, Europe, the world and climate change.

Electricity will become very important. We do not quite have an open electricity market across Europe, and Scotland will soon become a net importer of electricity. I have been a strong advocate of having a North Sea electricity grid connecting the markets around the North Sea basin. Norway and Iceland are integral to that, as well as ourselves. I believe that collaboration on that should continue and that markets on the continent are better and safer when we are connected. I have been advocating strongly that, through Brexit, we should not lose sight of the fact that we can continue to address climate change, primarily by interlinking our renewables ambitions. That is important.

Fisheries are an interesting area. A recent study by the North Atlantic Fisheries College, which is based up in Shetland, noted that 65 per cent of the EU catch—excluding Scotland's catch—is caught in our waters. You will also be aware that EU waters constitute less than 25 per cent of the North Sea and, for the pelagic sector, only about 15 per cent of the distant waters. You will know of the passion with which fishermen have addressed the issue of Brexit, and I believe that we need to find a better way of addressing the challenges of our maritime resources. I think that we are in a strong position to do that. We should be able to get a better deal for our fishermen as we emerge from the process.

Today is the date of the EU-Norway talks that will determine the quotas for the North Sea. We always think of the quotas being set at the end-of-year December councils but that is done now, because the EU shares the North Sea with Norway. After Brexit, the northern North Sea will be shared between the United Kingdom—not the EU—and Norway, and those negotiations will be bilateral between the UK and Norway. It is important to stress that. The southern North Sea will involve a trilateral negotiation, out of which will emerge a different settlement. It is important not to lose sight of the fact that, although we might catch the fish, other people might eat it. I am happy to talk about that in the market discussion that I suspect will follow.

Let me talk a little about the mood out here. For the first time, now, there is a general acceptance that Brexit will happen. At first, there was a bargaining element—the Kübler-Ross approach—and the suggestion that we could, by some

means, avoid that outcome. However, there is now an acceptance that Brexit will happen, which has led to a great deal of unease among a number of member states and their representatives here, not least because the UK is the second largest net contributor in terms of finance.

When David Cameron secured a cap on the budget last time round, that was heralded as a great step forward in some respects. Going forward, there will be a fall in the EU budget—it will go down, and the moneys that are available for all the projects will be less. That should not be underestimated as a concern, particularly given that the votes that I will take part in very shortly will be about the EU budget and the European Parliament wants that budget to go up. I am conscious that people are beginning to take Brexit seriously in the context of their own national interests as well as the collective community interests, and that will be an important element of the negotiations that will take place.

I am happy to talk about those areas, and I can cover other areas, too. I cover lesbian, gay, bisexual, trans and intersex rights in the European Parliament as well as agriculture, and I am happy to comment on those areas. If I do not know the answers, I will happily tell you so. I may have colleagues who can help, whom I can recommend to you as future witnesses.

**The Convener:** Thank you very much, Mr Duncan. Back in October, the President of the European Council, Donald Tusk, reflected on what he called “the cake philosophy” whereby one can have the EU cake and eat it. He said:

“To all who believe in it, I propose a simple experiment. Buy a cake, eat it, and see if it is still there on the plate.”

The cake philosophy was back in the news this week, when notes that were caught by the press suggested that the have-your-cake-and-eat-it approach is the UK Government’s favoured approach. Is the UK likely to be able to have its cake and eat it? If not, what is the cost of Brexit likely to be?

**Ian Duncan:** Another interesting way of looking at that is to ask whether Donald Tusk can have his EU presidency and eat it. Unfortunately, Donald Tusk’s certainty in his role is now in doubt, as you will be aware. He is no longer supported by his own member state. Were he not to stay in that role, that would have a significant impact on the negotiations.

I would argue that the best possible way to go into negotiations is with the have-your-cake-and-eat-it approach. Going in with anything less than the biggest thing you want to have would be a very weak way of beginning a negotiation. That is exactly what the EU is doing now as it begins to examine those elements. For example, there is

rightly much in the news on the question of EU citizens’ residence rights within the UK. There is a very strong move to have those rights recognised and taken out of the negotiations. That would be a good thing to have done. However, as the committee will be aware, Chancellor Merkel said a few days ago that it was now to be part of the negotiations.

We cannot expect anything other than a hard negotiation from both sides at the beginning. We should not be in any doubt that both sides will have to negotiate from the hardest possible position. If we are to find a compromise that is good for the EU and good for the UK, we will need to find that common sweet ground in the middle. That is what we are looking for: the sweetest cake possible.

**The Convener:** Will you encourage your colleagues to compromise on the issue of free movement, which seems to be at the crux of matters?

**Ian Duncan:** Again, the issue of free movement is worth exploring in greater depth. The committee will be aware that, when the eastern states joined the EU not so many years ago, the right to free movement was absolutely circumscribed. Only the UK and Ireland allowed free movement at that point. The inherent right that we take for granted was not offered to those who came from Poland, the Czech Republic or Slovakia. The freedom of movement that we now claim as inviolable was set aside.

We need to find an appropriate way to address the issue of the freedom of movement of workers. That is what the treaties provide for and we should find a way to address it. After all, there is a significant migrant population in Scotland and in the UK, and our economy depends on it. People want to come here for that very reason.

I hope that we can find a sensible approach in the settlement, not just to the citizenship issue but to the movement of people. We can find that, because both the EU and the UK would be the weaker if we cannot find common ground on that point.

**Lewis Macdonald:** The convener mentioned an apparent set of objectives that was made public last week. There were others that were made public officially. The Office for Budget Responsibility has predicted that the requirement for public borrowing will increase by some £58.7 billion over five years as a result of Brexit. Does that figure sound reasonable to you?

**Ian Duncan:** I am not an economist. I have read the same figures as Mr Macdonald did and can offer no further insight.



**Lewis Macdonald:** The Institute for Fiscal Studies also published figures last week, which showed that real wage levels are likely to continue to be low and that we will have the longest period of downward pressure on real wages for 70 years. Do you recognise and are you prepared to comment on those numbers?

**Ian Duncan:** Yes. I can happily comment on them.

We will go through a period of economic turmoil. Macro-constitutional change brings that; I am under no illusion about that. I was very clear that that would be the consequence of independence for Scotland. I am very clear that that will be the consequence that we will live through now.

The challenge is how we emerge on the other side and what we do to ensure that we protect every element of our economy as strongly as we can. In that regard, those figures are important. It is also important to look at forecast figures to see what we should aspire to be, rather than looking at worst-case scenarios. We should prepare for the worst-case scenarios; we should build for the best-case scenarios.

**Lewis Macdonald:** Given that you do not dispute the OBR's prediction of a very substantial hit on the UK economy over the next five years and that you accept the IFS projection of a very substantial hit on the wages of working people over the next five years, what do you see as the silver lining to those enormous clouds that you acknowledge are hanging over us?

**Ian Duncan:** Those enormous clouds are as nothing compared with the clouds that are hanging over the Eurozone. If the vote in the referendum that will take place in Italy later this month goes against Prime Minister Renzi, there will be a run on the banks. The Eurozone will begin to go through a cathartic, critical moment.

Looking at those figures, we need to see the challenge for both sides of the channel. We should be under no illusion that there will be challenges ahead. We need to work out the growth strategy that we are trying to build, bearing in mind the sclerotic growth that we are witnessing in the Eurozone compared, even now, with the growth in the UK. The economy within the UK is more robust than might have been thought, and it has weathered the early tremors.

There are bigger tremors to come—I am under no illusion about that—but I note as I cast my eye to the European continent that there are extreme problems to come there, too. The real issue that we face now is that we are in far more uncertain times, not least because of Brexit, but also because many of the shibboleths that the EU has relied upon have been removed.

Our membership of the EU has been vital, in relation to liberalising the wider economy and the markets there. We have been a principal driver for free-trade agreements at a global level. If we take our advocacy out of that, it becomes different. Throw into that equation the slightly quixotic and whimsical element of the arrival of Mr Trump and the world becomes very uncertain.

10:15

**Lewis Macdonald:** I accept all that; the point that you make about the impact of Brexit on the EU is one that has been made by a number of witnesses to the committee, from other EU member states and countries. The question, then, has to be how the UK can go forward in its relations with those EU member states if the EU is in the degree of difficulty that you have described.

From a Brussels perspective, what do you believe is possible? You have said, "Wouldn't it be good to exclude climate change?", "Wouldn't it be good to exclude the rights of residence of EU nationals living in the UK?", and "Wouldn't it be good to maintain the North Sea electricity grid?" I agree with those three wouldn't-it-be-goods, but how possible will it be to do any of those things when the UK is not clear about its negotiating position and the EU is in increasing difficulty in its own right?

**Ian Duncan:** One thing that I would note is that the morning after the Brexit vote, the British Government fell; it is import to stress that. A new Government came in whose policy was fundamentally different from that of its predecessor. It was a Government that had to take forward the Brexit approach; David Cameron was not an advocate of that. It has taken time for a Government that had a fundamentally different policy to volte face.

In some respects, taking our time has been helpful for both sides. I do not believe that the EU was any better prepared for this unexpected convulsion than we were in the UK. Right now the member states too are developing what I believe are very challenging talks, intra 27, and that in itself will be the measure of what comes out.

There are elements in which we hope that common sense will play a part. I thought that the residence question would be one of those. I thought that, with the movement on the British side, there would be a compensatory movement on the European side, but common sense is not being applied there and that disappoints me.

On climate change, again I would say that surely common sense must apply. We must be able to see a way through to recognising the greater threat that this represents to us. Sadly, I

am not as optimistic as I would like to be on those areas.

There are clearly areas in which we can collaborate very strongly, whether it be on Erasmus, Marie Curie or looking again at the horizon 2020 approach. There are many areas in which we can continue to work very closely—intimately, indeed—with the EU, but I hope that common sense is the watchword from both sides. Both sides will be damaged by a failure to find the common sensible approach to resolving those issues.

I emphasise that it is only really in the past few weeks that the inevitability of departure has become accepted here. Up to that point, there was a view that perhaps by other means—whether it be another election in the UK, or an issue that might somehow change the Government's policy—EU membership might still be allowed to continue. There is now a broad finality, and a recognition that that is not likely to happen.

I think that there is a sorrow in that, and I am witnessing that among many colleagues. I work very closely with colleagues from across the political spectrum and across the national divide. We work very closely and make good progress together; they will miss us and I will certainly miss that, too.

**Ross Greer:** Mr Duncan mentioned the North Sea grid. That has been pioneered and pushed by the European Commission. It is a collaboration of EU member states and Norway, which has significant links with the EU. Even for similar smaller projects, such as the Irish-Scottish links on energy study—ISLES—project for Scotland, the Republic of Ireland and the north of Ireland, the feasibility funding came through EU funds.

I am interested in Mr Duncan's further thoughts on what the future of such energy collaboration projects might be, particularly if we are heading towards a hard Brexit scenario. The implications are not just for us, but particularly for the Republic of Ireland because of the geographical realities of integrating it into a European grid that the UK might not be part of.

**Ian Duncan:** I am always conscious not to use the words "hard" or "soft" in the Brexit context. I think that the North Sea grid is a no-brainer. I thought that it was an easy thing for people to see. When we were looking again at the challenges facing the European Union regarding both climate change and energy security, the North Sea represented a stable investment prospect. You will be pleased to know that I wrote a paper with one of your colleagues, Bas Eickhout. It was the first time that a Green and a Conservative had written a paper jointly in the European Parliament, and there was much surprise at that, but we were on

the same page—albeit, I suspect, for different reasons—which was that the grid is a good thing.

The funding that has come so far has been good, but it is still early-stage funding and serious money will be required to move the matter forward. There is something called the European fund for strategic investments—it is known as the EFSI fund or the Juncker fund—which is a vast pot of money. I have been lobbying furiously to get cash from that fund to get things moving forward, but I have not been successful; in truth, that is because a lot of the endeavours on energy and climate change have been more about energy security than about the Paris accord. That has tilted the money more to the east, so a lot of it has been about pipeline and security questions on the eastern neighbourhood margin.

I still think that the North Sea grid is an absolutely pitch-perfect and necessary element of our collaboration on electricity and on climate change. The body that exists to take that forward is not an EU institution, so it need not be impacted by the Brexit issue. As you point out, renewables and power stations that allow for storage—broadly—of electricity in Norway are vital; I think that they could be vital for Scotland, too. If only our power stations were on the other side of the country it would be a lot easier, but we cannot change where the mountains are, sadly. However, it is an area that we need to be clever about, because it is vital for our energy needs, our electricity needs and our climate change ambitions—and for the rest of Europe.

**Ross Greer:** What suggestions would you give to the Scottish Government to ensure that the UK Government does not jeopardise that, and that a UK outside the EU would still be part of those projects?

**Ian Duncan:** I do not think that the UK Government will do that. The meetings that I have been having with Government representatives are to recognise why the issue is important. There will be an interregnum as people become focused on things that are not about energy or climate change and on other elements, and I am under no illusion that this will be more of a challenge, but the UK Government is now committed to the North Sea grid, which is helpful, and the Scottish Government is, too.

I am ambitious about bringing some of my European colleagues up to Scotland. I intend to write the next draft or version of the joint paper with Mr Eickhout, so that both of us can present it as "How on earth do we do this now that Brexit is here?" and so that we can see the route going forward.

We have opportunities to collaborate. People still want the same outcome; they are just no

longer quite as clear about how the move on the board gets us to it. To some extent, the pressure that we must place on all those who are involved to get the right outcome is as much in your hands as it is in mine. I hope that we will be able to collaborate on that together.

**Jackson Carlaw:** You have touched on a couple of specific areas, Mr Duncan. I quite like your impression of the atmosphere. It is some time now since the committee was in Brussels in July. The committee has also heard evidence from some of your colleagues. When we were there, there was astonishment and consternation in the political establishment on both sides of the Channel at the outcome of the referendum, with a great deal of sympathy for Scotland in the European Union and recognition that Scotland, together with certain other areas of the United Kingdom, had delivered a different result in the referendum from the one in other parts of the United Kingdom.

The question then was what capital could be attached to those regrets. Since then, everybody has been away on their own summer recess. You have come back, and there are other problems and there are elections facing member states. You have hinted that colleagues in the European Union have been coming to terms with the inevitability of Britain leaving. What practical recognition do you think remains for the vote that Scotland and certain other parts of the United Kingdom took, and how might that figure in any negotiated settlement?

**Ian Duncan:** That is the question on many people's minds. I will note a couple of things here. There was a lot of regret, particularly about the Scots because, for some reason, Scots are just liked more than some other individuals—make of that what you will. However, the reality is that you cannot back regret—that is the bottom line. Much as there was sympathy among a number of member states and their representatives, the negotiation process will be undertaken on the basis not of sympathy but of fighting for national self-interest. That is why I am very keen for each of the home nations in the United Kingdom to link arms to get the strongest possible deal, because it is in the interests of the other side to encourage division and create some sort of gap between Cardiff and London or Edinburgh and London.

As we move forward, we need to know that everybody is signed up to a rock-solid, iron-clad British position on the best deal. Last week, when I was in Strasbourg, the Minister for UK Negotiations on Scotland's Place in Europe, Mr Russell, was there. To be truthful, some of his comments were very unhelpful because they encouraged Spain to intervene at a stage when it otherwise would not have done so. Spain is one of

those nations that are always at the edges ready to get involved, but it does not often join in. Last week, it did—it got straight in there and made it very clear that there will be no Scottish exceptionalism. That is the sort of division that can be exploited by the negotiators. We need to have a team UK approach to get the best deal, and I believe that we can get that deal. I believe that, with Edinburgh and London, London and Cardiff, Cardiff and Belfast and so on working in strong collaboration, we can get the best deal, but there is now a recognition that each of those nations is fighting for its interests as well.

When we talk about the negotiations, how do we reconcile that? It is not actually one against 27. When it comes to fisheries, for example, we will have to deal primarily with those nations that border the North Sea, which are a subset of the 27. When we look at some of the issues to do with our greater trade interests, we are not dealing with 27 states, because not all the 27 states trade equally with us. Again, when questions of freedom of movement come up, it is not one versus 27, because the eastern European states have a greater interest in freedom of movement than might be the case for Italy or Spain.

We need to be united—that is the first statement, and a given—and we must also recognise that it is no longer in the EU's interests to be our friend. Sympathetic though member states may well be, that will cut no mustard out here.

**Jackson Carlaw:** The Prime Minister indicated that she had sought to take forward the issue of the residence status of EU nationals in the UK and of UK and Scottish nationals in the EU. However, that initiative was publicly rebuffed by Chancellor Merkel and one or two others. Is that view widely held across the European Parliament and among member states? Have other states indicated that it would have been preferable if an exceptional arrangement had been made at the start of the process, or are states unwilling to take that approach because they choose to make the issue part of the negotiations?

**Ian Duncan:** I will be very frank—there was shock in the European Parliament when the announcement became clear. Everyone here had assumed that the stumbling block was Theresa May's inability to negotiate and her unwillingness to recognise that the issue should not be part of the negotiations. A lot of people had been talking about that and that view had gained a lot of currency. When Chancellor Merkel's very clear and trenchant view came out, there was stunned silence among people who had believed that it was Britain that was being exceptional in that regard and being too mean-spirited to our European colleagues.

There is now a recognition that the negotiations are going to be hardball. Even on an issue where we can see the common sense of taking a mutual approach and taking it out of the debating and negotiating chamber, there is now a recognition that it is hardball. It will be hardball for the 27 member states even on the issues on which we do not believe that we disagree. We recognise that the Brits in Spain or the eastern Europeans in Scotland—whatever it happens to be—are an integral part of our communities, our economies and our countries, so it is a no-brainer to take them out of the equation, yet the issue has once again been brought foursquare back to the table by the Germans as a negotiating tool.

**The Convener:** As a supplementary to Jackson Carlaw's previous question, I will come back on that point. When we were in Brussels, one of the member states that we spoke to made the point that, if Scotland presented a differentiated Scottish proposal that was endorsed by the UK Government, people would be far more likely to listen. When Mrs May came to Edinburgh in July, she indicated that she was listening to Scotland and understood Scotland's concerns. As I believe Mr Carlaw has said in the chamber, if the Scottish position was endorsed by the UK Government, other member states would view it differently. Do you agree with that and will you encourage your colleagues in the UK Government to take that approach?

10:30

**Ian Duncan:** May I ask a question? Which EU Government did you meet?

**The Convener:** As Mr Carlaw knows, our discussions were with a number of Governments and they were off the record, so it would not be appropriate to say that. Mr Carlaw has not said who it was, either.

**Ian Duncan:** Well, I would be surprised by that. It would depend on which Government representatives you spoke to, but that would be quite an explosive position for a member state to have taken. For example, last week, when there was an issue about talks being undertaken between the Scottish and Spanish Governments, we saw how quickly the foreign minister of Spain stepped in to say that there were no talks whatever. Therefore, I would be really surprised if a member state was advocating Scottish exceptionalism. I genuinely would be very surprised if that was a strongly held opinion of a Government in anything other than private discussions that were very far off the record.

**The Convener:** What I was talking about, and what I think Mr Carlaw talked about in the chamber—he might want to come in on this—is a

position that was endorsed by the UK Government. I cannot see what the problem would be if the UK Government endorsed a particular Scottish position.

**Jackson Carlaw:** My recollection is that, when we met some ambassadors to the European Union, there was a suggestion that there were variables around things such as Erasmus and horizon 2020 where there are specific Scottish interests that might be reflected, but that for any European Government to have a meaningful conversation with Scotland on those variables, the team UK approach had to be established so that there would be harmony in those discussions. The ambassadors felt that, if there was a sense of antagonism between the member nations in the United Kingdom, the shutters would come down on any such discussions—that was the expression that was used. My recollection is not that the discussion was about a more fundamental variance; the point was more that there are obvious areas in the arrangements that have to be obtained on which Scotland has an opportunity to have a slightly different arrangement.

**Ian Duncan:** Thank you for your clarification, Mr Carlaw. I owe you an apology, madam convener, because I misunderstood your point. I anticipate there being elements on which Scotland could have a differential relationship with the EU. For example, that could happen if there were an appetite in England and Scotland but not in Wales to continue with Erasmus, or whatever. I can perceive that there would be opportunities within the framework that is established by the UK Government in the negotiations. However, if there were to be a recognition of an entirely separately packaged deal, even that alone would raise anxieties, certainly among the Spanish, who thus far have been very vocal on the matter. I suspect that the same would probably be true in Belgium, because of the issues around separation there, and there are other places in the EU where that notion would be troubling.

There are certainly possibilities for Scotland or any member of the home nations to determine a different suite of elements within the UK negotiating package—that is probably true—but it depends on what level that is at, how fundamental it is and how far you drill down.

**The Convener:** I do not think that we drilled down to mentioning Erasmus or horizon 2020, but we will leave it at that.

**Stuart McMillan:** Good morning Mr Duncan. Bearing in mind that the next round of EU elections takes place in 2019, do you think that the two-year negotiating period will be achieved?

**Ian Duncan:** Yes, I think that it will. We will not get the fully fledged and wrapped-up package by

that point; there will be transition elements to it. The first elements to end—probably in spring 2019—will be the role of MEPs and our involvement in the college of commissioners.

Oddly enough, exiting is not that challenging a concept, in so far as cancelling our membership is straightforward. The test is what then replaces that membership, hence the need to look at transition arrangements in particular areas, whether that be on the wider question of food and drink, which Mr Lochhead raised, the market, which I suspect is the beating heart of the matter, or the cultural and social elements. You can anticipate that there will be different transition periods before our relationship with the EU ends.

It will not be the case that we will be entirely out and everything will have been concluded, detailed and done by that date. However, I do not think that that is necessary. The transition element will be important as we begin to see the evolution of our relationship with the EU.

**Stuart McMillan:** How do you see the discussion taking place with the electorate across the UK? My recollection is that transitional arrangements were not raised too much during the EU referendum.

**Ian Duncan:** You are right. I would always argue that a referendum is the wrong way to make fundamental constitutional change, because complex issues are reduced to a yes/no question. Such a process, as we witnessed in our two referendums, can lead to confusion, frustration and animosity.

As the deal evolves, it will be essential to see the United Kingdom Parliament and the Parliaments of the devolved home nations actively involved in the deliberation and discussion on that deal. That will be necessary. We are going to go through a fundamental change in our constitutional arrangement, so that is right and proper.

I imagine that an election will approach at some point in which the question of what the deal is will be held dear in the manifestos of certain political parties, which will then seek a mandate on that basis. I do not anticipate that any time soon; I think that we will be sticking to the fixed timetable. However, it is essential that people the length and breadth of the nation understand what exactly is happening.

There are six MEPs out here, and we remain the anonymous elected members from Scotland, in so far as we are not widely known back home. That is not for want of effort. Mr McMillan's colleagues Mr Smith and Mr Hudghton are staunch in their attempts to communicate, for example. It is not that easy; there is not always a good appetite to hear from your local MEP. Indeed, trying to help people to understand how

the EU works has always been a challenge; trying to help them to understand how it will all work without the EU is equally challenging. We will have a role in that, I hope. I know that four of my colleagues will be working hard on trying to take that matter forward. However, that will be an issue, because it is a dialogue and it requires the people to want to be part of it. Thus far, our understanding and engagement with the EU has not always been based on the soundest of understanding of how it works and what it means.

**Stuart McMillan:** Again bearing in mind the transitional arrangements, what do you think will be the impact of leaving the EU on businesses and inward investment in Scotland?

**Ian Duncan:** Any constitutional adjustment impacts on confidence; it also impacts on investment. That is a sad but true statement. It was true during the independence referendum and it is true now.

The challenge for us is to try to embrace the opportunities that Brexit gives us. There has been discussion about bilateral and multilateral free-trade agreements. It took seven years to get a multilateral agreement with Canada. That was too long. Two years was spent on dealing with the human rights elements, for example. I am not saying that human rights are not important, but Canada's human rights record is not necessarily that bad and should not have delayed the agreement by that length of time.

It is evident that there are opportunities when we look at bilateral agreements. The EU has not been good at brokering multilateral agreements. It was said earlier that the EU has the expertise—yes and no. Recently, much of the expertise has been consumed by only two agreements, CETA, which should pass through, and TTIP, which is dead. The EU has focused almost exclusively on those agreements, to the exclusion of areas where Scotland would principally benefit. If the EU had worked hard and brokered deals in south-east Asia or in India—where, to Mr Lochhead's credit, the Scottish spirit drinks industry is promoted—we could have received an extraordinary benefit, but the EU did not do that.

I commissioned two reports on the notion of enforcement of a free-trade deal, because such a deal is good only if the rules can be enforced and so forth. However, the EU is dreadful at enforcing its free-trade deals. We commissioned a learned academic from Zürich and looked at what the targets should be for enforcement of EU trade deals. We would think that the target should be 100 per cent enforcement, but the target that the EU set itself was 20 per cent and it is currently meeting only 10 per cent of its enforcement requirements. The free-trade agreements that have been brokered by the EU are therefore not

worth the paper they are written on. The EU needs a serious enforcement division within it to address that situation. I have raised the matter with the European Commission and said that the free-trade agreements need to be enforced. I therefore do not see the point of anyone saying that enforcement is not a priority because the priority is brokering the deal.

I digress gently but return to a simple point, which is that there are opportunities now for a bilateral agreement to be moved forward more quickly. Trying to move an agreement forward at the pace of the slowest camel in the train of 28 has proved in the case of CETA to be a bedraggling process, even allowing for the Wallonian intervention at the very end. In addition, TTIP, which was meant to be the biggest trade agreement on the planet, is dead now.

**The Convener:** We have a supplementary question from Ross Greer.

**Ross Greer:** It is on a slightly different point, if that is okay.

Mr Duncan, it has been useful to get your reading of the mood music in Brussels in relation to the UK home nations. What is the level of understanding in Brussels of the absolute necessity of ensuring that there is no hard border between the Republic of Ireland and the north of Ireland? The nature of that border would have implications for some of the potential solutions that have been mooted for Scotland, but it is in itself an essential part of an international treaty between the state that we are part of and another state.

**Ian Duncan:** The hard border issue is probably not well understood in Brussels. The issue is rightly of great concern to the UK and Ireland, but it is probably not fully appreciated anywhere else, to be honest. However, it needs to be and I would argue that it is important. However, certainly within the European Parliament, the focus has not been on the border question. When I discuss the issue with people, most of those who are not familiar with it do not get it.

**The Convener:** I thank Mr Duncan for giving evidence to the committee.

10:42

*Meeting continued in private until 10:49.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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