OFFICIAL REPORT
AITHISG OIFIGEIL

Culture, Tourism, Europe and External Affairs Committee

Thursday 12 November 2020

The Scottish Parliament
Pàrlamaid na h-Alba

Session 5

Thursday 12 November 2020

CONTENTS

CULTURE, TOURISM, EUROPE AND EXTERNAL AFFAIRS COMMITTEE

27th Meeting 2020, Session 5

CONVENER

*Joan McAlpine (South Scotland) (SNP)

DEPUTY CONVENER

*Claire Baker (Mid Scotland and Fife) (Lab)

COMMITTEE MEMBERS

*Annabelle Ewing (Cowdenbeath) (SNP)
*Kenneth Gibson (Cunninghame North) (SNP)
*Ross Greer (West Scotland) (Green)
*Dean Lockhart (Mid Scotland and Fife) (Con)
Oliver Mundell (Dumfriesshire) (Con)
*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)
*Beatrice Wishart (Shetland Islands) (LD)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Charlie Adam (NFU Scotland)
Wendy Alexander (Universities Scotland)
Jimmy Buchan (Scottish Seafood Association)
John Davidson (Scotland Food & Drink)
Elspeth Macdonald (Scottish Fishermen’s Federation)
Stephen Phillips (CMS)
Allie Renison (Institute of Directors)

CLERK TO THE COMMITTEE

Stephen Herbert

LOCATION

Virtual Meeting

Scottish Parliament

Culture, Tourism, Europe and External Affairs Committee

Thursday 12 November 2020

[The Convener opened the meeting at 09:00]

Future Relationship between the European Union and the United Kingdom Government

The Convener (Joan McAlpine): Good morning and welcome, everyone, to the 27th meeting in 2020 of the Culture, Tourism, Europe and External Affairs Committee. We have received apologies from Oliver Mundell.

Our first agenda item is continued scrutiny of the future relationship negotiations between the European Union and the UK Government. The committee will take evidence from two panels of witnesses representing different sectors of the Scottish economy that are likely to be significantly impacted by the outcome of the future relationship negotiations. I welcome our first witnesses, who are Charlie Adam, vice-president of NFU Scotland; John Davidson, strategy and external relations director of Scotland Food & Drink; Elspeth Macdonald, chief executive officer of the Scottish Fishermen’s Federation; and Jimmy Buchan, chief executive of the Scottish Seafood Association. Thank you all very much for joining us this morning.

Because we have two panels of witnesses, we will have to keep our questions quite succinct. I will address my questions to the food and drink and farming representatives, because I know that other members want to explore the fisheries issue in detail.

I will address my first question to Scotland Food & Drink. I understand that you wrote to the Prime Minister on 5 November about various issues with regard to the negotiations. Obviously, we do not have a deal yet. Are you able to rehearse with us the issues that you raised with the Prime Minister and whether you have had a response?

John Davidson (Scotland Food & Drink): Good morning. To clarify, 11 organisations across the food and drink sector signed that letter. Scotland Food & Drink instigated and facilitated it, but the fact that those organisations put their name to the letter shows the strength of feeling across the industry. I will take you through the letter’s four key points.

Of course, we were asking for no deal to be avoided, because it would be catastrophic for the sector. However, working on the basis that there will be some form of deal, our main ask was a six-month grace period. We want and need that in order to give businesses more time to adapt to the new trading arrangements. We are 50 days away and we do not quite know the detail of many issues, although that was what the transition period was meant to be about. Given that businesses are still focusing on surviving Covid, are desperately using up their cash reserves and are focused on their Christmas trade, they need the comfort of having a bit longer to adjust to the rules without fear of more disruption and losses. The main ask is for that grace period of six months to give businesses sustainability and help them to adapt. Of course, they will try and adapt anyway, but they need the comfort of knowing that there will not be any repercussions if they get things wrong through no fault of their own or a human error.

The second aspect is that businesses need the comfort of knowing that there could be financial compensation in place if they incur losses through no fault of their own or, importantly, through market disruption because of the transition to the new trading arrangements. That would be time limited, perhaps for three months. We understand that we need to agree criteria with the UK Government for what that compensation might be, what sectors it might apply to and in what circumstances, but businesses are already running on completely depleted cash reserves. They have no capacity to absorb major losses so, in order to sustain jobs and businesses, they need that comfort blanket of financial intervention from the Government to support them during that period.

The third thing is important for the seafood sector, and I am sure that others will comment on it. We need clarity about the operational arrangements to facilitate the continued passage of seafood consignments to the continent. We hear stories about heavy goods vehicles being backed up. We know that the UK Government has suggested that priority will be given to seafood businesses. That is helpful, but, with only 50 days to go, we need clarity about what that will look like in practice. We are optimistic, but we need confirmation.

The fourth thing is that we need to be given more flexibility to access any EU labour that is required in the future. The industry in Scotland is committed to looking for labour closer to home, and I am sure that there will be options for that. However, we need the ability to get EU labour if that is required. We are heavily reliant on it. More than 70 per cent of seafood processing labour in the north-east comes from the EU. We need the

Home Office to be flexible with the Scottish shortage occupational list and other propositions.

Those are reasonable requests, and they are supported across the industry. We received a reply from the UK Government, which has offered a meeting in two weeks' time with a minister from the Department for the Environment, Food and Rural Affairs. That is helpful. I hope that we can discuss those issues in more detail then and we hope to see progress.

The Convener: We hope that that will happen.

My next question is for Charlie Adam of NFU Scotland. The tariffs on World Trade Organization terms on agriculture and food and drink are extremely high. How concerned are your members about tariffs? How concerned are you about non-tariff barriers? Does one cause more concern than the other?

Charlie Adam (NFU Scotland): [*Inaudible*.]

The Convener: I am sorry—I was losing you. I think that you were temporarily muted. Can you start again?

Charlie Adam: I am sorry. Can you hear me now?

The Convener: Yes.

Charlie Adam: Our members are concerned about tariffs in both directions. They might make our goods too expensive in the European market, which could make us uncompetitive, and we could lose that market access. Some sectors would be more affected by that than others. We also have concerns about the costs of goods and inputs that come from Europe, as they might rise for certain sectors. We are concerned.

We are happier with the recent tariff schedule than we were with the previous one, which applied tariffs that were unfavourable for us in one direction while opening doors to goods in the other direction. The recent schedule was an improvement, but we have major concerns.

What was the second part of your question?

The Convener: It was about non-tariff barriers, regulation and the UK setting its own regulations after Brexit. The need for a level playing field seems to be a barrier to getting a deal.

Charlie Adam: That has been in the news a great deal. We have been concerned that trade deals might leave us facing pressure from imported goods that do not meet the standards that we have to meet. That would place us in an uncompetitive position. There has been some success in that respect recently with in the UK Agriculture Bill, but the concerns remain.

We are a vital industry, particularly for Scotland, and we cannot be placed in an uncompetitive situation that could threaten our very existence and make us uncompetitive.

Claire Baker (Mid Scotland and Fife) (Lab): [*Inaudible*.] From the answers that we have heard so far, it appears that the UK Government's get ready for Brexit campaign is premature. Nobody sounds confident about what the rules will be on 1 January.

What support for preparation has there been from the UK or Scottish Governments? John Davidson mentioned the Scottish Seafood Association, so perhaps Jimmy Buchan may be able to answer the question and describe what support there has been from the UK or Scottish Government or any other agencies.

Jimmy Buchan (Scottish Seafood Association): Both Governments have done a tremendous amount of work, but the sheer scale of the project or the work that is needed for the significant change that industry will have to embrace is probably bigger and wider than most people could envision. I am not directly involved in exporting, but I know from speaking to members of the Scottish Seafood Association that they are very concerned that we are—John Davidson alluded to this—50 days away and there are still serious unanswered questions.

All the extra paperwork will be a significant cost to industry. Bigger businesses are probably better prepared for what will happen simply because they have the human resources to deal with it. Smaller businesses will find it extremely challenging, to the extent that I fear that they may not be able to trade any longer with the new rules and regulations that will be imposed on them. That is purely down to the paperwork and the cost of that. In effect, small consignments will become unviable, and that market might well be lost.

I would have liked the Government to look at compensation schemes. I have consistently asked for that, but nothing has been forthcoming. We are simply not ready or prepared enough for 31 December with the information that we are sitting with at the moment.

Claire Baker: You mentioned smaller businesses that might no longer be able to trade with the European Union. Has much work been done to think about alternative markets, or do you think that those businesses are more likely just to collapse?

Jimmy Buchan: The word "collapse" is a very strong one, and I am not going to say that that is where we will go, but there is a concern for businesses because, if a business loses its export market, it has to find more business in an already busy market.

I would like the Scottish Government and the United Kingdom Government to work with the industry and ask it exactly what it needs to continue to trade. As much as political parties and Governments are trying to do the best that they are in post to do, the end surely must be to look after the businesses and the people in them. I feel that we get lost in the noise. Instead of sitting down together and people saying, “Right. What exactly do you need?”, I have to write to each Government. Everyone pays us lovely lip service, but we are not getting the traction, direction, help and confidence from our political masters to ensure that those things are in place.

Claire Baker: I want to ask Charlie Adam of NFU Scotland a question about the reality that, because we are leaving the single market, we will lose the common regulatory regime. What will having a different regulatory process in the United Kingdom mean? What effect will that have on the ability to trade? Will producers—this question might be the result of my lack of knowledge—have to produce two different types of product? Will they produce a product that will fit in with the EU market, something different for the UK market and possibly something different for a different trading arrangement with another country, or will the change to the regulatory regime simply mean that businesses will have to give up trading with the EU because that will simply not be viable for them?

Charlie Adam: I certainly hope that it will not mean that we will have to give up trading with the EU, but—[*Inaudible*.]—that is a possibility. It is clear that we need frameworks in order for us to trade. That is part of the great uncertainty that we are facing at the moment, and some of that uncertainty is extremely immediate.

For example, the current situation of the Scottish seed potato industry shows not just that problems might arise in the future, but that problems are arising now. Those goods are perishable, and people might not have realised what they have to do to get their products, which are available now, into the marketplace before a potential no-deal Brexit. There is also the risk that, because of fear on the other side of the water that we will not meet the standards, people there will look to other markets and that we will therefore lose access to markets that we will find it extremely difficult to get back again.

09:15

Claire Baker: Do you have examples of businesses that are already affected by the anticipated changes?

Charlie Adam: Yes. We are already being lobbied on the seed potato issue because of those concerns. There will be far more examples of that sort of thing in the event of a no-deal Brexit. The biggest issue is the uncertainty—this business of just waiting and nobody knowing what is going to happen. People cannot make the necessary changes until they know what the nature of the playing field is.

The Convener: I will now bring in Dean Lockhart.

Dean Lockhart (Mid Scotland and Fife) (Con): Thanks, convener. My first question is for Elspeth Macdonald. Your written submission says that the priority is to reach a stand-alone fisheries agreement with the EU and for the UK to become an independent coastal state. Will you set out the practical implications of that with regard to increasing the share of catch in UK waters and the wider corresponding implications for coastal communities across Scotland?

Elspeth Macdonald (Scottish Fishermen’s Federation): Yes. The prospect ahead of us, when the UK leaves the common fisheries policy at the end of the year and the end of the transition period, is that the UK will become an independent coastal state. That is the international norm and the legal default position. What the fishing industry seeks from the negotiations is a stand-alone fisheries agreement, as the EU has with other independent coastal states. It also seeks key elements in that agreement. First, the UK must control access to its fishing waters—its exclusive economic zone—which, again, is what the legal default position provides for. Secondly, we must have a fairer share of the resources that are in our waters because, at the moment, the situation is very unbalanced in favour of the EU fishing fleet and against the UK fleet. Thirdly, there must be annual negotiations on fisheries between the EU and the UK.

In essence, what we seek through the agreement is no more and no less than the EU has with other independent coastal states in this part of the world. The model is similar to the agreement that the EU has with Norway, for example. Indeed, the UK has recently concluded a fisheries agreement with Norway that essentially reflects that model.

The current position under the common fisheries policy is that the UK fleet catches only somewhere between 30 and 40 per cent of all the fish caught in UK waters, which is a historical manifestation of the CFP. That is the situation that we seek to redress. The fishing industry would clearly benefit from the ability to catch a much fairer share of the fish in our waters, which would surely have upstream and downstream benefits for other sectors and for the communities in which our fishing fleets are based. This is a once-in-a-lifetime opportunity to redress a very unfair settlement for fishing under the common fisheries policy and to reinvigorate the Scottish fishing industry and the communities in which it is located.

Dean Lockhart: Thank you for that insightful answer. Is there sufficient capacity in the Scottish fishing fleet to take advantage of the increased catch that would be available?

Elspeth Macdonald: Yes. In particular, our pelagic fleet—the part of the fleet that catches mackerel, herring and migratory shoaling species—is very modern and efficient. It has invested greatly in modern vessels that have a very low carbon footprint, which is something that we all want to focus on, and the fleet has significant latent capacity. The seasons for those species are quite short—they are seasonal fisheries. Currently, there are limitations on the UK fleet's share of the catch. In terms of the fishing opportunities in our waters, those vessels could readily catch a much greater share. Similarly, there is significant capacity in the whitefish fleet that could readily step up to be able to catch more fish.

Dean Lockhart: My second question is for the NFUS. We have heard that Brexit will mean that the farming sector in Scotland can take a different path from that taken by EU regulations—one that allows decisions to be made that suit the needs of the sector in Scotland. That could include restoring the less favoured area support scheme, scrapping the three-crop rule and simplifying the penalties regime, for example. Are those areas in which farmers in Scotland might benefit from being able to take more locally driven decisions on a Scottish level?

Charlie Adam: Yes, they are. We have to find a compromise between having a common regulatory framework in the UK and having sufficient flexibility in that framework that allows us to do what we need to do and to set up the arrangements that we need for Scotland's unique circumstances.

Setting a new policy provides an opportunity to move away from the common agricultural policy's one-size-fits-all approach. In some respects, that will allow us to put in place greening, environmental and climate measures, for example, that are perhaps more appropriate for Scotland's particular circumstances. If we have that, we can deliver more.

Time is short to deliver on Scotland's climate change targets for 2030 and 2045—we need to deliver on them fairly quickly. As an industry, we are ready to do that, but we need clear signals and we need to get on with it. Without a doubt, there is an opportunity there.

Dean Lockhart: I am conscious that other members want to come in, so that is all the questions that I have.

The Convener: If there is time, I will try to bring in members with supplementary questions at the end.

Annabelle Ewing (Cowdenbeath) (SNP): I will direct my first question to John Davidson. The letter that was sent to the Prime Minister last week by Scotland Food & Drink, NFU Scotland, Seafood Scotland and many others stated that there was

"no system available that can cope with the increased demand"

in the number of export health certificates that are likely to be needed post 1 January 2021—we are 49 or 50 days out from that date—irrespective of whether there is no deal, a low deal or any other kind of deal. Could John Davidson explain what that tangibly—[*Inaudible*.]—for the sector?

John Davidson: Your sound broke up a little. I think that I got your question and what you said about the export health certificates, but keep me right if not.

The requirement to produce export health certificates is an enormous undertaking for the seafood sector and others. Excluding the salmon sector, many businesses really only supply the European market, so at the moment they do not have to produce export health certificates for their products that go to that market.

It is estimated that the number of export health certificates that are required will increase from zero at the moment to around 150,000. Pressure will be put on businesses to produce and pay for those documents; pressure will also be put on local authorities—normally, the certificates are facilitated by local authority environmental health officers—to respond to that significant demand. Unfortunately, there is not sufficient capacity in the system to be able to respond as rapidly as the sector needs to get those certificates out.

Local authorities, along with others—Food Standards Scotland, for example—are trying to develop systems to respond to that challenging situation. They are considering hub models, in which environmental health officers would be located in one place to facilitate the certificates. However, it is complicated. We have never really done this before at any scale, and businesses will rely on the certificates to ensure that their product gets to market when it needs to. Therefore, we are concerned that the system is not ready. Jimmy Buchan might want to expand on the point, because he is close to the issue.

That is one of the reasons why we need the grace period. We need a bit more time to embed the system and get things settled to enable a smooth transition for exports.

We think that, in its discussions with the EU, the UK Government could put forward a case for a derogation. That would mean that, for a set period of time, businesses would not be required to have the certificates. We trade without them at the moment, and a derogation for a period of time would enable a smooth passage to the new trading arrangements.

Jimmy Buchan: As I understand them, export health certificates are a Scottish and local authority issue. As John Davidson alluded to, they are new to a lot of people, and we are not particularly ready for them. There is a cost implication, which will be okay for larger companies that have the resources and logistics to cope, but the smaller, niche processors will suffer. We are asking for some time and a grace period so that we can get everyone up to speed and everything prepared and—most important—work out how we overcome the huge burden of the extra cost that will be levied on the processors, which never asked for it in the first place.

Annabelle Ewing: Indeed. Last week, we had a session that included the chief executive of the Road Haulage Association, and he was not exactly fulsome in his praise for where matters currently stand with the association's ability to extract any information from the UK Government as to what on earth is to happen. Given your industry's just-in-time approach, what are your concerns if you do not get that grace period? What do you think the practical impact will be for your industry, taking the haulage aspect into account?

Jimmy Buchan: The biggest concern is that we will not be able to get the seafood to market. I have to say that DEFRA has engaged very well during the past two to three weeks. We are now setting up a trial run in early December to ensure that seafood can flow into a fast lane at the Dover strait. There is preparation on the southern flank.

One issue that I would like to highlight—I think that it is an EU issue—relates to the number of permits that are being issued for logistics. It appears that there have been severe restrictions and that the permits are in the EU's gift, rather than that of the UK. The fact that EU and UK domestic logistics lorry drivers need those permits to be able to move goods back and forth is another issue that needs to be raised by both the Scottish Government and the Westminster Government. Without those permits, a choke will be created.

Do we have the paperwork in place, and do we have the correct number of environmental health officers available to sign off the consignments from the very start? Although there is a whole supply chain, the most important thing is to get the fish moving from the point of landing. I am concerned that we do not have enough environmental health officers in place to deal with the scale of what may be coming in order to get the fish moving in the first instance.

09:30

People are working arduous hours to make this happen, but I am very concerned that everything is being located in the central belt. Everything is being channelled into one area and, given that most fish processing is in the north-east, I am concerned that, should there be a road traffic accident or significant weather disruption, we have not done enough in the north-east at the point of landing, where the economic benefit starts. We may be overlooking that.

Annabelle Ewing: Thank you. I am sure that that will be noted. That is the start of the journey, which has many other parts. The Road Haulage Association's chief executive was very concerned about the whole thing last week, which was 57 days before D-day, so to speak. There are lots of practical questions there.

My final question is for NFU Scotland. In your letter to the Prime Minister last week, you asked for a grace period of six months because, as you rightly point out, the transition period has been spent dealing with Covid wave 1 and now Covid wave 2. What happens if you do not get that grace period?

Charlie Adam: Considerable disruption is likely, and, particularly for perishable goods, that could be a serious concern. The majority of our members are not direct exporters; nonetheless, our products find their way through processors to the export markets. Delays in the issue of certificates and labelling issues have the potential to lead to the loss of goods and even, as I said earlier, the loss of markets. It is a serious concern. There are no indications that the necessary infrastructure and systems are in place to prevent that. As the letter, to which we were signatories, said, such a grace period is almost essential if there is not to be a fair degree of turmoil and potential loss of both markets and goods.

Annabelle Ewing: Thank you for that unequivocal response, Mr Adam. That is all from me, convener.

The Convener: Elspeth Macdonald indicated that she wanted to come in on that point.

Annabelle Ewing: I am sorry, Elspeth—I did not see that.

Elspeth Macdonald: Thank you for allowing me to come in. Jimmy Buchan set out clearly the concerns that processors and others have about practicalities and readiness in getting seafood product to market. Everyone acknowledges that the end of the year will bring significant change to how the UK trades with the EU.

However, it is important that we recognise and acknowledge that a large number of businesses and jobs in the EU market depend on our product, too. They will also be making efforts at their end, to ensure that the product can get to them. If we take fish processing as an example, we know that Boulogne-sur-Mer is highly dependent on fish from the UK. We know that infrastructure has been put in place in France to ensure that seafood lorries from the UK will be channelled directly from Calais to Boulogne.

There are challenges on this side, but we should also recognise that efforts will be being made in our markets on the continent to try to ensure that the product can get there. Those businesses and the customers and consumers on the continent want our products and there are businesses and jobs that are dependent on them.

Annabelle Ewing: Thank you. That is helpful.

Beatrice Wishart (Shetland Islands) (LD): Elspeth Macdonald touched on the point that the UK fleet catches between 30 and 40 per cent of fish in UK waters. You also indicated that there is latent capacity in, for example, the pelagic fleet. That is something that I know well in Shetland, where the boats in Whalsay have made heavy investments. What percentage should UK fishermen be allowed to catch above that 30 to 40 per cent level?

Elspeth Macdonald: That is a good question. The position might look a bit different in different parts of the industry, but good comparators exist if one considers the issue at cross-industry scale. I have already mentioned Norway—a near neighbour of ours and an even nearer neighbour of Beatrice Wishart—which is obviously an independent coastal state. The Norwegian fleet catches upwards of 80 per cent of all the fish that are caught in Norwegian waters. Norway has a fisheries agreement with the EU, which includes annual negotiations on access and exchanges of fishing opportunities. We also have an agreement with Norway.

Norway is a good comparator. As I said, we catch only around 30 to 40 per cent of all the fish that are caught in our waters, and Norway's fleet takes upwards of 80 per cent of the fish that are caught in theirs. If we move further afield to Iceland, the figure is even higher—the Icelandic fleet catches more than 90 per cent of the fish in its waters.

There is scope for significant change. What that change looks like in all the components of the industry might vary, but one could consider that overall scale.

Beatrice Wishart: That is helpful. The fish processing and aquaculture industries are important to Shetland. Could Jimmy Buchan indicate how access to EU labour will impact them?

Jimmy Buchan: The labour question is a serious concern for the members of the Scottish Seafood Association. We do not generally have the highest salaries in the industry—that is an on-going matter—but it does not mean that we look for cheap labour. We are not able to attract enough local talent to seek careers in seafood and processing. We are about to embark on a campaign to promote the industry. Because of Covid and people losing their jobs, we saw an opportunity to campaign and look for people who seek a new career in seafood. That work is in progress.

By and large, my members are seriously concerned that a lack of labour from the EU will restrict possible growth. The new criteria that the UK Government has introduced makes it more difficult for the industry to attract the talent that allows the business model to compete in the global market. In other words, it has raised the bar with regard to attracting global labour, with a minimum salary of £25,000 per employee, but that puts up the operational cost of the factory, which tries to produce food at a level that it can compete with in a global market.

The issue is how to balance the economics. It is not that the fisheries cannot pay that salary. However, if they were to pay it, the products would have to go up in price and the public would find it hard to buy those products against those that are cheaper on the supermarket shelf. There are a lot of economic aspects to consider in a situation that was working relatively well.

As I said, we are campaigning to find and attract young people and others to change their career to seafood processing—a field that is wide and diverse. I must emphasise that it is not only about knife skills; it is about a whole host of skills, including electronics, marketing and finance. We are a huge industry that needs a huge pool of talent.

Beatrice Wishart: That is very true; there is a lack of understanding about what skills are required in the seafood industry.

My next question follows on from that and is about job retention. Is there any indication that you are losing EU labour because of what will happen on 31 December? Are there any issues for job retention?

Jimmy Buchan: Over the past year, a number of things have happened in relation to the unknowns. People like to have security, but we have been bounding along for a number of years with uncertainty. People like us, who have families, want the security of having a wage, job security and being able to pay for a normal life.

Other countries in the EU are beginning to feature; people are also looking to relocate at home. The currency exchange rate has affected wages, which can have an effect on people. However, by and large, there is still a core number of people who have settled in the UK, particularly in Scotland. We are grateful to them for that, and we want them to continue to live here.

As John Davidson alluded at the beginning of the session, we should not close the door; we should find ways of using the available talent and attract people to seek work and careers, if we cannot get that from local communities. That is where we are finding a problem at the moment. We might be in a whole different world again post-Covid, which is why we have embarked on a new campaign to promote careers and work in the seafood sector.

Beatrice Wishart: That is helpful and positive.

The Convener: I think that Charlie Adam wants to come in and answer Beatrice Wishart's question. Is that right?

Charlie Adam: Yes, thank you. Perhaps you will want to discuss this issue later, but I cannot let the subject of labour pass without raising the farming sector's concerns about seasonal and permanent labour. The issue is a huge concern for our soft fruit industry and across a number of other sectors, including dairy, abattoirs and the food processing industry.

We are very concerned that agricultural and related labour is not being taken into account in the UK Government's points-based system in relation to the salary thresholds that it has set. That is a key lobbying point for us with the Home Office. We need a seasonal workers scheme that is separate from the points-based system.

We have done surveys of our members and we have found that, in terms of willingness to apply for jobs, especially as seasonal labour, and the capacity to work at an appropriate level, the UK workforce is not able to provide the necessary labour, despite all our efforts.

Without going into great detail, it is essential that we have a seasonal workers scheme that can provide us with a sufficient number of people for a long enough period of the year to allow the work to be done, otherwise we are looking at the potential loss of crop, which has already happened in some cases, and, at worst, we are looking at the loss of that industry. Although the industry uses a small area of our land, it supplies about 10 per cent of our food output.

Sorry if I—[*Inaudible*.]—but I could not let the subject pass without raising that.

The Convener: That is a very important subject, which the committee is particularly interested in, so thank you for coming in. Feel free to expand on it later.

We are slightly ahead; we have a bit of time in hand—we are all being terribly disciplined after my instructions earlier.

Ross Greer (West Scotland) (Green): I was going to ask about labour supply. I note that John Davidson is looking to come in, I presume on that point, in response to Beatrice Wishart's question. If John wants to come in now, I will expand on that.

John Davidson: I want to come in, but in response to Claire Baker's earlier question about alternative markets, which is really important. I will do that later, but I simply wanted to put a marker down. I am sorry about that.

09:45

Ross Greer: I would like to get your thoughts on the labour supply issue anyway, John. As the convener said, the committee has had a lot of discussions with the likes of NFU Scotland about the obvious impact of the labour supply issue on farming, and it was useful to hear you mention that in your first answer to the convener's question. Are you already seeing impacts on labour supply in the food and drink industry, or is that purely a concern about what may happen after January next year?

John Davidson: Someone alluded earlier to the uncertainty that there has been during the past couple of years. We saw a negative impact on labour supply maybe about a year ago, at the point when nobody was sure what was happening with Brexit and quite inflammatory language was being used politically. We saw examples of many of our businesses losing good people who had been loyal for years and who had decided to go back home, which was a bit of an issue.

That said, more recently, the situation has been more stable. I think that the communication around getting settled status has probably had a bit of an impact. Therefore, we have not seen too much disruption at this time. However, we may see an impact next year when the fact that we have a completely different arrangement with the EU becomes real. Although I think that things have stabilised, we must remain vigilant to what happens.

Ross Greer: I turn to Charlie Adam and ask him to expand a little bit on his comments about trying to get discussions with the Home Office about the shortage occupation list and the salary threshold, for example. This committee has tried to engage with the UK Government on those issues. Some time ago, we had an evidence session with the chair of the Migration Advisory Committee. When we pointed out that tourism and agriculture would be two of the industries worst affected by its proposals, and that those two industries are a disproportionate part of Scotland's economy compared with that of the UK, his response was that some sectors of the economy would simply have to contract—I think that was the word that he used; it could have been "shrink" or something along those lines—which disturbed us somewhat. Have you managed to get productive engagement with the UK Government over the past few months? Is it meeting you and engaging with your concerns? When we were taking evidence on the topic maybe a year ago, that simply was not the case for a lot of Scottish trade reps and industry bodies.

Charlie Adam: We have, without a doubt, got our message across to the UK Government. We have very good representatives who have made our position absolutely clear, particularly in relation to seasonal labour and the soft fruit industry. However, whether we are being listened to is probably a different matter. For example, when the shortage occupation list came out, we were extremely disappointed to see that a great number of agricultural and related occupations simply were not on it.

We have made it absolutely clear that the UK needs about 70,000 or more seasonal workers. Although the seasonal workers pilot produced a raise of—if I am getting this right—10,000 workers for the UK, the fact is that we need about 10,000 in Scotland alone. We need a permanent seasonal agricultural workers scheme that allows people to come for long enough to complete the season, which now runs for up to nine months.

We have also made considerable efforts to find that labour in the domestic workforce. However, without going into the detail, the fact is that, despite huge efforts, there has been a retention success rate of about only 15 per cent. A vast number of the people who responded have not liked the work and have not returned to it. We have done everything that we can to find that labour from the domestic market, but it is simply not there, and those issues simply have to be addressed.

Ross Greer: My final question is on a different topic. We have already discussed what the impact might be of the new trade border between the UK and the EU, but, of course, there will be a new trade border within the UK between Great Britain and Northern Ireland as a result of the Northern Ireland protocol. I am interested in the impact that that might have on the sectors that the witnesses represent. What impact might it have on supply chains and access to markets, whether that is goods from Northern Ireland coming into Great Britain or vice versa? Do you have an understanding yet of what the impact of the Northern Ireland protocol and the customs border in the Irish Sea will be on your sectors?

Charlie Adam: The short answer is no, I do not have a full understanding. However, it is clear that there are threats. We are concerned that goods might find their way here from Northern Ireland that have a competitive advantage over our produce, which would obviously not be part of a—[*Inaudible.*].

Our fundamental position is that, although, as I have said, we need enough variability to accommodate Scottish needs, we need common frameworks across the UK so that there is not a competitive advantage as a result of the arrangement with Northern Ireland or, indeed, with any other part of the UK.

The Convener: Ross, have you finished your questions?

Ross Greer: Elspeth is looking to come in on that as well.

Elspeth Macdonald: I will add to what Charlie Adam said about the arrangements for Northern Ireland. We understand those in so far as they have been set out by Government with regard to the practical changes that will take effect. For example, there will be different rules for fishing vessels from Great Britain and Northern Irish ports, and, similarly, with regard to the movement of seafood products. Therefore, we have an understanding of what the changes look like. I am not sure that we yet have a full understanding of the practical consequences of that, but some detail has been set out.

The Convener: Annabelle Ewing has a supplementary question.

Annabelle Ewing: On geographical indications, what do the witnesses understand will be the position come 1 January 2021 in the event of no deal or a very loose Australia-style WTO-type deal?

Charlie Adam: We welcome the fact that, to some extent, that has been dealt with in the Agriculture Act 2020, which passed into legislation yesterday. I am afraid that there are still doubts about the extent to which our products will be recognised in Europe. We are extremely disappointed with the logos that came out, which are not very inspiring. I will probably have to find a bit more detail on the question and give you a written reply.

Annabelle Ewing: Thank you—that would be helpful to the committee, because we have looked at the issue in the past in some detail and it is obviously hugely important for Scottish export products. I do not think that anyone else has typed R in the chat box.

The Convener: John Davidson has.

Annabelle Ewing: Oh, John has. Sorry—I was looking in the wrong place.

John Davidson: I will build on that response and set out our concerns in that area. The UK Government has worked with the devolved Administrations to put in place a new, UK-wide scheme, under which products that currently benefit from protection will be protected in the UK from 1 January 2021 and will bear the new logos that Charlie Adam mentioned.

Our concern is the uncertainty about whether our products will continue to have that protection in the EU from 1 January. We have not been assured that they will have that. That might be tied up in the negotiations, albeit we are not getting much information.

One way to resolve that would be for the UK Government and the EU to agree to the concept of mutual recognition. That would mean that, after 1 January, we would continue to protect EU products that already have protection in the UK and that the EU would protect our products. That is important for Scotland because we have some of the highest-value protected foods in Europe, including our beef, lamb and salmon. We need more clarity—that is important. We hope that a solution can be found, but that area is still uncertain.

The Convener: Charlie Adam mentioned the logos. I was not aware of them. Do you find them uninspiring? Are they UK or Scottish logos? How do they work?

John Davidson: They are UK-wide logos. Producers can use them on their products. Whether people like or dislike them will be subjective. They are not too dissimilar to the current European protected food name logo. Some people will like them; some will not. There was a degree of consultation, but not much. I think that the devolved Administrations were involved in the development.

Stewart Stevenson (Banffshire and Buchan Coast) (SNP): Having just had a quick look at the logos, I share Charlie Adam's disappointment with the quality of the graphics. That is an issue for another day.

I want to pick up on the challenge facing small processors in the fish processing industry that Jimmy Buchan referred to. I will go to John Davidson first. He talked about the hub model for export shipments. That is particularly valuable to small exporters who could have a few pallets in a container. One issue that has come up elsewhere as Parliament has looked at that is the difficulty of mixed-supplier shipments when a single supplier in the shipment has made an error in the paperwork. Do John Davidson and Jimmy Buchan think that we have made progress on that?

Related to that is the issue of not knowing what should be on the label on the outside of shipments to the EU. Should it say "GB" or "UK"? There was some ambiguity about that, and I do not know if it has been fixed. That is a minor point, but the multi-supplier shipments, particularly via hubs, are an issue.

John Davidson: You have outlined a real-life example of one of the practical issues that we will face. There is still uncertainty and confusion about that. The risk factor of a live load being rejected at the border is enormous. That is why we are talking about the need for a grace period. I am sorry to repeat that point, but that is a practical example of why it is needed.

10:00

People are attempting to clarify and make progress, but much is connected to what the final trade deal or arrangement looks like. There are probably many unanswered questions about what will actually happen when the product gets to Boulogne-sur-Mer in France, what the border inspection post will expect and how tough or lenient it will be. There are so many unknowns, and that is why we need the flexibility to get over the initial hill of uncertainty.

Stewart Stevenson: Just quickly before we hear from Jimmy Buchan, John, would it be fair to say that the small exporters have the least capacity to adapt and respond to uncertainty and therefore it is a significant problem for smaller processors—not necessarily in my constituency, although there are some—in small communities around our coastal towns and villages in quite remote areas? It presents a big threat for those businesses.

John Davidson: Absolutely. The men in the businesses that you are talking about are already operating on wafer-thin margins; they do not have a lot of cash reserves. Any impact on a consignment of seafood could be catastrophic for the viability of the business. It is a big concern.

It is a big risk, particularly on the back of businesses that have already struggled during the past seven months because of Covid and the loss of markets. It is a real challenge for the future.

Stewart Stevenson: What is your view on that, Jimmy Buchan? If there is an update on the label, which should be a relatively trivial matter, it would also be good to hear that.

Jimmy Buchan: I echo what John Davidson said. It is a huge concern in the rural and remote parts of Scotland, where employment is not high and we need all those small businesses to contribute to the local economies.

It is funny that you should raise the issue of labelling. One of my members wrote to me this week to ask for clarification on that, and I am following up on it. I thought that the issue was resolved, but now that you have highlighted it and a member has also raised it, I will seek to clarify the position. I will confirm that with you at a later date.

I can only reflect that the bigger processors are in a better position because of their resources and skill set. We do not want to be in a situation in which the bigger processors get bigger and swallow up and take over the smaller ones. We need a mix across the supply chain. We should focus on how we can help the smaller guys. Perhaps there could be some sort of Government portal that could simplify, assist and take the sting out of it, perhaps by doing many businesses at once.

People in business do not have the time to run the business and cope with the new burden and level of red tape. It is definitely red tape. Small businesses are good at running their business but the paperwork and cumbersome paper trail that is required is not their thing. Their skills lie with their passion for the industry that they work in. Thank you for raising that point.

Stewart Stevenson: Significant innovations often come from small businesses. I know that from having visited several such businesses during the past year, although I have visited fewer since Covid.

Another issue of importance to small processors because of the current constraints is the replacement for the European maritime and fisheries fund, which has been of particular use to smaller processors. Big processors exhibited quite a lot of angst about being excluded from it.

Of course, the issue goes way beyond processors. Does anyone around the table—this probably includes Elspeth Macdonald—have any update on what has actually happened here? There seems to be radio silence on this very important subject. I suggest that we start with Jimmy Buchan and then go to Elspeth Macdonald.

Jimmy Buchan: I am glad that you raised that point. I have written to the Scottish Government and the UK Government on the matter, and we have produced a paper on it. We have asked to engage with Government. We have ideas, and we are energised to move things forward.

We have had a lot of other really important matters to deal with—Covid and all the rest of it—and this issue seems to have lost its weight. It is in many Government in-trays, and I very much want to get people back around the table on it. We cannot resolve the issue by putting it at the bottom of the pile; it is a matter of getting it on the table and getting the correct people around the table, because business will need it.

We hear quite a lot about the "sea of opportunity", but that must not be just about the fishermen; it must be about the whole seafood supply chain. It is about communities and a country, and everyone should benefit from any economic benefits coming. They should not just be for one sector; they should be for many. However, we need the capital investment to go in to allow businesses to be enthused and innovative. Let us use all our blue-sky thinking to drive the whole industry forward.

You will see that my passion is overwhelming in this area. I encourage you, along with me, to kick-start the debate and get it going again.

Stewart Stevenson: Thank you for that. I know that we see eye to eye on this matter. On the "sea of opportunity", fish catchers are the one industry that has the most obvious benefit from leaving the EU, but that benefit is much diminished if the market cannot get them the price that they want for their fish. There is no point landing twice as much fish and getting a third of the value.

Perhaps Elspeth Macdonald can comment on EMFF and whether there are any issues from that perspective. EMFF has supported infrastructure investments that the catching sector has depended on, among other things.

Elspeth Macdonald: Like Jimmy Buchan, we have been talking to both Governments about the importance of a replacement for EMFF. I am sure that we are not alone in being frustrated at the time that it has taken to understand further details about what that replacement will be.

We recognise that the Chancellor of the Exchequer has recently announced a change from a three-year spending review to a single-year spending-review settlement, and I am sure that we all understand the reasons for that. We must appreciate that the replacement for EMFF and other funding streams is no doubt wrapped up in the bigger issues. I agree that it is important to have support for the infrastructure, the science-type projects and the various things that the whole supply chain needs in order to be successful. We will continue to engage with Governments, to ensure that we can help to shape a scheme for the future that is fit for purpose and will benefit the sector in general.

I return to a specific point that was raised about labelling. I can provide a wee bit of clarification. I know that there had been confusion in relation to what identity marking would be required for the labelling of products of animal origin, including health marks and ID marks. For information, I can tell you that Food Standards Scotland published its guidance on that just this week. I think it appeared yesterday or the day before. There is now therefore some guidance available for businesses on that element of labelling, although I appreciate that there are other aspects of labelling where changes will be necessary in order to reflect the new trading arrangements. At any rate, there is now some guidance that businesses can use.

Stewart Stevenson: Thank you; that is helpful.

The Convener: Thank you, Stewart. After questions from Kenneth Gibson we will have a little time in hand, if any members wish to ask supplementaries.

Kenneth Gibson (Cunninghame North) (SNP): My first question is for Mr Adam. About 18 months ago, the NFUS conducted a survey on Brexit in which 64 per cent of members indicated that no deal would be “negative” or “very negative” and only 11 per cent said that it would be positive. Has the view of NFUS members changed? Specifically, at the time of that survey, more than half of your members said that a key issue was increased cost of inputs, more than half were putting off new investments, more than a third were putting off expansion of the business and about 12 per cent were having difficulty in recruiting or retaining staff. How has the situation moved? Has there been progress since then? Is there more confidence or less? In general, what are the views of your members now as we approach the end of the transition phase?

Charlie Adam: To the best of my knowledge, there has not been a further specific survey. Given the lack of certainty and the slow development of detail, I doubt that there has been a great deal of change. That is also tied up with uncertainty about future domestic policy. We are anxious that the detail of that should be progressed so that we know what the position will be in terms of support, as well as on the trade and labour questions. Those things remain largely unresolved, frankly, although we are pushing hard and offering ideas about where we want domestic policy to go. I do not think that there has been a great deal of change. The vast majority of people are no more certain now, or have had no more input in the interim period, than at the time of that survey.

Kenneth Gibson: Thank you, Mr Adam. You also mention in your submission concerns about the default position being the use of the EU’s full common external tariff, which you say will

“place considerable strain on the viability of certain sectors heavily geared towards the EU market or reliant on that market for carcase balance.”

Which sectors do you believe are most threatened by the current situation?

Charlie Adam: The one that immediately comes to mind is the sheep sector, particularly when you mention carcase balance. We currently export towards 100,000 tonnes of sheep meat and most of it goes to the EU—France, in particular. Although we also import sheep meat, a lot of it is from New Zealand and the Asian market and the effect on the big herds in China has meant that less New Zealand sheep meat has been coming in at the moment. That is a carcase balance issue and also a seasonal issue. Generally speaking, whole carcases go to Europe and we import specific cuts—legs and whatever—so that remains a concern.

That said, the sheep market has been very strong recently, but that could change very quickly. We do not know whether, once a European buyer is faced with a tariff of the order of at least 50 per cent, they will be willing to pay that or whether the extra cost will be absorbed somewhere else or will find its way back to the price paid to the farmer. The sheep sector is particularly affected, but there are also concerns in relation to the poultry sector, which I spoke to yesterday about the potential costs of feed inputs; again, those might face a tariff.

Kenneth Gibson: Thank you for that. I realise how awful the uncertainty is at this time. Finally, Mr Adam, you also say in your submission that

“NFUS has consistently advocated for legislative protections to be put into the UK Agriculture Bill and the UK Trade Bill”.

Have those protections been put in to your satisfaction or do you have further concerns on that matter?

10:15

Charlie Adam: I am not sure that the answer would be “to our satisfaction”. The debate on the amendments to the Agriculture Bill probably resulted in the Government putting in its alternative amendment, which was passed yesterday, which at least provides for a degree of parliamentary scrutiny of what is done in trade deals. To an extent, that is a win for us, and a vast improvement. Those provisions on what standards might or might not be accepted in a trade bill might be advisory rather than being firmly in legislation. We have some satisfaction from that, but we still have concerns.

Kenneth Gibson: I will move on to John Davidson. A letter to the Prime Minister to which Scotland Food & Drink was a signatory states:

“We wrote to your Cabinet colleague George Eustice, Secretary of State at DEFRA, seven weeks ago,”

and that you have

“yet to receive a substantive reply.”

That is obviously of concern. The letter goes on to say that the signatories are looking for

"a package of financial compensation for producers, processors, manufacturers and distributors who encounter losses as a direct result of border or market disruption, initially for a 3-month period but to be reviewed thereafter."

What package of compensation are you looking for? How much money do you believe that you need, and are there parameters depending on how Brexit turns out from 1 January? I realise that it is a moveable feast, but what level of support do you need for the three-month period, and beyond, if you are to avoid unemployment and perhaps business failures?

John Davidson: We have not done any detailed modelling of how much of a package would be required to support the sector. At this stage, we are looking for the UK Government to signal its commitment and its understanding of some of the pressures that will be faced by our various sectors across the industry. We are looking for a signal that the UK Government will work with us to develop criteria and the principle of providing support where it is needed.

We know that there is wider pressure on public finances at the moment due to Covid. We understand that, and we know that anything that is put in place would need to be time limited and reasonable and would need to involve some form of criteria. That would all need to be worked out. At this stage, it is about getting a signal of commitment, and a signal that the UK Government recognises the challenge and can provide the safety net that will give a real sense of confidence to our producers that they can continue to serve and supply the continent in the knowledge that the safety net is in the background if they need it. Of course, we hope that they do not need it. We hope that they can still get market access and keep their customer base, but we need the safety net, particularly in the light of the challenges that have been faced due to Covid.

We hope that the conversation that we have with UK ministers in two weeks will be positive, and that we get a signal that support can be developed, and developed fairly quickly.

Kenneth Gibson: If there is no agreement with the UK Government, what would be the impact on your sector?

John Davidson: That will be a challenge. To come back to an earlier point, we hear a lot of people mentioning finding alternative markets, whether in the UK or internationally. There are tremendous opportunities in other international markets. Our exports have done fantastically well over the past 10 years, and we hope to make more progress going forward. However, it is tough in other markets, and it takes time to build a market presence. The conditions in those markets are tough just now, given the second wave of Covid. There is a lot less demand out there, and there is a lot of competition with other countries.

It is a real challenge, which is increased by other barriers such as trade barriers and US tariffs on whisky. There are great opportunities out there, but it is tough to get a market presence and recoup any losses from the EU market. Bear in mind that 70 per cent of our food exports go to the EU. If we do not have the safety net and our market is really disrupted in Europe, that will present a significant challenge for many businesses across the sector, particularly small businesses.

Kenneth Gibson: Thank you—that is helpful.

My next question is for Elspeth Macdonald. I am sympathetic to the fact that, if Iceland's share of fish from its waters is more than 90 per cent and Norway gets 80 per cent but Scotland gets only 30 or 40 per cent, people will feel that Scotland is not getting its fair share. However, if Scotland were to increase that share, the European Union would want quid pro quo. Has there been any indication of what the UK Government is willing to concede to the European Union in order to get a better deal for Scotland's fishermen and processing industries?

Elspeth Macdonald: Yes. The European Union has made an artificial link between fishing opportunities and access to market, because it is significantly concerned about loss of access to UK waters, and that is the leverage that it wishes to apply. It is unprecedented to link fisheries agreements to trade agreements; no other agreements work like that. The international norm is that fisheries agreements are stand-alone agreements between parties about access to each other's waters and fishing opportunities. That is very much what we seek. As I said, there is no precedent for a link to trade, and we think that it must be strongly resisted.

It is also important to think about the balance in trade on seafood. We have spoken a lot about imports and exports and potential impacts from tariff and non-tariff barriers. Trade in seafood between the UK and the EU is very much in balance. We export a lot of seafood to the EU, but the EU exports a lot of seafood to us; annually, there is somewhere in the region of £1 billion of trade in each direction. There is a fairly good balance of trade on seafood between the parties, but there is absolutely not a balance in our fisheries arrangements; they are extremely out of balance. We should not have to sacrifice something that the UK should have greater advantage from—the natural resources in our own waters—for something that is in the interests of both parties. We continue to strongly refute the artificial link that the EU has created between a fishing agreement and a trade agreement. There is no precedent for it, and the two must be kept separate.

Kenneth Gibson: EU politicians will, however, face pressure from their fishing fleets. If they are denied access to Scottish waters, they will want something in return. Unfortunately, that is the realpolitik of it.

My final question on fishing is about quotas. I understand that an agreement was recently reached between the UK, the EU and independent coastal states on the management of herring, with a quota of more than 650,000 tonnes set as the total catch. However, quota shares are decided unilaterally. Obviously, there is a worldwide issue—which *National Geographic* highlighted recently—of global overfishing. Do you have concerns that, if an agreement is not reached and the UK unilaterally increases its quota, there could be a long-term threat to the fishing stocks in Scottish waters?

Elspeth Macdonald: The agreement that you refer to came from negotiations between coastal states that have interests in particular pelagic stocks and that gather on an annual basis to discuss total allowable catches. The UK is now a coastal state in its own right. Until this year, the EU has sat at that table and the UK has sat in the background as part of the EU delegation.

We now have an independent seat at that table and will be using our—hopefully much greater—influence in that forum to work against unilateral TAC setting and overfishing. We absolutely do not support the actions of some of the coastal states that set unilateral TACs that mean that the stocks are overfished. We want that to stop, and we will use our direct influence in those forums to try to achieve that.

Kenneth Gibson: Thank you. I am sorry that I did not have a question for Mr Buchan, but I have probably gone over my time.

The Convener: You have, Mr Gibson. I had indicated to other members that we could take some supplementary questions, but we have now completely run out of time, so I apologise to members for that. We do not want to keep our second panel of witnesses waiting. I thank our first set of witnesses for coming and for their very useful written submissions.

10:26

Meeting suspended.

10:28

On resuming—

The Convener: Welcome back. I welcome our second panel of witnesses: Stephen Phillips, who is a partner with CMS; Allie Renison, who is the head of EU and trade policy at the Institute of Directors; and Wendy Alexander, who is vice-principal international at the University of Dundee. Wendy is representing Universities Scotland and is also a Scottish Government international trade envoy with special responsibility for higher education.

I will begin the questioning; I will be followed by Claire Baker. Because we are very tight for time, we will address our questions to individual witnesses rather than have the entire panel answer all the questions. My questions are on the financial services sector, so perhaps Stephen Phillips would like to consider them.

As an EU member, the UK benefited from the system of passporting for financial services. For non-EU countries, the EU operates a different system of equivalence arrangements. Given where we are in the negotiations, can you explain to anyone who is listening the difference between passporting and equivalence, and the implications of the loss of passporting for UK financial services and providers?

I cannot hear Stephen Phillips—I think that his microphone is muted—but the question is as much for Allie Renison, given her role with the Institute of Directors, so perhaps we can go straight to her.

10:30

Allie Renison (Institute of Directors): Can you hear me, convener?

The Convener: Yes, I can.

Allie Renison: I am just over the border between Dundee and Perthshire, and the rural broadband is being a pain, so I have had to pop over to a neighbour's to use their wi-fi outside—I apologise if it is a bit slow.

Your question was about the impact of losing passporting as it relates to equivalence—is that correct?

The Convener: Yes, that is right.

Allie Renison: I will step back and take a broader view. As I see it—Stephen Phillips might want to expand on this—one of the main differences lies in the reliability and predictability at our end in terms of the financial services that firms can rely on. Passporting is, in effect, the gold tier. It is what firms would ideally want; they do not want to have to physically locate in another country to be able to service that market.

Otherwise, they would have to rely on unilateral equivalence decisions by authorities in each respective country.

For UK firms, that would involve no longer relying on the European banking authorities or the other regulatory authorities at a European level that grant the passporting, and therefore not having to worry about the European Commission withdrawing it at a moment's notice. For our members, the main difference would be the predictability that passporting gives them, whereas there is a question—I say this with one eye on the Swiss example, in particular—about how politicised equivalence could become.

On how that intersects with planning and relocation, a lot of our members in financial services are much further afield and made their decision some time ago. In that respect, for a lot of our members, not just the larger ones, we would have a situation, in effect, in which we would be relying on equivalence—[*Interruption*.] I am sorry—the mailman has just come through. We are not going to rely on equivalence for market access, which means that a lot of businesses have already made a decision on relocation or expansion, depending on how you look at it.

In terms of readiness, we are seeing firms pass through that. A lot of our financial services members, although I think that they benefit from the regulatory co-operation and continuity that market access brings when we have passporting, would benefit from the co-operation involved in equivalence, but at present they are not going to rely on it for market access. We are finding that a lot of our financial services members made their plans to deal with preparedness some time ago, for that very reason.

The Convener: Does the change affect everyone in the same way? My understanding is that the impact on financial services will be felt more by smaller organisations rather than large international companies.

Allie Renison: With the larger companies, it depends on whether it is a domestic incorporated company or a foreign company that is basing itself in the UK for access to the EU. That is probably the dividing line in understanding what the impact is.

If we are looking at smaller firms, we have to start getting into sub-sectors. Are we talking about boutique hedge funds, which may have less of a reason to require access to Europe than some of the other investment banks? For some of the smaller players, we would see the same effect as occurs with the discrepancies and differentiations between small and large in other sectors.

We have found—I am looking at some stats just now—that the smaller players have not necessarily made the decision to relocate. Although the profit margins in financial services are larger, which would allow organisations to absorb some of the impact of the disruption more than, say, manufacturing or automotive companies would be able to, that position on relocation is largely because smaller players—although they will be impacted disproportionately if they are exposed to Europe—are often more domestically oriented and tend to be less oriented towards Europe than some of the bigger financial services firms.

It is worth reiterating that, in the past week, the chancellor has made some unilateral equivalence decisions that supplant the transitional regimes in which the UK had committed to operate. That just goes to show that, when it comes to not having, or seeking to have, any comprehensive or preferential arrangement on financial services, we should perhaps start acting as though such an arrangement is more of a prize. People sometimes seem to think that financial services will be just fine without preferential access.

For smaller firms, the benefit of a co-ordinated arrangement between the UK and the EU, instead of having to rely on unilateral decisions, cannot be overstated.

The Convener: How do you feel about where we are now? Obviously, we do not have a deal. How does where we are with the negotiations impact financial services?

Allie Renison: It depends on which subset of financial services you are talking about. For example, some of the bigger players in the insurance industry, such as Lloyd's of London, made a decision very early on. One might argue that having access to insurance—you may want to get Stephen Phillips's view—relies on having a physical operating base in the absence of passporting, which is why some of the bigger insurance players made decisions quite rapidly if they did not already have a separate base in continental Europe.

For a lot of the smaller players, it is interesting to note that when the Prudential Regulatory Authority, the Financial Conduct Authority and the Bank of England asked financial services firms for the details of their contingency plans in 2017, I believe that that was just asked of listed companies—someone can correct me if that is not the case—which underlines the fact that the bigger players have been able to make those decisions and everyone else is waiting to see what unilateral measures are taken.

Not having financial services as a bigger piece in the negotiations means that the sector is, in effect, having to rely on the gift of unilateralism.

That is in no way how businesses would seek to plan going forward.

The Convener: I see that Stephen Phillips is back again. Stephen, can you hear me?

Stephen Phillips (CMS): Yes, I can. I am sorry about that; I do not know what happened.

The Convener: Did you catch any of the questions?

Stephen Phillips: I heard the question about passporting and equivalence and parts of Allie Renison's response. She gave a good description.

From the perspective of the Scottish financial services sector, as Allie said, in some senses it depends on what part of the sector a business is in, as some are far more heavily exposed to Europe than others. Asset management firms and others that are exposed to Europe have operated on the basis of a no-deal Brexit and have implemented plans on that basis. Some companies have opened offices in Dublin and Luxembourg and are not waiting to see what happens with the negotiations.

Passporting is part of the single market and if a country is not part of that, it does not work. Equivalence is of benefit, but it is not as good as being in the single market, because it relates to only certain parts of the financial services sector and it is not as broad as the single market. Equivalence is also at the discretion of the European Union. The EU will give equivalence only if it believes that the regulatory regime is similar to what it has in place.

At the moment, we are in a position in which the parts of the financial sector that are exposed to Europe have planned and implemented on the basis of a no-deal exit. Going forward, the main areas that the sector is looking at are where we will be with regulatory divergence, the impact on customers, what impact migration will have on the sector and how Brexit will impact inward investment.

The Convener: Do you see any advantages to leaving the EU without a deal?

Stephen Phillips: When it comes down to it, we are not going to be in the single market. I should imagine that the FS sector wishes to have as much access as possible. From that perspective, not being part of the single market means that companies need to make alternative arrangements, which they have done by setting up subsidiaries. That is not necessarily the end of the world; it just adds to cost and means that certain people have to be transferred out of Scotland to service those companies.

Whether there is any benefit to Brexit will be a matter of how we are regulated in the future. Does it mean that we will have opportunities to develop new products that would not have been possible in the European Union? The jury is out on that at the moment. One comment that we hear from the FS sector a great deal is that there is not really any clarity on what the regulatory framework is going to be vis-à-vis what is happening in Europe. I think that the sector would like much more clarity on that.

The Convener: That was a very diplomatic answer.

Claire Baker: The UK Government is running a get ready for Brexit campaign, but, as we heard from the previous panel, I do not think that people know what they are getting ready for. I am interested in hearing from Allie Renison about what support the business sector has had from the UK and Scottish Governments to get it prepared, even though there are huge question marks over what it is preparing for.

Allie Renison: I listened to the first panel's evidence and that was captured very well by the member of that panel who talked about the priorities for their sector in terms of financial support and the implementation period. I reiterate that, because there is an inevitable tension there in the absence of having time to adjust. It is important to remind people that the narrative on the trade negotiation is that the Government wants a standard deal—a standard free trade agreement—and wants to treat the EU like any other standard country. At the same time, though, the effect of standard FTA negotiations tends to be different. There are compliance changes in terms of adjustments to tariff cuts, but those are generally seen as liberalising in the first instance anyway, and they are phased in over a number of years.

I think that the witness on the first panel captured it perfectly. We have been expecting a period of time to transition. The Government was right when it said that it did not want to overwhelm businesses with information while Covid was in its first real big swings in the spring and early summer, but we have been waiting ever since for full details. In the absence of having time to adjust, there is a need for financial support. It is not just about compensation; it is about support not only to prepare but to adjust. We have a solid chunk of about 30 to 40 per cent of members who have said consistently over time that they cannot prepare in advance and will only be able to react and adjust. That is to be expected. For most European regulations, there is a two-year adjustment period.

We have had a campaign running for the past three years, since we saw that the timescales were going to be compressed, to say that we needed some kind of fiscal support—for example, in the form of vouchers to help offset the cost of accessing professional advice. What we find—I certainly went through this last year, when I was effectively acting as a consultant for our members and helping them to get ready—is that many of our members do not know what they do not know. That is where they need the help. For many businesses, particularly in the service sector, their job is not to exist to comply with European regulations. In the absence of having time to adjust, they do not necessarily understand what it means to be a third country trading with the EU. We are often asked, "What do I need to know, beyond tariffs?"

Claire Baker mentioned a campaign. If we look at the guidance to date and the first wave of the check, change, go campaign, we do not think that they conveyed the urgency that they should have done if the Government was trying to make sure that businesses were preparing. This may sound stylistic rather than substantive, but the decision not to use the word "Brexit" has a damaging effect on businesses' focus on the issue. We use that language all the time to get people's attention. If advertisements do not use the word "Brexit", they do not grab people's attention. We have been communicating to the Government across a number of channels that the urgency really needs to increase if it wants businesses to prepare.

10:45

It is worth mentioning that businesses get their information from public airwaves as much as we do. So many emails from businesses come through saying that they have listened to the Prime Minister talk about an Australia-type arrangement being okay—the term "no deal" is not used. I think that, collectively, that does not help to send the message that there is a lot that people need to get ready for.

We have seen the urgency in the tone increase, but, with regard to fiscal support—to come to the end of the question—it is really important to ensure that people have that resource. At the end of the day, even trade associations do not have the time to spend. We have 30,000 members and I would love to spend two weeks going through each of their business models, but they need someone in the professional services sector to walk them through what they need to know.

Finally, to round out the answer, I think that the Scottish Government previously had some form of vouchers—I do not know if they were called that—or fiscal support grants to help people to get ready. That was probably more substantive than anything that came from central Government.

I will not ignore the trader support service, because that is a big effort by the UK Government to help people who are impacted by the protocol—anyone in Great Britain who is sending goods to Northern Ireland or vice versa. That support service is being set up; it is not live yet. However, there has been a disproportionate focus on the border and goods, which means that the support packages that are available deal with customs training and customs readiness. It is important to remember that, although customs is very important and there is a lot of detail missing, that support covers only a fraction of the kinds of issues that businesses need support for to understand what they need to do to get ready.

At the end of the day, businesses can prepare up to a point—they can get their economic operator registration and identification—EORI—number and do what the guidance on gov.uk says—but they might not have the details about the forms that they need to fill out or about what systems they will have to rely on from a software perspective. For example, a business will not know whether the customs declaration service software that the Government is trying to transition to is going to be ready. Put together, all those things make it quite difficult for businesses to be able to prepare on their own in advance.

The last thing that I would say is that we have been very clear that that fiscal support—which is separate from but related to compensation related to disruption and lack of market access in Europe after the transition period ends—will be needed well through the transition period. It is not just that we need fiscal support to help businesses to take all the extra steps that they need to take to prepare; we will need it as we adjust. For a lot of businesses, particularly in the service sector, they will find out what a no-deal exit, or the changes that come at the end of the year, will mean in practice only as they adjust as the changes come in. That is why that fiscal support mechanism will be needed through the transition period.

Claire Baker: It all sounds extremely overwhelming for businesses. Last week, we highlighted that there are not enough customs officers and not enough capacity in the system to support businesses on this. What about supply chains? With the first group of witnesses, we talked a lot about exports, but less about imports. Have you identified concerns in businesses about the viability of supply chains in the future?

Allie Renison: It is right to surmise that inbound trade should theoretically be an area where there is less uncertainty because it is under the control of the UK Government. In a way, it is harder to predict what will happen with exports to Europe on the day.

The Government has taken measures in the absence of being willing to countenance extending the transition period and in the absence of an implementation period. We had been calling for an implementation period for years, knowing that it would likely be sensitive politically to extend the transition period, with all the bells and whistles of transition provisions. We talked a lot about having an implementation period or even backdating the implementation of some of the provisions coming into force.

In the absence of those measures, the Government has decided to stagger some of the controls that are coming in from an import and customs perspective. For example, for the import of most standard goods, when businesses make a customs declaration, they will not have to put down all the information. They will be able to put in a simplified declaration, as there are duty deferment provisions.

However, we are finding that, although smaller firms, in particular, welcome that on the surface, the vast majority of our businesses that export to Europe, particularly in the case of goods, import as well. There are two sides to that movement. I think that there are limited benefits to having staggered import controls, particularly when we combine it with the Northern Ireland protocol, which captures a lot more GB businesses than, let us say, crossing the Irish land border would. That has to come into effect by the end of the year.

Taking all of that together, if a business has complex supply chains, which many of the businesses that are involved in sending goods to and from Europe do, it is not necessarily going to take up that staggered import benefit.

Postponed VAT accounting, which the Government has brought in or is committed to bringing in for both EU and non-EU imports, will certainly help businesses with their cash flow. However, I am cautious about how beneficial the staggered import controls will be, because so many businesses will feel the need to do all of this together as one whole step.

Dean Lockhart: Good morning to our guests. I want to look at the service sector more broadly. It sounds as if the financial services sector is relatively well prepared, but how is the wider service sector preparing? It includes the legal and accountancy sectors, business support services and higher education, which is a key export service in itself. Those three areas constitute quite a big part of the Scottish economy. I would like to get a sense from the panel of how prepared the wider service sector is.

I will start with Stephen Phillips and Allie Renison, and then I would like to hear Wendy Alexander's views on higher education and how that key export service is preparing for Brexit.

Stephen Phillips: There are still some concerns in the legal and accountancy sector about the fact that some of the privileges that it had in the single market have still not been bottomed out—for instance, mutual recognition of qualifications and the ability for people to be seconded between European countries for short periods, which happens in many legal and other professional services companies.

There is also some concern that the idea of drop in and drop out, which allows lawyers to go and give advice in other countries for limited periods, has still not been clarified. The way in which that is being addressed is that the Law Society of Scotland is speaking to other law societies in Europe to try to get some form of mutual recognition. It must be understood that this is not purely about the UK and EU level; it is also about the member state to member state level.

Wendy Alexander will speak about higher education, but that is important for financial services, because it is a global industry. The reason why Scotland in particular is so successful in the area—and we wish to keep it successful—is its ability to attract the best talent from throughout the world. Migration and inward investment are important, and we are keen to ensure that our university sector stays strong and can attract the best students.

I will give you just one brief example. Fintech has been a great success for Scotland and people from all over the world have established themselves here. We have created well-paid jobs here. That is based not only on the fact that we can attracting talent from throughout the world, including Europe, but on the fact that we have a very good and well-respected university sector. For instance, the informatics school at the University of Edinburgh is world renowned. Most countries would love to have something like that in their jurisdiction.

Looking at it from that perspective—with a financial services hat on, but also with a general service industry hat on—we can see that it is not wholly about our ability to attract talent directly into companies. It is about the fact that we can turn out graduates who are attractive to potential employers in financial services and elsewhere, and also the fact that we can attract students and academic staff from overseas, who can keep the informatics schools and our universities high in the world rankings.

Dean Lockhart: That is helpful. I ask Allie Renison to respond to the question. Maybe she can bring in a wider business services perspective and comment on other parts of the service sector in Scotland.

Allie Renison: Sure. Before I dive into talking about the other business services sectors, I will give you a brief overview of our overall preparedness and the distinction between the UK overall and Scotland in that regard. I am quite happy to send all this information to the committee after the meeting.

We did a survey in September in which we looked at readiness. We asked our members whether they were prepared for Brexit and, if not, whether they would be prepared by the end of the year or whether it will not affect them. A higher share of members in Scotland said that they will not be affected by Brexit at all—the figure was 37 per cent while the UK average was a quarter. However, if we put that aside and look at the people who have preparation left to do, which is about two-thirds of our members in Scotland, a much higher share of them than the UK average said that they did not think that they would be ready by the end of the year.

I think that, to some degree, that reflects the make-up of our membership in Scotland, where there are many more small and medium-sized enterprises—with a heavy focus on the small—compared with the UK overall. In our statistics, we are finding in general that smaller companies are much less likely to feel that they can be ready or to feel that they can have all their questions answered at this point.

It is right to separate out financial services from the wider business services sector, not only because there is much more harmonised EU law and clearer consequences in the financial services sector, but also because, generally speaking, financial services often have higher margins, so they can sometimes absorb the impact better.

The fact that the wider services sector does not have clarity about information and the fact that the sectors within it operate so differently mean that it is much harder for those businesses to understand which European regulations are going to be relevant to them in relation to how they conduct their business after the transition period. It is much harder for them to find the information, which is, I think, why a much higher share of our membership in the wider services sector is saying what it is saying. The vast majority in financial services feel much more prepared. In the other business sectors, the share who feel prepared is much lower.

One reason for that is that free movement is and was the biggest single uniting issue about access to Europe for services sector businesses in general. That may be a less heightened issue at the moment simply because people cannot travel to access their clients anyway. That might mitigate some of the impact for services businesses at the end of the transition period, although that it is not necessarily a positive thing. Our members feel that they want to get back to regular business travel to access some of their clients in heavily regulated sectors where they cannot do that business at the moment.

The European Commission’s guidance on outbound trade very often gives a list of the European regulations, which can be very dense, and people have to read through them to understand how the application of a European regulation will differ in a non-transition world. Aside from questions about physical movement, the questions that we get from the non-financial business services sectors tend to be about how VAT will be accounted for in the future and what the direct and indirect tax implications will be.

In business services, we have a lot more people saying, “We don’t know what it is that we need to know in order to prepare,” and that is amplified by the fact that, particularly for non-financial services, planning will default back to a country-by-country approach once we are a third country outside the single market. There will be a lot less uniformity across Europe for people in the non-financial services sectors to rely on in planning. They will have to go back to understanding the arrangements in Italy, in Germany and so on, because there are sometimes differences.

The difference between being in the single market and not being in it is about that floor or baseline. People in the sector will have to go back to looking at the differences between regulatory arrangements in determining their ability to access and service clients after the transition. That might not be relevant immediately because there is so little business travel at the moment, although there are exemptions. However, the delivery of conferences, for example, will be different. Some things like that are being delivered online, but, if someone is to physically go to deliver a conference lecture, the legal basis for their ability to tender for that service will be completely different once we are outside the single market, and the tax arrangements for how they account for that will also be different.

11:00

There is a lot more uncertainty in non-financial business sectors about exactly what the impact will be. That is why a much higher share of financial services respondents said, “No, we do not think that we will be prepared by the end of the year” or “No, we do not have the answers to all our questions.” That will continue to be the case unless some details come out of the agreement, particularly around the mutual recognition of professional qualifications, which Stephen Phillips alluded to. There is a lot of waiting and trying to understand what that will mean for non-financial services after the transition period.

Dean Lockhart: Many thanks for that insightful answer. As you say, the business services sector, outside financial services, is a diverse group of companies. It is a very important part of the economy, but the companies are diverse and they tend to be small and medium-sized enterprises. The UK and Scottish Governments need to keep an eye on that area with regard to support.

Wendy, I intentionally said that higher education is a key export sector for Scotland, and I am sure that you agree with that. It is also an increasing export sector. How has the higher education sector been preparing? Has the number of international students coming to Scotland for higher education over the past couple of years increased, decreased or remained relatively stable?

Wendy Alexander (Universities Scotland): In essence, since 11 September 2001, the pattern through the noughties was significant growth in students coming to the UK. In 2010, with the tightening of immigration controls, the numbers plateaued, with a very slow increase beginning a couple of years ago.

People are encouraged that the graduate visa is being brought back. Britain opted out of the post-study work visa. In Scotland, we were keen for it to be maintained, and it is now back. Two former universities ministers are currently arguing for it to be extended to four years to try to overcome the disadvantage that we put ourselves at in the global marketplace for a number of years.

Three sources of export earnings come into Scotland from higher education—the first is the European student cohort, the second is research income and the third is the international student fee income. On EU student fees in Scotland, students do not pay fees—although that is changing—but the European student pound is spent in Scotland, and the boost to our export earnings has been very large. Of course, that is under threat as a result of the fact that those students will have to pay fees, and we will see how that balances out over the next decade.

The risk to export income is around research excellence, which others have alluded to. The sector's greatest concern on Brexit, and critically if there is no deal, is that we would no longer be a member of the horizon 2020 programme or its successor, horizon Europe. Those are the six-year programmes of European research. Horizon is the most successful European research programme, and Scotland has done incredibly well out of it. We have won competitively £755 million over the past six years of the horizon 2020 programme. All of that will go unless we are participants in the next scheme. The UK Government has said that it will try to match the scheme if there is no deal but, fundamentally, such programmes are about global collaboration, so that is in play.

On the impact of that on fees from international students from outwith the EU, I note that those students come to the UK and specifically to Scotland, as others have said, for reputation, and that reputation is fundamentally based on research excellence. We have four of the top 200 universities in the world. The students come for that reputation, which will be at risk if our scientists are excluded from participation in the major European research programmes.

The other thing, which is a smaller-scale issue but is also significant, is that many international students who come here want to see Europe. They come and participate in programmes such as Erasmus, which is the other area that is at risk as a result of not reaching a deal.

I will leave it there, Dean. I do not know whether that has covered your questions.

Dean Lockhart: That is fantastic, Wendy. Thank you for that comprehensive response. I am sure that other members will want to follow up on some of those issues with you, so I will hand over to them.

Ross Greer: I am interested in the witnesses' thoughts on the impact of the Northern Ireland protocol and the customs border—the internal UK border between Great Britain and Northern Ireland—on supply chains and market access in your industries.

However, first, I am keen to follow up Dean Lockhart's questions to Wendy Alexander, because her answer was useful. Wendy, on the issues that you raise about uncertainty around Erasmus, how challenging is it for universities to plan for the 2021-22 academic year? What are the immediate impacts of that uncertainty on your ability to plan for next year?

Wendy Alexander: The impacts are huge. Yesterday, the Parliament debated how we test every student in Scotland in about 10 days' time with lateral flow tests. How do we send people home and ensure that everybody in our clinical subjects gets sufficient professional hours to graduate? How do we look after everybody who will be on campus over the Christmas period? Those are huge issues, and, meanwhile, we are at one minute to midnight. We have seven weeks to go, and we do not know whether we will be an associate member of Europe's most successful research programme and whether our best scientists will be able to participate in it.

The situation with Erasmus is similar. We should think about it from the perspective of the individual student. The Erasmus programme means that about 2,700 people in Scotland every year get the chance to work or study abroad. There is underwriting for the current scheme, but it will then come to an end, and we have no idea whether we will be in Erasmus from 2021 to 2027. The funding for the programme is doubling—it is huge—and we do not know whether we will be in it.

Consider the situation of a student who, this year, finished sixth year, although they did not sit their exams, and came to university for their first year. They are studying from their accommodation and worrying about they will get home. They have the aspiration to spend their second or third year in Europe or somewhere else around the globe. The tragedy is that staff cannot tell them whether there will be a scheme for them to participate in.

In fairness to the UK Government and the Scottish Government, they have said that they will put an alternative in place. However, to take just our example, we have 100 different Erasmus agreements operating with different institutions, which puts in perspective the idea that, in the next 18 months, we can come up with bilateral arrangements with all those institutions to guarantee that poor first-year student that they will have the chance to do that in their second or third year. That is our sadness: having had to confine students to their bedrooms to complete their school studies and having to confine them to their residences now, we are unable to tell them whether they will have that opportunity of a year abroad from which 2,700 people normally benefit.

There is also an impact on staff. Of course, the Erasmus scheme is not just for universities; it is for colleges and businesses, and there are innovative projects in which staff can participate. Many of those add-on aspects, which have added great richness, are likely to go to the wall in a pared down UK scheme, unless we do a deal.

Ross Greer: To follow up the point about staff, the committee has taken evidence on the issue in the past. Off the back of the referendum result in 2016, there was a bit of an impact on staff from elsewhere in Europe feeling, quite understandably, that they just wanted to move back home or somewhere else that would remain in the EU. That situation seemed to settle for a couple of years while people waited to see what the outcome would be. Do you have any indication yet whether there will be a further impact? I am not going to use the word “exodus”, because I do not think that people will be leaving en masse, but will there be an impact on staff from elsewhere in Europe who are waiting to decide whether to take that step next year?

Wendy Alexander: You are right that this is about the global attractiveness of Scotland for the world’s best early-career researchers. In the old days, an early-career researcher in Europe knew that they could come to Dundee, for example, and work in the life sciences unit, and they did not have to worry about whether they or their spouse had a visa—it was the essence of free movement. They found an excellent institution doing research in their area and they followed their research passion.

For a young postdoctoral researcher in Germany who wants to do research in a life sciences area that is a focus in Dundee or in a biomedical area that Glasgow or Edinburgh has excellence in, the questions are: do I need a visa, what kind of visa, how long will it last, what about my spouse, and what will the health service cost for my children? All that is now in play. In fairness, the UK Government has brought in a global talent visa—it was announced in February—for which skilled scientists can apply without a job offer, but I contend that young skilled scientists in any one of the 27 EU countries do not know that.

We submitted evidence that has just been published by the Wellcome Trust that the cost to that young scientist, if they have a spouse and two young children, to come to work in Scotland on a visa for four years, if we add up the immigration health surcharge for the adults and children and include the application costs, is £13,000, whereas in France the talent visa costs £1,000.

You asked whether it makes Britain and Scotland look less attractive. That young career scientist will look at those figures, but more than anything, they do not know whether, when they come here, they will be able to participate as a leading collaborator in Europe’s most excellent research scheme. We have anxieties about the impact of that on us in the long term.

Finally on that point, when the Swiss were temporarily excluded from the scheme in 2014, five years later, they said that it had had a very serious deleterious impact, reducing the number of their projects from 4,000 to 300.

Some of the effects will not be felt on 2 January 2021, but there is evidence that should concern us about the long-term impact that it will have on the brightest and best scientists’ choices about where Scotland and the UK fit in their career trajectories and plans.

Ross Greer: That is not a positive story, but it is something that we need to hear.

Does anyone have any thoughts on the impact of the Irish protocol and the internal UK customs border on their sectors and supply chains? It would be good to hear those, but I am conscious of time.

The Convener: Allie Renison has indicated that she wants to come in on that, but I hope that we can keep answers quite brief.

Allie Renison: I will be brief, because I know that my previous answers were extended and loquacious. It seems obvious to point out that it is not obvious how the effect of having the border will trickle down into business planning and operations. Very few GB companies, apart from those that are in direct supply chains, were affected by the land border. Now there will be the protocol and it is important to underline how the protocol affects businesses and the number of businesses it affects.

Almost to our surprise, given that our membership is two thirds services and a third in goods, 41 per cent of our members in GB alone said that they were involved in some way in trading goods to or from Northern Ireland. That is a much higher share than most people expect.

The lack of understanding of the situation given that the negotiations are not complete—the at-risk goods have still to be determined and that is really the tail that wags the dog—makes planning all the more difficult. It is such a new area. This was not in place before last year—people contend that businesses have had an extended period in which to plan, but the protocol was a completely new element.

From a Northern Ireland perspective—this impacts Scotland, too—increasingly, as people understand the new costs of sending goods to Northern Ireland, it will become easier simply to cut Northern Ireland out of the supply chain. The lack of detail and the significance of the detail that is currently missing from the negotiations complicates matters and makes it harder for people to say that they will be ready by the end of the year.

The Convener: We will move on to Stewart Stevenson.

11:15

Stewart Stevenson: I have a wee snippy question for Wendy Alexander. In 1931, my mother spent some months studying at the Foyer Internationale des Etudiantes in Paris, which was of enormous benefit to her teaching career as a linguist. We have been focusing on the negative impacts of Erasmus apparently ceasing to be available for people from the EU to come to us, but how will it affect the abilities of our people to acquire the international perspective and skills that will be valued in their careers?

Wendy Alexander: We know each other of old, Stewart, so I am tempted to match that: during lockdown, I discovered that my grandfather worked on hedgehogs' brains in Germany, having qualified at Glasgow, and then spent a career in medicine in China. I concur whole-heartedly. When one digs into archives when stuck at home, it is amazing what one can discover.

You are right that the deleterious effect is not just on people coming to Scotland but on the opportunities for our career scientists. One of the stumbling blocks to our getting agreement on horizon Europe is because Scotland and the UK have done so well. We have won money competitively—£755 million of the total. The tragedy is that we will not be able to be the leaders of those big international research consortia across Europe. Scotland has been the co-ordinator in 30 per cent of the projects that I mentioned—54 organisations in Scotland have taken the lead. Those opportunities will not be there unless we are a full associate member, and we cannot be a full associate member unless there is a deal. I will leave it there.

Stewart Stevenson: Does anyone else want to comment on the long-term impact of our losing a sense of international perspective because our students will not have the opportunity to go abroad?

Allie Renison: I would be happy to write to the committee on that separately and in detail. Another part of our organisation looks exclusively at student skills, higher education and, connected to that, student mobility.

That free movement of people and the ability to send students back and forth is all part of the same puzzle. For the services sectors in particular, the number 1 issue is the loss of free movement and what will replace it. Not knowing what will replace that, from an Erasmus or a wider horizon 2020 perspective, is a big issue.

We have a lot of members in Scotland in the non-traditional sectors, particularly in the third sector—our members are not just people running businesses—who are affected by that. There is a knock-on effect on businesses that are in consortiums as they are having to look at accessing EU funding, which would be an income stream not only for their business but for their clients. For some of our members, lots of their clients benefit from that kind of funding and those arrangements. I echo Wendy Alexander's point that not knowing whether that will continue six to seven weeks out is fairly unacceptable.

Stephen Phillips: I endorse what Wendy Alexander and Allie Renison said. It is essential for all sectors, including the financial services sector, to have graduates who have experience of working abroad. Many people who work in law firms, accountancy firms and financial services have been through Erasmus, and it gives them more of an international dimension. Those sectors are global or international, and they do not recognise borders in the same way as some other sectors do.

It is not only about graduate sectors; although we train people to ensure that we are internationally recognised and respected on a legal and accountancy basis, we need to have that movement of people between Scotland, the UK and the rest of the world, particularly Europe. I can think of examples from the past year of people who have worked for me who have spent six months in Vienna and six months in Prague. It is essential for our competitiveness going forward that we continue to be open to that.

Annabelle Ewing: We are running out of time, so I will address my comments to Stephen Phillips, although other witnesses can come in if they want. Picking up an earlier point about potential impacts on the non-financial services sector, including accountancy and the legal profession, what consideration has been given to the downstream impacts in relation to the obvious clamour to relocate on the part of many financial institutions? I understand that some 320 firms have relocated to secure the single market financial services passport. That reduces business for accountancy and legal firms—I declare an interest in that I am a lawyer by trade—and it affects tax take and the commercial property market, and has a whole host of downstream impacts. Will Stephen Phillips comment on what consideration has been given to those downstream impacts?

Stephen Phillips: That is a good question. Financial services and the legal and professional sectors wish to have as much good employment as we can in Scotland and the UK. At the moment, where we will end up in relation to whether there is no deal or a thin deal has not been fully developed—we will need to see what the future deal is. The financial services sector in particular is looking to see how that develops, because FTAs do not traditionally have a great deal in relation to professional services or financial services, and for that reason we wish to see whether there will be any major regulation divergence.

As you mentioned, firms have created a number of subsidiaries in places such as Dublin and Luxembourg. At the moment, we can minimise the loss of jobs there because important players need to be out there administering those companies, and it is still possible under EU law for EU entities—whether they are subsidiaries of Scottish companies or not—to outsource many functions back to Scotland or the UK, such as investment management. That keeps quite a lot of jobs here, even if there is a loss in some senses.

The financial services sector is concerned about what would happen if there was not a developed deal with the EU. Would there be a reduction in our access to outsourcing? We know that the European Parliament has been muttering about looking again at the outsourcing of certain investment functions outside the EU. If that were to happen, that would have a significant impact on employment, so it is vital from a financial services perspective that we try to avoid that.

Annabelle Ewing: I absolutely agree. I take your point about outsourcing but, nonetheless, under EU law, businesses cannot simply have a boilerplate to get the passport; they must have a meaningful head office incorporation. That is quite clear from EU free movement cases that have been before the European Court of Justice. There is a balance to strike in relation to how businesses convince the local banking authority or investment services authority that they have met that requirement. That is a cost for business—there is no getting away from that.

Businesses also have to consider whether they need a branch network to compete. That is another cost, because the current structure cannot be used. I presume that, even if there are currently branches in other member states, those cannot be used, because they are not part of the passport? Is that correct?

Stephen Phillips: That is correct. There is a cost and a hassle factor behind having to create subsidiaries. The view of people in any EU member state is that they would prefer to operate under one passport, so that the need to have risk officers and chief financial officers in other member states is minimised. The FS sector is pretty flexible and has good bandwidth so, for that reason, it can adapt, but the situation has certainly added to costs and led to more regulatory burden.

I was trying to emphasise that, at the moment, businesses can probably minimise that cost, because—you made this very good point—it is not just a matter of having a brass plate; businesses need to have people in the member state who are functioning and controlling from a risk perspective.

At the moment, outsourcing means that quite a lot of investment functions and many of the well-paid jobs in Scotland—although some jobs are not necessarily well paid—can be done from Scotland and other parts of the UK. If there is a change, there will be a more significant outflow of jobs and it will be more difficult to service and pay new entities from the UK. It is very important that we avoid that. Businesses have adapted to what there is at the moment, but they do not wish to do more in that respect.

Annabelle Ewing: I can imagine that that is the case. I will look to the future with my final question. It has been made quite clear that, if countries want to be in the single market and to get the benefits of the single market, they have to comply with its rules—there is no free pass. If countries do not want to do that, they do not get the same benefits that members of the single market get. Why on earth would they? What sense would that make?

My understanding is that, in recent discussions, there has been a desire on the part of the UK Government to get greater market access for UK, including Scottish, firms. However, by the same token, it does not seem to want to have the regulatory alignment that the EU would demand. If that is the case, what room for manoeuvre is there in the negotiations, which have 49 days left to go?

Stephen Phillips: I do not think that anyone is holding out much hope that there will be much, if anything, on FS in any deal that is created. That has caused issues in relation to equivalence, which Joan McAlpine mentioned at the beginning of the session. There will be no equivalence determinations, except in one minor area, until the new year. That means that the FS sector is not aware of what equivalence arrangements there will be—albeit, to an extent, that has been pre-empted on the basis of no-deal planning.

The point about regulatory divergence is a very good one. At the moment, there is not clarity about where we are going with regulation. Some people in the EU have made the point that the EU will tell the UK what access it can have once the UK tells the EU what divergence or regulatory regime it will have post-transition. There is a bit of a stand-off.

I imagine that this applies to other sectors, but the FS sector, in particular, wants clarity on what the UK Government envisages. In the light of that, the sector wishes to know whether it will be fully consulted. Some papers relating to that issue were published on Monday, but the FS sector has not had the chance to digest or discuss them. If there is regulatory divergence, that must improve the market competitiveness of the sector. It must not be gold plated, which would add to costs and would be more difficult to implement. That needs to be balanced against Annabelle Ewing's point about the impact on access to European markets or any other markets. The FS sector wishes more clarity on the direction that the UK Government is going on regulation.

Annabelle Ewing: Thank you for that—you and everybody else are seeking more clarity, and the clock is indeed ticking.

11:30

The Convener: Our next questioner was to be Kenneth Gibson, but he still seems to be away from his keyboard. Are you there, Kenneth?

He is not there. Do other members wish to ask any supplementaries?

If no one has any supplementaries, I will go back to Wendy Alexander on her earlier comments about Erasmus.

Wendy, you may or may not be aware that, a couple of years ago, the committee did an in-depth inquiry on Erasmus+. It was triggered not by the university sector, which you are representing today, but by the community youth work sector, with regard to the opportunities that people in the wider community, including apprentices and those in college, gained from the scheme.

The Scottish Government's statement to Parliament last week seemed to indicate that the UK Government would come up with an alternative scheme. That might meet some of the needs of universities, but other young people in the wider community, such as those involved in the youth work sector as well as apprentices and so on, would be completely cut out of such a scheme. Is that your understanding?

Wendy Alexander: That—[*Inaudible*.]—to Erasmus. It is inferior in the sense that the UK Government has not made it clear whether it is reciprocal and whether staff in community groups can participate in it. It therefore looks to be inferior in many dimensions, and we have to hope that a deal is reached.

The Convener: Does Annabelle Ewing want to come back in?

Annabelle Ewing: Sorry, convener—I was just typing, and half my of keyboard has tilted off the platform.

I was going to say, as you quite rightly raised the Erasmus issue, that I would echo Wendy Alexander's concerns. My mother, when she was an MEP, was very much involved in setting up Erasmus when she was the convener of the relevant committee—the education and culture committee, I think—in the European Parliament. It is something that I feel very strongly about, and it actually breaks my heart to see where we are heading on that.

Wendy Alexander: We can credit Winnie Ewing with the fact that participation in the scheme is higher in Scotland than in other parts of the UK. It is therefore a particular loss to Scotland, which has also been a leader in the innovation aspects on which the convener commented.

I will make one final comment, following on from listening to Annabelle Ewing talk about the legal and regulatory dimensions with respect to financial services; I can absolutely speak to her expertise in that area. The tragedy is that, as she knows, all of that also applies to the higher education sector.

My remarks today have focused on Erasmus and horizon Europe. However, even if we were to secure both those programmes in the next week, it would leave completely unresolved a host of regulatory issues that would need to be approached. One such issue is the mutual recognition of qualifications, which lets people study abroad. The relevant directive will, of course, cease to apply after the transition period.

Another issue is transnational education and degree courses that are held partly in Scotland and partly elsewhere. To stay the partner of choice in that regard, we need a deal on business services and on education nested within that. We do not have that, and we do not have the fine print on immigration. In addition, the general data protection regulation will cease to exist here, so there will potentially be very difficult issues around data transfers thereafter.

There are a host of areas in which we will need further agreements, even if the big two—the risk to science and the risk to students' experience—are solved. That will be complex and costly for all who are involved. I will leave it there, convener.

The Convener: Thank you—that is rather depressing. I see that Allie Renison wants to come back in.

Allie Renison: I will briefly pick up one or two points, but in reverse order.

We have not had the opportunity today to speak about data flows. It is less that GDPR would cease to exist and more about whether we have an adequacy decision from the European Commission, which is one of its most politically sensitive issues. Leading on from that, for various reasons, there is concern that, although we have GDPR, the UK Government's Investigatory Powers Act 2016 is now in force. Some of the concerns are around flybys, data sharing and security intelligence sharing with the US. We expect and hope that the decision should be in place, but most contingencies for businesses in the absence of an adequacy decision are extremely costly. There are the model standard contractual clauses that the Intellectual Property Office has on its website, but they are not the easiest to work through. Binding corporate rules are really only for multinationals. Therefore, I suggest looking at the concern that happened when the European Court of Justice invalidated the privacy data sharing arrangement between the US and the EU and the huge consternation that that caused for companies that rely on it. Three quarters of our data flows go to the EU, so we have to have an adequacy decision. There are very few contingency default fallback options.

Briefly, I will pick up on the question that was raised about accountancy services. It is worth raising; for services sector businesses, it is more difficult to plan, because they do not know whether they will be impacted, because EU law is not comprehensive across the services sectors, including across accountancy. Even in the single market, in some member states, people need extra qualifications to be able to practise, because that area is not fully harmonised.

We are the Institute of Directors, so company directors are our members. One thing has not reached the surface yet, and it might not affect huge shares of businesses, but it is a concern for our members. Outside the single market, in a number of European Economic Area countries, people who are not resident or based in that country cannot serve on a company board. That is raising its head as an issue late on, and we do not know whether that will be addressed outside the confines of the single market in the trade deal.

The Convener: That is interesting.

Dean Lockhart: Since we have extra time, I will move to another topic and look beyond the transition period to new free trade agreements and the opportunities under those agreements. Last month, the UK entered into the Japan free trade agreement, which increases the number of geographical indications for Scottish food and drink. Perhaps it is a question for Allie Renison. Do those types of agreements provide additional opportunities for Scottish export companies? The Japan free trade agreement is based on the EU agreement but goes beyond the scope of the existing EU free trade agreement. Can we see potential upsides for Scottish business in that Japan free trade agreement?

Allie Renison: The text is still being worked through. The UK Government has had the option to register GIs in the transatlantic trade and investment partnership negotiations between the US and the EU, but I do not think that any were registered, so it is good to see that that was a focal point for the Japan continuity deal.

I would not call the Japan agreement a rollover; the Japanese Government was resistant to doing a copy-and-paste exercise, although, from a substantive point of view, it is continuity with extra bells and whistles.

The value of the continuity agreements is really important. One of the things that people might be surprised to find is that, when we asked IOD members about their priority orders for trade, between new deals and the EU deal, across the past four years, the EU was the priority by a country mile—something like four or five to one. Interestingly, the continuity deals were higher up the agenda than new agreements, which speaks to the concern about having that continuity in place. Japan is one of the interesting cases; I believe that the Japanese Government wanted to do that as a new agreement, while preserving the substance of the old one, which allowed it to go further into some of those areas. There are always trade-offs in FTAs. The biggest focal point for the Government is to try and make sure that the agreements are user friendly. As Stephen Phillips alluded to, FTAs, particularly outside tariffs, do not tend to cover services well. That is not to say that, in the future, for example, Her Majesty's Government will have a problem in putting that on the table, but it is a sensitive area for other countries to put their regulations for service sectors on the table.

The single market creates that legal baseline and everyone broadly follows the same rules—even, to some degree, in services—so more progress and liberalisation is possible across the European market. However, for FTAs, it will depend on the future. We have a number of continuity deals that are not yet agreed, but we hope to see those agreed. For us, the big one is Turkey, which is its own beast, because it is in a customs union with the EU and we will not be in a customs union with the EU. That is the value of some degree of continuity. We know that we will not have perfect continuity with Turkey—as we will not with the EU in that respect—because we will be varying our import tariffs, so rules of origin will suddenly start applying to trade, which is a complicating factor.

It is not just about the new opportunities. For the time being, the focus is on making sure that, as much as possible, we are able to stand still and have that continuity at a time of huge change in other areas.

Dean Lockhart: Thank you. That is great.

The Convener: Thank you. That concludes our questions and our evidence session. I thank our witnesses for giving evidence today.

11:40

Meeting continued in private until 12:07.

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.

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

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@parliament.scot

The Scottish Parliament
Pàrlamaid na h-Alba