



OFFICIAL REPORT
AITHISG OIFIGEIL

Culture, Tourism, Europe and External Affairs Committee

Thursday 4 March 2021

Session 5



The Scottish Parliament
Pàrlamaid na h-Alba

Thursday 4 March 2021

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CULTURE, TOURISM, EUROPE AND EXTERNAL AFFAIRS COMMITTEE
8th Meeting 2021, Session 5

CONVENER

*Joan McAlpine (South Scotland) (SNP)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Kenneth Gibson (Cunninghame North) (SNP)

*Christine Grahame (Midlothian South, Tweeddale and Lauderdale) (SNP)

*Ross Greer (West Scotland) (Green)

*Jamie Halcro Johnston (Highlands and Islands) (Con)

*Dean Lockhart (Mid Scotland and Fife) (Con)

*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

*Beatrice Wishart (Shetland Islands) (LD)

*attended

THE FOLLOWING ALSO PARTICIPATED:

William Bain (British Retail Consortium)

David Barnes (Scottish Government)

Lewis Hedge (Scottish Government)

Justin McKenzie Smith (Scottish Government)

Professor Andrea Nolan

Stephen Phillips (CMS)

Michael Russell (Cabinet Secretary for the Constitution, Europe and External Affairs)

CLERK TO THE COMMITTEE

Stephen Herbert

LOCATION

Virtual Meeting

Scottish Parliament

Culture, Tourism, Europe and External Affairs Committee

Thursday 4 March 2021

[The Convener opened the meeting at 08:45]

European Union-United Kingdom Trade and Co-operation Agreement

The Convener (Joan McAlpine): Good morning. I welcome everyone to the eighth meeting in 2021 of the Culture, Tourism, Europe and External Affairs Committee. Apologies have been received from Beatrice Wishart MSP.

The first item on our agenda is evidence on the European Union-United Kingdom trade and co-operation agreement. I welcome our first panel. Stephen Phillips is a partner with CMS; Professor Andrea Nolan is principal of Edinburgh Napier University and convener of the Universities Scotland international committee; and William Bain is a trade policy adviser with the British Retail Consortium.

I will move straight to questions. I ask each of you for your view on the trade and co-operation agreement now that it has been in implementation for a couple of months, and how you think that it could be improved. We will start with Stephen Phillips.

Stephen Phillips (CMS): Thank you very much for inviting me to the meeting.

My view is that the TCA is disappointing but not surprising. The reality is that we had been anticipating something very much along these lines. If we go back to Theresa May's speech of January 2017, the single market and customs union was ruled out and it became inevitable that there would not be as close a relationship between the UK and EU.

I look at the financial services sector, and there is not really a great deal in the TCA for financial services. It might be better than anticipated in some areas such as data protection, where I hope that we will get some protection on things such as data transfer between the UK and the EU. In other areas, such as mobility and professional qualifications—particularly equivalence—although the TCA does not replicate the benefits of the single market, it will, I hope, give some benefit to financial services businesses. However, we still do not have any certainty as to whether the EU will make equivalence decisions in favour of UK

financial institutions. It should be noted that the UK has given some equivalence decisions to EU entities that will operate in the UK.

Looking to the immediate future, a memorandum of understanding is supposed by negotiated by 31 March. That will not dramatically change market access for UK entities within the EU, but it is perhaps a good indicator of where the relationship will go in the next couple of years. The memorandum of understanding is primarily about regulatory co-operation, which of course is important for making sure that, in cross-border initiatives, there is proper scrutiny of financial services on a Europe-wide basis.

It is also important to look at how equivalence determinations will be made, and removed, in order to get some certainty about how that process will happen. There will also be discussion about what happens with international co-operation. Many of the regulatory standards that we have are international, to the extent the UK and EU can come together and implement some of the new standards as they arise, which will be good for the sector in the UK and Scotland. If we get some form of agreement by 31 March or soon thereafter, at least there will be a sign people are speaking to one another and that there is an opportunity for co-operation. If it were to slip beyond 31 March—as seems possible—we would have more concerns about the future relationship.

The equivalence determinations were supposed to be made by 30 June last year, and they still have not been made. The EU has made it clear that it is not in any great rush. That is partly because of the concern that has been expressed about uncertainty over what will happen with regulatory standards in the UK post-Brexit. However, there is also an element of an attempt to get some form of competitive advantage. We hope that some of the equivalence determinations—the UK Government has asked for 17 of them—will be implemented at some stage. I think that the EU will try to maximise its advantage by trying to get as many UK financial institutions to onshore in the EU in the meantime. Those are probably the two main things to look out for. Mobility will also be important. That is my summary.

The Convener: Thank you very much—that is very helpful. In some of the evidence on financial services that we have taken, it has been suggested that the adjustments would be easier for very large financial services companies than for smaller ones in Scotland and that the Scottish sector would be particularly badly hit. Has that been your experience now that the agreement is in place?

Stephen Phillips: That is an interesting question. I think that the larger financial services companies started to plan once that speech was

made, in January 2017. Effectively, they have been impacted by—[*Inaudible.*—]preparations to allow them to continue to work in Europe by setting up subsidiaries. They have the bandwidth to do that. You are right that, for some of the smaller organisations, it has been very much more about a wait-and-see approach. For some of them, because they do not have as much exposure to Europe, they have been almost withdrawing from Europe and maybe just waiting to see what happens.

One example that does not necessarily affect just small companies—far from it—relates to depositors and the bank accounts of European citizens in Europe, where companies have just pulled out of that market. They have not set up subsidiaries to do that work because the cost is too high. You are right, however: the smaller the organisation, the more likely it is to say, “It’s a pity, but getting market access in Europe is not worth our while at the moment.”

The Convener: Thank you. I know that Claire Baker will pick up some of the questions around universities, so I will go to Mr Bain next and ask about the effect on retail. We have heard about the impacts so far, and we know that, after April, we will see impacts on imports. Are you concerned about that, Mr Bain? Will we see shortages?

William Bain (British Retail Consortium): Good morning, convener. It is great to give evidence to the committee this morning.

We welcome the fact there was a deal, because if we had to trade on tariffs for goods, particularly food, that would add £20 billion to the shopping bills of consumers across the UK. That would have been disastrous in terms of cost, choice, availability and quality.

We are at the early stages of phasing in the border arrangements. For goods going from the UK to the EU, there has been a drop of around 10 per cent in the number of vehicles going through the short straits. That is partly down to the level of stockpiling that went on before the agreement came into force, but it is also related to reduced demand as a result of Covid and the closure of non-essential retail.

The real test will be what happens when the border controls are phased in. In April, every consignment of what we might call products of animal origin—everything from yoghurt to cheese, meat and fish—will have to be pre-notified before it leaves the EU to come into the UK, and on 1 July we will have customs declarations on top of that. Those will be real tests of whether border control posts are ready, particularly around Ashford in Kent, which is the site that will serve Eurotunnel and Dover.

There are some concerns about whether some of the suppliers in the EU—the companies that send through the food that we eat every day—are completely ready for what they will face. What will happen with vehicles that turn up in Great Britain with goods that are not accompanied by the correct paperwork? There are real concerns that, at some points in the week, we could have some shortages of certain foodstuffs. We will not run short of food—that is very clear—but we might not have the choice 24/7 that we have become used to as consumers.

The Convener: Thank you. I will move on to the deputy convener, Claire Baker.

Claire Baker (Mid Scotland and Fife) (Lab): I will continue with questions to Mr Bain from the British Retail Consortium. The convener has talked about 1 April, but could you give us some views on the Northern Ireland protocol and the trade between Great Britain and Northern Ireland? The reports that we have received from the British Retail Consortium talk about some difficulties with retailers getting their goods into Northern Ireland at the moment, as well as concerns about 1 April. However, last night we saw the news that the UK Government has moved unilaterally to extend the grace period. Could you comment on the current situation in terms of trade with Northern Ireland? Do you have any reflections on last night’s announcement?

William Bain: Thanks, Ms Baker. It is a very important issue, because many trucks are loaded up at distribution centres in Cumbernauld and other parts of Scotland and go to Cairnryan to get the ferry across to Belfast. It is an issue for supermarket supply chains—we are really talking about four hours between the truck being loaded up, perhaps with multiple products and multiple loads, and getting over to Belfast. One of the issues around compliance with the protocol is that the legislation, which gives effect to the protocol in relation to sanitary and phytosanitary checks, for example, requires 24 hours’ prenotification. That has been a real challenge and problem for Scottish distributors that send products over to Northern Ireland. That is really the heart of the issue around compliance.

As an industry, we have been speaking to the European Commission and the UK Government about whether we can find a way of satisfying the requirements of EU legislation that also reflects the reality of our supply chains. That is why we had to have the initial grace periods. There was a six-month grace period for chilled meat products—principally sausages and mince—and a three-month grace period for other products that would have needed an export health certificate.

We welcome the effect of what was decided yesterday in continuing the easements—there is

no doubt about that. We would not have been ready on 1 April to go with EHCs, for the reason that I set out on the prenotification periods that will be required. However, we need a good, functioning relationship between the UK Government and the European Commission. Both sides agreed with my colleague, Aodhán Connolly—the director of the Northern Ireland Retail Consortium and the head of the Northern Ireland business Brexit working group—to have common engagement and to test policy solutions before they were adopted. That is very important, not just for the current legislation on food, but for future legislation on food that comes from Westminster or Brussels. We have some concerns about the relationship breaking down because, as far as doing business and keeping food moving are concerned, we need that functioning relationship. We would not welcome anything that goes against that.

Claire Baker: Thank you. I am sure that other members will continue the line of questioning that I started, but I will change topic and move to Professor Andrea Nolan.

I have an introductory question. The pandemic has had a huge impact on the higher education sector over the past year. Combined with Brexit, that means that this is a difficult time for the sector. What has been the impact on staff and student mobility? Has there been an impact on students applying to Scottish universities, and is there an impact on staff retention and the ability to recruit?

09:00

Professor Andrea Nolan: Thank you for that question. The impacts of Covid and Brexit have merged. Covid has had a huge impact on student mobility. For example, at Edinburgh Napier University, none of our students is going on their outward mobility programmes. Our staff have been very creative in working with partner universities in Europe and beyond to create shared programmes and activities to try to replace what would have been a mobility experience with a virtual mobility experience, but clearly Covid has affected that enormously. We hope that, as we manage our way through the pandemic and as vaccination proceeds across the world, we will be able to restore that experience. For students, having an overseas mobility experience is hugely positive for their future career, their learning and their confidence, and also for how employers value them.

On the mobility of staff, obviously staff have not been travelling over the past year. It is too early to say what the implications of Brexit will be for staff. So far, when we check our data, we see a similar number of applications—we have a good, strong

volume of staff applications from the EU. It is probably a bit early to say. I am not sure about this, but our experience at Napier is that, when staff apply, they are not fully aware of the new immigration rules and the costs of travelling and working here.

Student applications from the EU are down across the UK—in Scotland, they are down by about 40 per cent. The picture is very unclear. The fee status of EU students changed. From 2021, they are considered international students. It is not clear whether the drop is related to that or to perceptions of Brexit or Covid, because the drop in Wales and other places has been similar. It is a bit early to say, but we have seen a significant drop in applications from EU students for 2021.

Have I answered all your questions?

Claire Baker: Yes, that is fine. I have looked through the material that we have been provided with, and there is no standard approach in the EU for Scottish academics who wish to live and work in the EU. My understanding is there have to be negotiations with a member state; there is no standard procedure for people to live and work in other parts of the EU. It might be too early at this point to say what the challenges are with that.

Professor Nolan: It is too early. We are all trying to navigate our way. Stephen Phillips mentioned mutual recognition of qualifications in certain professions. Mutual recognition of professional qualifications is not yet sorted out in terms of bilateral arrangements and so on. It is a bit early to say how that will impact staff living and working work in the EU.

On staff coming to work in higher education in Scotland, we have the new immigration points-based system. It is a bit early for us to say, but I hope that, because of the reputation of Scottish higher education—our research reputation and the diversity and quality of higher education here—Scotland will still be an attractive place for colleagues from around the world to come to and work in.

Claire Baker: Finally, would you comment on the difficulty that we will have in accessing EU research funds and programmes? Scotland is an attractive place to come to at the moment because we have a very strong research base, but what impact will Brexit have on that?

Professor Nolan: That is a really good question, and I am pleased that you asked it. The one positive to come from this is that we did a deal and are now able to access horizon Europe as an associated country. The vast majority of the programmes in horizon Europe—they are worth €95 billion over the next seven years—are hugely important for us. It is interesting to note that, three or four years ago, the UK as a whole took about

16 per cent of the share of the funding, but that has dropped to 9 per cent this year. I think that that was related to uncertainty. Will we be in horizon Europe? Will the UK, including Scottish academics, still be able to lead programmes? There was a lot of uncertainty and our job now is to promote to our colleagues across Scotland, the UK and Europe that we are associated with horizon Europe, that we can take part in the programmes, that we can lead and shape them and that we can really drive up the importance of being part of that European research infrastructure. That is the focus of Universities Scotland and Universities UK: we really need to get the message out that we are key players. Certainly, we have been hugely successful over the years in horizon programmes.

Dean Lockhart (Mid Scotland and Fife) (Con):

My first question is for Mr Bain. In previous evidence to the committee, we have heard that, after initial problems with the new export requirements, things have settled down somewhat and the disruption to the supply chain is perhaps not under control but declining. How are the supply chains in retail and other sectors holding up? Do you think that we will continue to see progress as businesses get used to the new trading arrangements?

William Bain: It has been good to see, so far, an element of pragmatism in the way that the new border controls have been applied on the EU side. There is still a bit of variation from member state to member state, but we have seen a very low rate of vehicles being turned back. One of the real problems that we could have seen was vast numbers of vehicles joining a queue to get back into Great Britain because they did not have the right paperwork. The rate of return of vehicles has been 2.5 per cent and it is declining. I think that that speaks to the work that the industry has done to get ready and to ensure that we have the right relationships with customs agents, that the paperwork is all in order and that everything is ready to go.

Things have been perhaps a little smoother than we thought, but the real test with goods going outbound from Great Britain will be when demand picks up. At the moment, flows of lorries and trucks are 10 per cent below what they would normally be. There is evidence that some traders have not been trading as normal because of the lack of demand in the UK and EU. As we get further into the spring, we will see the real test of the outbound arrangements.

Supply chains have been efficient. We have seen that for the past 12 months. We have not had any problems with people running out of food. People have shopped responsibly, and goods have flowed very well from the EU to Great Britain.

The vast majority of the foods that retailers import come from the EU, so the link between Calais and Dover and Eurotunnel are central to getting foods on the shelves every day for consumers.

For inbound goods, the real test is to come. The issues will be whether the small suppliers in the EU are ready; what approach will be taken by UK customs authorities to paperwork that is incomplete or incorrect; and whether the border control posts will be ready. Those are the concerns that we still have as we get into April and July.

Dean Lockhart: That is helpful. You mentioned paperwork. I believe that that might be one of the issues, because we are not quite at the stage of being fully digital or electronic. The committee has previously heard evidence that the digitisation of the new arrangements is about to begin or is in progress. Will you briefly touch on where that is? Is it the end goal to have everything move online so that customs officials are not looking at paperwork, with different ink and other requirements, and are instead looking at something that is pre-completed online?

William Bain: Having a deal means that we are able to have customs co-operation. There are a couple of things in that regard. We have mutual recognition of the UK and EU's authorised economic operator systems, which means some efficiencies at the margins with customs. We have a customs co-operation relationship that we could build on as the years go on.

There are some welcome things there, although it has to be said that customs declarations will add significantly to business costs. We are looking at about £7 billion a year in additional cost for goods coming into the UK as a result of the declarations. Frankly, that is a function of having a free-trade agreement rather than a customs union as the trading relationship. However, the UK Government has launched a customs 2025 consultation process, and we hope that that might lead to further efficiencies and further digitisation.

Dean Lockhart: That is useful.

I have one question for Stephen Phillips on financial services, which I believe you advise on, Mr Phillips. You mentioned in your opening remarks that there is still a bit of work to be done on the memorandum of understanding, and that is our understanding, too. Overall, Brexit has not had the detrimental impact on jobs in financial services that some predicted. That is certainly what I hear from business organisations representing financial services and from many on the front line. Is that your understanding of the overall impact on jobs and services in the sector?

Stephen Phillips: In Scotland, the impact has not been too severe, I am glad to say. Due to the

nature of the business, the sector has managed to retain many jobs. There is maybe a different message coming from the city of London, where we are aware of jobs being offshored into Europe. There probably has been some impact, although I am glad to say that the impact in Scotland is maybe not as much as that elsewhere in the UK. From that perspective, it is a matter of keeping an eye on the situation to see what will happen.

From the viewpoint of Scotland and its substantial and well-regarded asset management sector, we need to keep an eye on what is happening in Europe, because many of our jobs are based on supporting asset management operations in Europe. If there is any change in the European approach to that, that could have an impact on jobs in Scotland. At the moment, I am glad to say that Brexit has not had a substantial impact.

Stewart Stevenson (Banffshire and Buchan Coast) (SNP): In financial services, billions of pounds have been removed from the UK and exported to Europe. Scotland has a particular strength in fintech or, in other words, technology to support financial services. Given that that is not explicitly covered in the trade and co-operation agreement, as it is largely a services-based activity, is there any indication that that part of our economy is affected? It is high margin, and of course once you have a contract for technology, it tends to be a long-term relationship. Stephen Phillips might care to comment on that in the first instance.

09:15

Stephen Phillips: Fintech/techfin is a substantial part of the financial services sector. It is growing and it is certainly an area that we wish to grow further. Personally, I think that the major issue for fintech/techfin is about the people and the talent. Scotland is a sweet spot for fintech because we have a very good financial services sector and very good universities—it is the combination that does it. We get very good information technology graduates. For instance, the University of Edinburgh informatics school is one of the best in the world. It is the union between those two that helps to grow the fintech sector. Companies come to Scotland because they can get very good graduates and very good financial services expertise.

Our concern in financial services is that, if anything makes it harder for people to come to work in the fintech sector or they are deterred and, to go back to universities, if we do not get people coming to universities in Scotland because of visa restrictions or just the perception that they are not welcome, we will have an issue. That is true not only for students but particularly for lecturers. That

comes back to the point that we are only as good as the people who are teaching the graduates who are going into the fintech sector.

People in fintech are concerned about market access, but I believe that their main concern is about where the flow of talent will come from. It is a top priority for Scotland to continue to be attractive for students and lecturers coming into the financial services sector.

Stewart Stevenson: In that case, I will go to Andrea Nolan, because that neatly segues into the academic world. I should say that, 30 to 40 years ago, when I worked for the Bank of Scotland and employed hundreds of people developing software, I used to take about a dozen technology students on their sandwich year.

Does what we have just heard from Stephen Phillips chime with you? Jobs in fintech are relatively well paid and, as I suggested, the relationships between fintech companies and the people whom they sell to tend to be relatively long term. Therefore, the loss of any relationships or inability to develop them will be important. Are you aware of that issue?

Professor Nolan: What really chimes with me in relation to fintech and probably most sectors is the point about the availability of talent. The strength that Scotland has in its universities, with four in the top 200, is phenomenal, and the flow of talent into Scottish companies is hugely important. The same goes for universities in attracting talent to be our staff for now and in the future.

It is very difficult to say what will happen. We have had a drop of 40 per cent in our applications from European Union students. As I mentioned, that could be due to a lot of things. As you will know, EU students had free tuition in Scotland, with the places funded by the Scottish Government. The Scottish Government is keeping those places, which is welcome. The places and funding are staying with universities, so we will seek to attract Scottish students to take those places.

It is not entirely clear whether the demand and supply will match. In my university, European Union students were heavily concentrated in business areas, in computing, which is very important for the fintech sector, and in engineering. The demand from Scotland-domiciled students is unlikely to map identically on to that. The next year or two will be challenging for us as we see how that plays out, although we are seeing increased demand from Scottish students for higher education places. We hope that that will map out in the future.

On attracting the academics of the future, Scotland has a tremendous reputation for its universities. The issue is about how the new

immigration rules play out. We do not have a cap on the number of visas that we can issue, but, if people coming from the EU do not have settled status or pre-settled status, they will have additional costs of health charges. It is hard to say how attractive that will be in future. All of us in universities seek talent from all over the world, and we will continue to take that approach to recruiting staff and students. At this point, it is a bit early to say what will happen.

Stewart Stevenson: I have a small question for Mr Bain. One thing that came from the budget yesterday, which was enabled by our no longer being in the EU, was the raising of the contactless payment limit from £45 to £100. Obviously, it will take the merchant acquirers a wee while to put the technology in place, but we can see that coming. I do not know whether the British Retail Consortium has had time to think about that, but will it be helpful? Are there other opportunities that come from being able to make independent decisions, of which that might be an example?

William Bain: Payments are not quite my area, but I can speak to what my colleague would say if he were answering. Broadly, we welcome the measure because, in the current climate, it contributes to stores being more Covid secure, as people do not have to touch handsets and insert PINs. There will be an adjustment period as the machinery and systems are put in place to make it work.

On the point about divergence, we have said that the UK Government should be very careful about that, partly for the issues that we have already discussed with the protocol. If the UK was to diverge in, let us say, a food policy area, that would mean further divergence between Great Britain and Northern Ireland and therefore more cost in supplying goods and potentially more delay. Without a veterinary agreement, it would also mean more cost for goods going from Great Britain to the EU, whether it is shellfish or any type of product of animal origin.

We have told the UK Government that, if it has any proposals to diverge, we want to see a proper impact assessment. We want to see its assessment of any upsides from divergence, but we also want to know what the costs for business and the economy would be, so that we can see things in the round and have a proper balanced consideration of that.

Stewart Stevenson: Thank you. I suspect that my colleagues might pursue that further.

Ross Greer (West Scotland) (Green): My questions are for Andrea Nolan. I would like to go back to the issue of horizon research funding and collaboration. I remember over the summer of 2016 speaking to Professor Nolan and others

because we saw that initial burst of European institutions backing out of collaboration opportunities with UK institutions or not wishing to renew them. That has somewhat come in fits and bursts since then but, as has been mentioned, we have a bit more stability now. Professor Nolan mentioned in her initial remarks that the UK's share of horizon funding has decreased in recent years, in large part because of the instability.

I am sure that individual institutions are reaching out to their European partners, but what can be done at a Scottish level, perhaps by Government, to ensure that we are renewing those relationships and making clear to European research institutions not only that Scottish institutions absolutely still want to collaborate but that there is now sufficient stability for those collaboration agreements to be entered into or renewed? How do we tackle the issue and reverse the decline in recent years?

Professor Nolan: It is a multipronged approach. I chair the international committee in Universities Scotland, and we feed in through Universities UK, which is meeting all the research bodies across Europe to promote the fact that we are here, we are a great partner and we are hugely valued for the research that we do. There is a job for us in Universities Scotland to ensure that all our colleagues are aware that we are there in full. There is a tiny bit of horizon Europe that we cannot access but, basically, we are there in full, and we can lead projects. We want to lead and shape projects, so there was a big issue about whether we would drop down the pecking order.

The Scottish Government needs to keep promoting the strength of our higher education sector and the fact that we are open to Europe. We have had additional funding from the Scottish Government for this year for internationalisation. We hope to use that flexibly with scholarships to show that we are warm and welcoming, and we want Europe at all levels of higher education to be involved with us. We will continue banging that particular drum.

We are associated with horizon, but we are still waiting for the final sign-off, so we are in a bit of an administrative waiting room. However, the first calls for horizon Europe came out last week, and we can apply. I am optimistic that, when the fog has cleared, the lure for academics of €95 billion over the next seven years and the absolute joy of being able to work in the partnerships that we had will encourage people to apply, because we know that, if we apply, we will be successful.

Ross Greer: Absolutely—we compete at the top of the world stage on that.

The Scottish Government's external affairs team already does a lot of work through the hubs in

Brussels, Berlin, Dublin and so on, but could it have a greater role in working with Scottish institutions and being a direct point of contact across the continent? Does Universities Scotland already engage with the Scottish Government on that, or could we perhaps pursue greater direct participation in the area? The committee has talked a lot in the past couple of years about the obvious change in the role of the Brussels hub in particular and trying to re-evaluate exactly what Scotland should use our external affairs presence for.

Professor Nolan: That is a very good point. We have engaged, but perhaps not as much as we should have done. We were maybe all waiting to see the deal, particularly on horizon Europe. I will take that forward after the meeting.

Our minister went to the going global conference, which is a big international higher education conference on internationalisation in Berlin—I think that that was the year before last, although I am losing track with all that has happened. That was a huge success. We had a massive alumni event and showcased the strength of higher education in our universities and research institutes to the German higher education authorities, universities, the Max Planck institutes and other institutes. That was a real success for building relationships and showing that we are open and keen.

It is a good point, and I will certainly take it forward. If you would do so, too, that would be fantastic.

Ross Greer: Absolutely.

I have one final question, which is on student exchanges. The committee has spent a lot of time looking at the Erasmus programme, and many of us are strong supporters of its continuation, but we are where we are. Has the UK Government reached out to Universities Scotland and has there been any discussion so far on the Turing scheme? Has the UK Government asked you what you need out of that scheme to try, to the greatest extent possible, to replicate the great success of Erasmus?

Professor Nolan: We work in that respect through Universities UK. Of the 19 higher education institutions, 15 are part of Universities UK, which lobbies the Department for Education and the Treasury about the association with horizon and about Erasmus and Turing. As you said, we consistently lobbied across Scotland and the UK for association to Erasmus but, because of the costs versus what we would get back, it did not work out.

09:30

We have therefore moved forward to making Turing a success—that is now the most important thing for me. Applications open in March, and we are encouraging all Scottish institutions to pile in and to have creative and positive applications so that we can make the scheme as much a success as Erasmus—in fact, more of a success. The £110 million appears to be able to offer the same number of opportunities as we had through Erasmus. One positive thing about Turing is that people can do shorter mobility, which is valuable and is much more flexible for people who might have caring responsibilities or mature students. There is a focus on widening access to the opportunities, which chimes with Scottish Government policy and the commitment to access to higher education.

On what you and colleagues in the Scottish Government can do, it is only a one-year commitment, and we really need it to be a five-year commitment or something like that, so that we have stability in planning and in communicating the opportunities in future. Our focus is twofold: it is on making the scheme a success and ensuring that Scottish institutions do really well in the first round of funding, and on making sure that the scheme is sustained.

Ross Greer: Thank you. I am aware that other members have lines of questioning on student exchanges and Turing, so I will finish there.

Jamie Halcro Johnston (Highlands and Islands) (Con): As Ross Greer rightly points out, other members have questions on the topic. The issues that I was going to ask about have been covered. However, it is great to hear from Professor Nolan some of the positives around the Turing scheme. We all recognise the value of the Erasmus scheme, but we are where we are, and we need to look forward and try to ensure that the Turing scheme works well. As has been highlighted, there are ways in which we can perhaps improve on the Erasmus scheme, such as by widening access. I very much take on board Professor Nolan's points about sustainability.

One of the issues that has been highlighted with the Turing scheme is that, as yet, there has not been much clarity on its reciprocal nature. Professor Nolan, what discussions are you aware of around reciprocal agreements on student exchange with the EU?

Professor Nolan: I know that Scottish Government officials have been talking about that. The regulations on Erasmus funding are quite nuanced. EU institutions have flexibility in that they can use about 20 per cent of their funding to send students to non-associated countries, of which the UK would be one. I do not know the ins and outs

yet, and I do not think that the institutions have full clarity either, but we are all hopeful that the nuances around the way in which the regulations can be interpreted will ensure that our European partners can send students to the UK under the Erasmus umbrella. I presume that they cannot use all 20 per cent of the funding on the UK, but using that funding flexibility will help.

All of us are asking our partners—whom we have had for 40 years—how we can make the Turing scheme work as a mutual exchange programme. Our minister is meeting, I think, EU commissioners to discuss Erasmus and the options that we have under the current agreement—or the lack of agreement—with the UK to ensure that we keep that mobility going. There is lots of discussion. Through Universities UK, we are meeting the mobility agencies in each of the countries to really drive the issue. The UK is a top destination for Erasmus students, and we hope that it will stay that way.

Jamie Halcro Johnston: One of the criticisms—as I said, I very much recognise the positives of Erasmus, so this is not my criticism—is that Erasmus tended to make us focus on one part of the world, whereas the Turing scheme is looking to take a more global approach. How positive can that be? Is it covering areas where we perhaps already have student exchange agreements, or is this a whole new opportunity to have a wider reach than we had when we were focusing just on EU nations?

Professor Nolan: It is worth mentioning that, across the UK—I do not have the figures for Scotland—about 50 per cent of our mobility is not through Erasmus; it is to other parts of the world. My institution has students going to—*[Inaudible.]*—China and America. Turing just formalises that. All those exchanges are done individually. The strength of Erasmus is its collective nature—we were part of a big scheme in which the rules were all the same—whereas it can be challenging to deal with countries across the world bilaterally. However, there is no doubt at all there are opportunities with Turing, and we will exploit those to their fullest.

Jamie Halcro Johnston: Thank you for your positivity, because that has been an area of concern. I appreciate that more needs to be done on the sustainability angle to ensure not only that we get it right now, but that we continue to get it right. Thank you very much for your answers on that issue.

Kenneth Gibson (Cunninghame North) (SNP): My first question is for Mr Phillips. You previously told us that

“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.”—*[Official Report, Culture, Tourism, Europe and External Affairs Committee, 12 November 2021; c 29.]*

We have already touched on this issue this morning. *The Sunday Times* reported at the weekend that 7,600 finance sector jobs have relocated to the EU, with 67 per cent of companies considering relocation. What is the situation in Scotland relative to the rest of the UK?

Stephen Phillips: I think that that depends very much on the individual sector. I do not know whether you saw the press reports that Amsterdam, for instance, has overtaken London in euro shares trading—*[Inaudible.]*. Also, equivalence on derivatives clearing is only until June 2022. Some areas such as equity markets—like capital markets, they are important and heavily dependent on the nature of the single market—are heavily focused in London. I think that quite a few jobs have been moved. Depending on how the relationship develops, I think that many companies in the UK are looking to see whether they need to move some of those jobs offshore into Europe. There will be job transfers—I do not think that there is any doubt about that.

Scotland is not insulated from that, but it is not as badly affected, partly because we are dependent on, for example, retail banks, which, to an extent, had business in Europe and have onshored that back into the UK. However, asset management jobs have definitely been transferred to, for example, Dublin and Luxembourg.

Although those jobs, which we would rather keep in Scotland, have gone, they are not limited, because, if you transfer to a subsidiary in the EU, you need to have real functions in the EU. You need to have chief executive officers, financial officers and risk officers—it has to be a real operation. Quite a lot of that work can be delegated back to Scotland. Therefore, although there will be transfers of jobs, they might not be as severe in Scotland as what is happening in London.

As I mentioned to Mr Lockhart earlier, the big concern would be the EU taking a different approach. The issue has already been flagged in the European Parliament, where people are saying, “Quite a lot of this work is being done in the UK. We would rather it was done in the EU.” If the EU starts changing the rules in areas such as asset management, that would affect not only the UK but the rest of the world. If the EU insists that more of the work that has been offshored to the UK is done in the EU, that will have a significant impact on employment in Scotland.

Kenneth Gibson: Yes, it is the future that I am thinking about. *Politico* has suggested that the EU

"is holding back from declaring the U.K. equivalent in investment banking and trading because it is worried about British deregulation putting the bloc's financial stability at risk."

Although we have not seen the job losses that some people feared, I am worried about two things: a dripping tap effect and that possible EU decisions could mean that people decide not to invest, thereby inhibiting the growth of that sector. Do you have concerns about that? What are your feelings on that particular issue?

Stephen Phillips: I have some concerns, although, as you mentioned, it really will depend on what happens. As you correctly identified, the EU is not giving equivalence for two reasons. First, it has concerns about changes to the regulatory environment. Secondly—I think that this is the main reason—the EU wishes to get a competitive advantage, so it is keen to encourage as many institutions as possible to transfer jobs to the EU. Once it thinks that that process has happened, it might—perhaps later this year—go towards equivalence, because, as you would imagine, the UK is equivalent with the EU at the moment.

The level of co-operation that there is between the UK and the EU will determine what will happen. A multinational company might come to Scotland because it has very good people—Andrea Nolan mentioned the quality of the graduates—and quality of life is a major element, too. It can deal with different jurisdictional issues about our being a bit different from the EU. However, it would not want a regulatory bonfire in which we became significantly different from the EU, with different standards, because that would just make life difficult.

From our perspective, the way to minimise such job losses is not to distance ourselves unnecessarily from the EU but to keep things as close as possible to the EU, unless there is good reason not to. We must also have good co-operation with the EU. That will very much depend on the future relationship, and that is difficult to predict at the moment.

Kenneth Gibson: I fully understand how difficult it is to predict, but we are perhaps talking about minimising job losses here or there. Do you see any major growth opportunities for the sector as a result of Brexit, for example?

Stephen Phillips: One opportunity, which is not about Brexit, is in the fintech and techfin sectors. Scotland is one of the best centres in Europe for that, so it has an advantage and we need to continue with that.

There are two potential opportunities from Brexit. First, trade treaties with a number of countries could improve UK access to those markets, particularly the Indo-Pacific region, which

might have an impact on asset management, in particular.

Secondly, in terms of regulatory reform, although I said that we wish to keep as close as possible to the EU, there are certain things, such as—for the sake of argument—building societies and insurance companies under solvency II, where you can tweak some of the rules to make the market a bit more competitive. Again, how that compares with the lack of access to Europe is another question, but there are certainly some things that we can do.

Kenneth Gibson: Thank you very much.

Professor Nolan, Wendy Alexander said in her evidence to the committee:

"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."—[*Official Report, Culture, Tourism, Europe and External Affairs Committee*, 12 November 2020; c 37.]

Where are we on developing links to the next horizon scheme?

09:45

Professor Nolan: We are an associated country now, so we are just waiting for the association agreements to work their way through the administrative and legal process. We can all apply to the horizon programmes. As long as the association agreement is signed by the time that the money is awarded, that is fine.

Virtually every aspect of the horizon Europe, European Research Council and Marie Skłodowska-Curie programmes, and most of the European innovation council programmes, are available to Scottish and UK researchers. It is as good a deal as we could have hoped for. It is a great relief. We are very happy that that has been secured, because it would have been a huge blow to UK research and science had that not been achieved.

Kenneth Gibson: Do you see everything moving smoothly, as previously, or do you see any blips on the horizon with horizon?

Professor Nolan: No, I do not see any blips at the moment. However, one is hypervigilant in a situation such as this. As long as the association agreements are signed—there is no reason that they should not be now—I do not see there being any blips.

As I mentioned earlier, our job in the universities sector, in research institutions and across companies—because, of course, companies can access horizon Europe, too—is to make sure that people understand that we are in, that we can keep going forward, that the uncertainty of the

past four years has now lifted and that we should make the most of it.

Kenneth Gibson: Mr Bain, we have taken a lot of evidence in recent weeks about the cost implications for businesses that are trading with Europe and so on, and one of the issues of concern to me is businesses dipping a toe in the water of exporting. Do you think that businesses will be less enthusiastic about exporting or, indeed, importing? How will that affect your sector? Do you think there is a reticence at the moment, or are people keen to make the best of it and move forward? What is the general view of the retail sector on exporting and importing, taking into account all the issues that have been discussed with regard to costs, markets, shipping and so on?

William Bain: It depends on the size of the company. I think that the larger retailers have more capacity to deal with the new requirements for either importing or exporting goods, but, for small and medium-sized enterprises, this is perhaps a wholly different world. We had over 200,000 SMEs in the UK that traded only with the EU, and they never had to deal with customs, rules of origin or these sorts of problems.

I can identify two areas in which I think there is real reticence and in which there has been a problem even among some of the largest retailers. The first area is rules of origin. As we know, with a trade agreement rather than a customs union, only qualifying goods get the zero-tariff treatment. That means that there are product-specific rules of origin for every commodity, from trousers to aubergines, which have to be complied with to get that zero-tariff treatment. That has been quite onerous, given some of the supply chains in operation.

I am sure that the committee will have seen in the UK press the examples that some of our members have raised in the past few weeks, with goods made in the EU coming to a distribution centre in the UK and then being re-exported to the EU—potentially just the Republic of Ireland, as many retailers work on a GB and Ireland corporate basis. Those goods have been subject to tariffs because they do not qualify under the terms of the agreement, and that is a major problem. There are some mitigations—things like customs warehousing and returned goods relief—but they are costly and they involve a lot more red tape. I think that we are seeing a difference there compared with what we had before 31 December.

The other issue in relation to which there is real reticence on the part of retailers is e-commerce packages. I am sure that the committee has read—we can provide examples from our membership—the stories about value added tax on an online purchase not being able to be taken

at the point of sale when a UK company is supplying an EU customer and VAT has been levied at the point of delivery. Consumers are saying, “We didn’t know we were going to have to pay €100 or €200 in extra tax. We don’t want the goods.” That is causing real problems in e-commerce. We have called for a summit on e-commerce, because we need to get the logistics industry, the retail industry, VAT, customs and Governments together to tackle the issue. We have a real problem in e-commerce.

Kenneth Gibson: That is a major issue. For me, the issue is confidence. It is about whether businesses feel that they want to remain an import-export business or, if they are not already, whether it is worth the candle for them to do that. That could ultimately have long-term impacts on the UK, not least because, despite the UK Government’s commitment to free trade, it will reduce the amount of free trade, as having fewer companies in various sectors will mean that competition declines, with all that that entails. What progress is being made on that in e-commerce at the moment?

William Bain: It will improve a little bit in July, because the EU is launching what is called the one-stop shop for third country retailers, which retailers in Scotland will fall within. That will mean it will be possible for VAT to be levied at the point of sale, which will diminish—but not eliminate—the problems that people have had in Germany or in the Netherlands in having to pay additional charges at the doorstep or at their postal services office.

That will take away the issue of the VAT on the goods. What it will not deal with is the issue of postal service handling charges or the VAT on the insurance in transit of the goods, so we are still going to have a problem even after July. That is why we have recommended getting all the players in e-commerce together for a summit, to look at short-term and long-term solutions to this.

Kenneth Gibson: Excellent. Thank you very much. That is very helpful and very instructive.

Christine Grahame (Midlothian South, Tweeddale and Lauderdale) (SNP): I have three questions. I think that they are mainly for Mr Bain, although I am happy for any other panel member to answer them. Mr Bain, right at the beginning, you commented, “There will not be empty supermarket shelves, but there will be a reduction in choice.” Have you any idea, on behalf of your organisation, which products are likely to vanish from our shelves or be thin on the ground and why that would happen or which European nations those products come from?

Secondly, Mr Bain, you touched on the impact of Covid, which compounds this period of leaving

the EU and Brexit. Just like lots of other people, I have changed my shopping habits. I am thinking, in particular, about clothing retail. If people are not browsing in shops, and if they are not working in offices but are working mainly from home, there will be a substantial impact on that part of the clothing sector. It is not just about what we shop for, but about how we shop. We all know what is happening: people are shopping online. Has there been any analysis of the prospective loss because of how our habits are changing due to Covid, in addition to the impact of Brexit on businesses and the retail sector?

Thirdly, in more recent evidence—I was listening to everybody else, by the way, but it is Mr Bain I picked up on—you said that we had thousands of SMEs that imported and did business just with the EU. All the forms they now have to fill in, and all this about country of origin and everything, is a bit of mystery to them and is compounding the difficulties that I have already heard about. Can you advise whether the guidance that was issued by the UK Government was timeous and whether it is comprehensive and simple enough for those small businesses? They cannot employ somebody to analyse it for them in order that they can cut through all the new red tape.

William Bain: Thanks, Ms Grahame. There are some great questions there. I will take them in turn.

If goods coming through Calais into Dover through Eurotunnel end up getting delayed, the problems with fresh produce will be around fresh fruit and vegetables, because those have quite short shelf lives. We have become used to consumers being able to buy them 24/7, even from the local store, which takes away the issue of going to the superstore. Consumer expectations have increased quite a lot over the past few decades. It is with those types of products—tomatoes, strawberries, apples and broccoli—that I think we could have some issues in maintaining that 24/7 supply. That is where we might get some gaps on the shelves if this does not go well from April. It is with those very-short-shelf-life products that we face the highest risk of disruption. If the arrangements for goods coming into GB are not smooth—if we get lots of delays, and if we get lots of paperwork being wrong, with trucks and lorries being held up—we will have many problems in that respect.

For SMEs, as you mentioned, Ms Grahame, there has been a sort of explosion. We have to remember that this is the largest imposition of red tape on business for 50 years. There have been an immense amount of new regulations to have to come to terms with very quickly. Some of the guidance has been prepared in good order, but we

were dealing with some of our companies on guidance on the protocol—for example, for getting goods and e-commerce packages from GB over to Northern Ireland—at 11 hours' notice on Hogmanay. I do not think anyone regards that as a suitable state of affairs.

It is also the case that—like the issue about distribution centres—in some areas, such as rules of origin, the guidance that the EU has prepared is more detailed and more relevant to companies than that which the UK Government has prepared. We need to get more detailed and more tailored guidance from the UK Government—we have made that point to it repeatedly. That would really help businesses.

On how Covid is changing consumer shopping habits, we can send the committee the most recent copy of the Scottish Retail Consortium's footfall and retail sales figures. What they show is quite a big drop, comparing part of the first quarter in 2020 and where we are now in terms of like-for-like sales. We are talking about a 20 per cent drop. That is particularly pronounced in areas such as clothing and textiles. The real problems in clothing and textiles are those we have talked about, around rules of origin.

I spoke to a member yesterday, who said, "If I'm importing trousers from Italy and they have buttons produced in Turkey, am I still allowed to bring those in tariff free?" You are going to that level of detail with every single item, trying to work out whether it qualifies, and the cost of that and the time that it takes are really considerable. In the case of e-commerce sales of these items, if there are issues of rules-of-origin compliance as well as the VAT issues that we have talked about, that can be off-putting for retailers, which may not continue with such sales. Again, it is a real concern and we could be in some difficulty.

10:00

Christine Grahame: I have two very brief supplementary questions. Were you consulted on the guidance from the UK Government before it was issued, and are you being listened to now? You are telling me that the EU guidance is more detailed and more helpful. You say that you have been negotiating and contacting the UK Government. Are you being listened to? That is the first question.

I do not know whether my second question is too broad, but it strikes me that our economy is very much based on consumerism and credit. In my view, the impact of Covid on consumerism may be temporary, but it has changed our habits around where we put our money and why we put it there. There is also an impact on consumer credit, because people have lost their jobs and more will

probably go. Is the retail sector analysing how that could impact it, and is it in communication with the chancellor?

I think that this is a bigger problem than I anticipated. Maybe I have it wrong, but I think that those two things together, compounded by Covid, Brexit and the consumer society, mean that people will not be taking out credit—they cannot afford to. How is that going to compound things? Maybe that is too big a question; I do not know. I would like your comments—if you have any—first on the guidance and then on the bigger picture and the economy.

William Bain: We have started to be consulted on some changes that the Government is making to the guidance—for example, changes to the guidance on the Northern Ireland protocol. There have been better discussions than there were before Christmas, but we were landed with the guidance on the postal packages customs arrangements with about 11 hours' notice. The guidance on rules of origin came out three days before companies were going to have to bring it into effect. It was just very difficult and regrettable that we had to work to those timescales. It is a bit better now, but we need guidance that is more related to the commercial supply chains that businesses are supplying. It could be a lot simpler, and we have made that point repeatedly to the Government.

You make a very good point, Ms Grahame, about what is happening to sales. I noted yesterday that the Office for Budget Responsibility has suggested that there are quite significant pay-downs of debt going on. People have been able to save a wee bit if they are in the fortunate position of having more disposable income because they are not paying bus or train fares and not buying clothing for work. That money is being used to pay down debt rather than to stimulate the economy, which is a concern. We hope that it comes back as we get ourselves out of the pandemic, but, if we do have major structural changes in how people work—with more home working and less working in the office—some of the changes in how much people are buying might become structural.

Christine Grahame: Thank you very much. That was very interesting.

The Convener: We have time for some supplementary questions, if any members wish to come in. I do not have any members telling me that they wish to come in.

Mr Phillips, Kenny Gibson talked about the movement of jobs from the UK to the continent—as did you. Recently, there has been quite a lot of coverage of financial services jobs going to Amsterdam. Do you have any examples of Scottish firms moving jobs to Amsterdam?

Stephen Phillips: Thanks for the question. Not Amsterdam so much. To be honest, I think that the jobs that have moved have gone primarily to Dublin and, to an extent, to the insurance markets of Frankfurt, but a little bit goes to Amsterdam. Dublin and Luxembourg are places where jobs have moved. It is important that Scottish financial services try to build links with those places to make sure that we maintain, as far as possible, the support jobs—the delegated jobs that are still in Edinburgh, Glasgow and Aberdeen.

The Convener: Mr Bain, you have talked about the Northern Ireland protocol. We recently took evidence from Dumfries and Galloway Council on the challenges that it is facing with regard to Cairnryan and the customs activity that will have to take place there. We previously took evidence from the Northern Ireland retail association on the importance of supply chains in Scotland for getting goods to Northern Ireland. Have you been in any specific talks about the challenges around the port at Cairnryan?

William Bain: We have heard the news about the border control posts being put in place there, and we have had some discussions with the Scottish Government about that, which has been very useful. As I say, what we are really asking for from the UK Government, the Northern Ireland Executive, the other devolved Administrations and the European Commission is joint engagement with businesses that are operating in Northern Ireland. It is a very difficult situation to make work. There are different sensibilities around the protocol, all of which have to be taken into account.

The crucial thing is that, as things stand, it is just not possible for supermarkets or similar food operators to have full compliance right now. We need to work out whether we can have audited supply chains that can satisfy the requirements of EU legislation but make sure that those four-hour shifts between the lorries being loaded and the goods arriving in Belfast are not disturbed, because that is central to providing food for consumers in Northern Ireland.

The Convener: Do you think there is any threat to the supply chain in Scotland? We are setting up a new international port at Cairnryan that is competing with other ports that have experience as international ports. I was struck by Dumfries and Galloway Council telling me that it would have to find ways to make a profit. It has no experience of running an international port. Do you think there is a risk that business will move away from that crossing in Scotland?

William Bain: We have talked about highly perishable produce such as fish, meat and milk. The whole set of relationships would be improved if we had a veterinary agreement. We called for

the UK Government to reach a veterinary agreement in the negotiations, and it says that standards will remain the same. In that case, we do not see how both sides cannot reach an agreement that does away with the need for EHCs, which are the biggest problem for compliance in the trading of food products between GB and Northern Ireland and between Scotland and Northern Ireland. If we could get a veterinary agreement and do away with the EHCs, that would be an enormous help to everyone.

The Convener: The issue of EHCs has come up via other witnesses. It is a very strong message that the committee is getting.

I thank all our witnesses for giving evidence to us. It has been very helpful for our inquiry. We will now have a brief suspension before the cabinet secretary joins us.

10:08

Meeting suspended.

10:14

On resuming—

The Convener: Welcome back. We continue with agenda item 1, with further evidence on the EU-UK trade and co-operation agreement. I welcome our second panel. Michael Russell, the Cabinet Secretary for the Constitution, Europe and External Affairs, is accompanied by three Scottish Government officials: David Barnes, deputy director, EU exit strategy and negotiations; Justin McKenzie Smith, deputy director, EU exit and economy, directorate for international trade and investment; and Lewis Hedge, head of regulatory co-operation and cross-border trade.

Before we move to questions, I invite the cabinet secretary to make a brief opening statement of no more than three minutes.

The Cabinet Secretary for the Constitution, Europe and External Affairs (Michael Russell): Thank you for the invitation to appear in front of the committee, convener. This may well be my last appearance at your committee, but it is not quite my last appearance in front of a parliamentary committee—I think that I have a couple more to do. I also thank you and the members of the committee for your interest and co-operation in our work over the last period. I look forward to seeing you and the committee go from strength to strength in a new incarnation in the next session of Parliament.

I will make two very brief points. The first is about the immediate impacts of Brexit, which you have heard evidence about during your inquiry. I regard it as inexcusable that Scottish businesses

are live testing an extraordinarily complex, costly and time-consuming set of new procedures, which were put in place virtually overnight on 1 January. The new barriers to trade result from the TCA and are a direct consequence of the specific type of Brexit sought by the UK Government. Increased costs for businesses and consumers, increased bureaucracy, significant delays and the uncertain business environment are the price that Scotland is paying for the UK Government's misguided and wrongheaded concept of sovereignty. As day follows night, that deliberate choice will harm Scotland's economic growth, and it will stifle investment and innovation.

The consequences of leaving the single market and the customs union were clearly documented by the Scottish Government back in 2016. Throughout the negotiations, it was clear that the pursuit of the UK Government's version of sovereignty would come with consequences—and it has. I thought that David McAllister put it very well when he said to the committee:

“The problem is, and remains, Brexit and especially the kind of Brexit the UK decided to implement.”—[*Official Report, Culture, Tourism, Europe and External Affairs Committee*, 25 February 2021; c 4.]

My second point concerns the immediate and longer-term prospects for the future EU-UK relationship. No doubt we will come on to this, but I noted with some alarm this morning that Simon Coveney, in discussing what has just happened with the protocol, said that the EU is seeing that it is

“negotiating with a partner that they simply cannot trust”.

That is a very, very serious thing for a foreign minister to say.

The evidence proves that the row over diplomatic status between the EU and the UK in relation to ambassadors is simply a symptom of a wider malaise. That wider malaise is very concerning and damaging, particularly when it draws in the fragile situation in Northern Ireland.

The Scottish Government will do its best to influence developments. We are in discussions at official level on how the devolved Governments will be engaged in the issues and in the wider governance of the TCA. I am sure that you will want to talk about that today.

My position on these matters will not surprise any members of the committee. I am happy to discuss that, but I hope that we can move, in time—and as quickly as possible—to a more stable and better relationship, which, in my view, demands independence.

The Convener: Thank you for that very interesting opening statement.

It would be interesting if you could reflect on how you think that the lack of trust that you mentioned might influence further negotiations, given that, as we both know, this is a very bare-bones deal. We just heard from the financial services sector, for example, about its hopes for negotiating an agreement on equivalence. That is just one example of something that still requires to be negotiated. Last week, David McAllister talked about the snub over diplomatic recognition of the EU. What hopes are there for negotiating those important additions to the deal, given that lack of trust?

Michael Russell: A range of issues will arise, and it would be best if they arose in the context of a positive and productive relationship. That is what the EU27 have indicated they want. The vast majority of them were, I think, pretty horrified by the way in which they were treated during the previous negotiations. There was very strong commentary on the way in which David Frost, in particular, operated. I joined in those criticisms. I am sorry; I do not mean it personally, but having encountered Lord Frost, as he is now known, a great deal over the past few years, I have to say that I think that there was a deliberate attempt to play hardball, which was to the disadvantage of the outcome of the negotiations.

If that is starting up again, as it appears to be, it will be a very bad thing, first, for taking the agreement to a conclusion—as you say, there are aspects of the agreement that are not concluded yet—and, secondly, for building a better relationship. I just think that it is very foolish.

That approach also governs the relationships with the devolved Administrations. There has not been a meeting of the joint ministerial committee (European Union negotiations) since the end of last year. Immediately before the end of December, we had a frankly pointless meeting to look at the agreement—we already knew what was in the agreement; it had already been pushed through, or was in the process of being pushed through. Since then, there has been no discussion of these issues. Indeed, the intergovernmental review remains completely stalled. There may be a quadrilateral meeting next week—it has been postponed every week for the past three weeks, I think. That is no way to conduct matters, and it is a deliberate attempt by the UK Government both to diminish the involvement of the devolved Administrations and to behave in a provocative way towards the EU27. That can be in no one's interests—not even its own.

The Convener: That is interesting, because my next question was going to be about whether you had any discussions about how the Scottish Government could input into the work of the Partnership Council and the specialised

committees and working groups, where the work of those bodies intersect with devolved competencies. I take it from what you are saying that you have not had those discussions.

Michael Russell: Discussions have started at official level, but there should have been a willingness to say, “Let us have a fresh start. Here is the structure that we have agreed. Let us get involved, and let us make sure that the devolved Administrations are part of the structure, without prejudice to our political positions.” That is what we did, for example, in the preparations for a no deal. At least, that is what we tried to do on the first two occasions quite successfully, but with much more difficulty on the third occasion, given that the Johnson Administration was then in place.

The right thing to do would be to look at that structure. There are huge areas that impinge on devolved competencies, therefore we need to make sure that the devolved Administrations are involved. However, that has not happened, and it may not happen. I hope that I am wrong and I hope that it will happen, but we are now into March and there has been no such discussion. The Northern Irish parties—the First Minister and the Deputy First Minister—attend the specialist committee, but we do not; we have no involvement in that. There is no sign of a change and my own view is that the presence of Lord Frost as the minister will not facilitate that change. However, I hope that I am wrong.

The Convener: Is there a difference in approach between Mr Gove and Lord Frost? [*Inaudible.*] In fairness to Mr Gove, he has come in front of our committee twice, which is better than previous UK ministers.

Michael Russell: I do not want to appear sentimental about not having Michael Gove as my counterpart—that would not be true—and he remains my opposite number in constitutional matters. I am willing to be proved wrong about Lord Frost's approach and influence. I would like to be proved wrong and to think that he will very shortly come to the devolved Governments and say, “We need you involved in these committees in this way. Please come and do it.” If that happens, I will be pleased to see it. I will walk off into the sunset feeling that at least that has happened—but I am not holding my breath.

The Convener: I take this opportunity to thank you for your engagement with the committee. It has been very helpful to us over the years. I do not think that you are really walking off into the sunset, but I certainly wish you well for the future.

We will move on to questions from Claire Baker.

Claire Baker: I would like to move the discussion on to Cairnryan. The cabinet secretary will know that we took evidence from the local

authority and the port authority a few weeks ago. Since then, the Government announced towards the end of February that there would be a new border control post and set out how it was going to go about that. Could you provide an update on that? Will it include a port health authority? What discussions have there been about the creation of a port health authority, which will be necessary? Cairnryan was previously a domestic port and its status will change significantly in the next period.

Michael Russell: I will have to seek help from my officials on the port health authority issue as it is not one that I am immediately familiar with. However, I can explain to you where we are with the border post. As I understand it, we intend to use a special development order to create the border post, in order to make sure that we can meet the target date. That target date will have been moved back by the announcements over the past 24 hours. We had hopes that we would be able to put some arrangements in place before the end of this year, and I think that that is fairly realistic, as they will be required around the turn of this year into the spring of next year.

In parallel with the special development order, I spoke with the convener and vice-convenor of the council two weeks ago—it is a Labour-SNP administration, as you know. I have pledged our involvement in community consultation—we absolutely want to hear from the communities around Stranraer and Cairnryan. I have had contact from local councillors in that area and have offered to meet them to talk about the issue.

We have commissioned work from an outside body to look at a number of possible sites for the border point. There are local preferences that I have already heard, but the Government will take no position on those until we have seen investment at the site. We were using the Castle Kennedy airfield as an emergency facility for overflow during the first part of January, but it was not required—certainly, there were not any great pressures. We are not using it presently. That is one of the possible sites, but other sites are available.

Obviously, there are issues connected with the Northern Ireland protocol and the way in which we will operate—and will have to operate, as far as we are concerned—that rub against resistance to the protocol in Northern Ireland. There are some sensitive issues to go through, but we have the practical job of putting the border post in place. We require to put it in place and we will do so in collaboration with the local authority, because it will have responsibility for staffing it in terms of phytosanitary inspection.

Perhaps David Barnes or somebody with him can answer the question about the port health

authority. If not, we can write to you about that issue.

Claire Baker: You mentioned that the local authority would be responsible for operation of the border post. Are any discussions on-going about additional support that the local authority might need?

Michael Russell: Yes, additional support will be required. I am not avoiding that issue: of course that will be required. That will be actively discussed with the local authority—I have made that point. I think that we can do this in a very co-operative and collaborative way; we have to. The difficulty has been in persuading the UK Government that the border post was required, and it now accepts that it is required. It will be harder to get money out of the UK Government, to tell you the honest truth, but we will certainly—*[Inaudible.]*—the local authority.

Perhaps David Barnes could answer on the port health authority point.

Claire Baker: Yes, it would be helpful if someone could address that point.

Lewis Hedge (Scottish Government): I can address that one.

Michael Russell: On you go, please. *[Interruption.]* Lewis Hedge is muted.

David Barnes (Scottish Government): The tech team has unmuted me, but Lewis Hedge will answer the question.

Lewis Hedge: Thank you. The port health authority issue relates to the question of funding for the additional inspectors to come in and do checks at a border control post. In relation to this facility and other additional border requirements, we have invited Dumfries and Galloway Council and other local authorities to come forward later this month with requests for the funding that they think they will need to front up the start-up costs of building the new teams. We are having that active conversation. Not just local authorities but other agencies are involved in resourcing inspections when such facilities are up and running.

Claire Baker: You mentioned that it would be open to other local authorities to apply for funding. For clarity, why would it not just involve Dumfries and Galloway Council?

Lewis Hedge: Dumfries and Galloway Council is the competent authority for the Cairnryan location, but there are other ports in Scotland where we will see additional border control of goods arriving from the EU. Grangemouth is an obvious example. Therefore, other local authorities will see an increase in the demand for those services, too.

10:30

Claire Baker: Thank you.

I have a final question for the cabinet secretary. You mentioned the announcement last night on the Northern Irish border and the extension of the implementation period, and you talked about the approach that Lord Frost has taken. Where do you think that future disputes over and uncertainty around the trade deal will arise? Let us remove from the discussion your description of the UK Government's approach and the attitude that it has taken towards the deal, and focus on what is in the deal. Where do you think that points of tension and dispute will arise as the deal starts to be implemented?

Michael Russell: That is an interesting question. Two issues need to be thought about. One is that a lot of the coverage and discussion suggests that there is a temporary set of arrangements that will improve between now and everything working perfectly, but that is not true. This is what it is. We are a third country, we will have to fill in more forms and there will be more bureaucracy. We have not yet seen how ordinary everyday travel will be affected, because ordinary everyday travel has not been happening. I will not look into a crystal ball, but I think that we will likely see a lot of difficulty when ordinary travel comes back, with volumes of travellers going between the UK and the EU.

The second issue relates to the completion of the negotiations. There are whole swathes of the agreement that are not completed—financial services is one such area that you heard about this morning. You need good will on both sides to complete the agreement, and good will is running out. When you have Simon Coveney making remarks such as he made this morning, you can see that good will is disappearing. This morning, somebody commented that the important thing about any relationship between states is that it needs to be a robust relationship that can survive bad times. In this case, the relationship is being weakened all the time. Sometimes difficulties arise out of nowhere, and you will not have friends on whom you can rely, alas.

Jamie Halcro Johnston: There are a couple of issues that I want to have a look at, but, before I do that, can you clarify something? When Mark Thomson from Dumfries and Galloway Council was talking to the committee about port health authority status, he suggested that the council was looking for around £2 million to cover some of the additional costs. When I asked who pays for that if the Scottish Government does not, he suggested that it was more likely to be a case of what the council would be able to deliver rather than who would pay for it. From what you and your colleagues have said today, cabinet secretary, do

we get the hint that you are looking to provide Dumfries and Galloway Council with that £2 million or whatever it is asking for to make sure that it is able to provide full port health authority status?

Michael Russell: I do not want to give you a hint, Mr Halcro Johnston; I will give you a promise that, in fact, that is what needs to happen. We need to recoup that money from the UK Government, and I am sure that you can help us to do that. We need to make sure that there is no detriment to anybody as a result of this taking place, and I do not believe that the Scottish Government should suffer financially.

Jamie Halcro Johnston: Thank you for that. I might be tempted to suggest that £200 million worth of Brexit preparedness money came to the Scottish Government and that is probably what the money was for, but you and I might disagree on that.

You talked about good will between the EU and the UK, which is obviously very important. Only a few weeks ago—maybe a month or so ago—there was a threat from the European Commission that it would trigger article 16 of the Northern Ireland protocol and a relatively quick row-back after roughly three and a half hours. I am sure that you and the Scottish Government had concerns about the actions of the European Commission or the suggestions coming out of the European Commission. Where or how did the Scottish Government make those concerns apparent to the Commission in an official capacity?

Michael Russell: It happened so quickly—on a Friday evening, if I remember correctly—that it was, in fact, there and gone before we made an official complaint, but I think I was in advance of your own colleagues in condemning it. I made it very clear publicly, through social media, that I was very critical and very opposed to it. I do not think I did it single-handedly, but, as a result of that, the threat was withdrawn. I was grateful, and I said publicly that I thought that was the right thing to happen. I want to associate myself with your criticism of that. It was foolish and wrong of the Commission to do that. I am sure you would want to associate yourself with my criticism of a parallel action that seems to have been taken in the announcement of changes to the operation of the Northern Ireland protocol without consulting the EU. Both actions were foolish.

Jamie Halcro Johnston: I appreciate that, cabinet secretary, and I did see your social media post, but your social media account is not an official Government account. I know that this might seem a little technical, but were any concerns, criticisms, issues or condemnations raised with the European Commission within those three and half hours through official Scottish Government accounts or communication lines? I appreciate

that it was a Friday evening, but the Government operates 24 hours a day, I am sure you will agree.

Michael Russell: Had it continued, I would have formally objected to the EU. Fortunately, the mistake was rectified quickly. One of the things about a good relationship is that, when somebody makes a mistake and corrects that mistake, you are pleased and you show that you are pleased. I do not think it would have helped anybody to do anything else. Maybe we should have said, “We are extremely displeased,” but I was rather pleased that the threat was withdrawn, and I am sure you were, too.

Jamie Halcro Johnston: I was delighted that it was withdrawn, but it should never have been made in the first place. It concerns me that what you are suggesting is that, even within three and a half or four hours, the Scottish Government was somehow unable or unwilling to comment or to make its position clear in an official capacity.

Let us move on from that to the final issue that I want to raise. The Scottish Government has a number of hubs across a number of different countries. How many of those are sited within UK Government facilities such as embassies or consulates? What are the plans for those going forward? Are you looking at any new sites from which to provide support for Scottish businesses or the like, within the EU or globally?

Michael Russell: Yes, we co-locate when it is in our interests to do so. Sometimes that arrangement works and sometimes it does not. For example, we co-locate in Dublin, but there have been active discussions about whether that works for us. We co-locate in Paris and in Berlin, but we do not co-locate in Brussels. We are around the corner from the UK mission to the European Union, but we have a very successful operation there. We have talked about it and would have moved into Scandinavia by now, but the past year and a bit has made that difficult. I take a pragmatic view. If co-location has a benefit—as, indeed, happens with independent countries—co-locating with others to make our representation effective should happen. If it is in our interests not to do so, we do not do so.

It is not a big issue for me, but the representation that we have elsewhere, within and outwith the EU, is very successful. It is a very good way of attracting interest in and support for Scotland. For example, Scotland House in Brussels, which is run by Mike Neilson, who is shortly to retire and has been very distinguished in the role, has gained a significant reputation for the work it has done. Indeed, yesterday it organised an EU friends of Scotland group plenary meeting in the European Parliament, which I addressed. I think that it has been a very positive thing.

Jamie Halcro Johnston: I cannot remember the exact term that you used, but is the decision about where you might not want to co-locate—whether it works or not—a space issue in some cases? You can perhaps tell me that.

From a more global point of view, you have talked about Scandinavia, but are there particular areas further afield where you might consider having a new hub or office, whether within existing UK facilities or within Scotland’s own facilities?

Michael Russell: Ivan McKee would be in a good position to talk to you about that, because some of that decision will be driven by trade issues. Sometimes, the diaspora is important to us, as it is in the United States and Canada. A decade ago, when I was the Minister for Culture, External Affairs and the Constitution, I was instrumental in seeking the co-location of a number of Scottish organisations in Canada. That is what exists at Scotland House in London, where a range of Scottish organisations are together in very good premises on the Embankment that also provide facilities for business.

Co-location has been a successful part of our strategy. I hope that everybody can get behind it and encourage it, because it projects Scotland in a very positive way.

The Convener: Stewart Stevenson, can you hear me?

Stewart Stevenson: I had to switch my microphone on myself, convener. I was waiting for it to happen, but I am now here.

To close off one of the issues Jamie Halcro Johnston was pursuing, does the refusal of the UK Government to recognise that there should be diplomatic relationships between the UK and the EU, along with the refusal to recognise the ambassador for the EU, make it easier or more difficult to communicate on matters such as the one we have just been talking about when they arise?

Michael Russell: It is more difficult if any country does not accept the diplomatic norms. I have spoken with the EU ambassador to London—a civilised and experienced Portuguese diplomat—and I think that he has good will towards the UK and Scotland. It seems a pity that the UK should behave in such a petty way. It is important that the proprieties are observed, and I hope that the UK will be more sensible about them.

Stewart Stevenson: A matter of more substantial interest to me and my constituents is, of course, getting fish into Europe. Indeed, since we also import fish from Europe, that might become an issue in the months to come. Do you foresee there being any improvements in the

current situation? I am not asking about making the practical issues work, but pages 902 to 906 of the TCA, which lay out the quotas for our fishermen, have been quite disastrous for some sectors of our economy, as have the phytosanitary difficulties that are being used to keep our shellfish out of Europe. All those issues appear to require a renegotiation of the TCA. Is that a realistic prospect?

Michael Russell: No, it is not a realistic prospect, regrettably. We now know, for example, that George Eustice was aware of the situation with shellfish. I do not think that the UK walked into this blindly; it knew what it was doing, and it did not think about the effect it would have.

I notice that evidence on those issues was given to the Environment, Food and Rural Affairs Committee at Westminster this week. I was struck by a couple of the pieces of evidence. Sara Horsfall, co-chief executive of the Shellfish Association of Great Britain, said:

"You just could have not have written it any worse if you had wanted to for the industry",

referring to the agreement. That really is pretty damning. A senior manager of the south-west England fishing company Waterdance said:

"there are some extreme forces operating on the supply chain and we will probably see some forced consolidation or business failure and that is impacting the fishing industry. We are struggling to find markets for some of the products we previously had very good markets for through small scale exporters and the costs have risen dramatically."

A perfect storm has been caused by the issue that you have identified, which is a defective agreement. It is not what was promised to the fishing industry. It is a bad agreement in terms of its judgment, and it is a bad agreement in terms of having a professional agreement, because it has lots of holes in it.

In addition, the idea that it will, in some sense, improve over a period of time is also untrue. We are a third country. We can get the technical parts of the agreement to work a wee bit better, because people get used to them, but we cannot overcome some of the regulatory problems. Several times at this committee, I have referred to the problem that you can catch as much fish as you want, but, if you cannot get to them to market to sell them, it is a pointless exercise.

Going forward, it is not jam today; I suppose you could call it cod or halibut tomorrow, because we hope that, in five and a half years, there will be a new agreement that will be better. In reality, in five and a half years, the link between fisheries and other issues will have grown stronger. We cannot free ourselves with one bound from what has been negotiated after five and a half years. It is not

going to change, and, if there was any attempt to change it, it would be catastrophically bad for other parts of the agreement. I am afraid that, for the second time in a generation, no matter how you define the generation, the UK Government has let the Scottish fishing industry down appallingly.

10:45

Stewart Stevenson: You will be aware that the headline in the *Frankfurter Allgemeine Zeitung* quoted Douglas Adams in saying,

"So long and thanks for all the fish",

so we know what the Europeans thought about the deal. The UK Government has established the Scottish seafood export task force. Does the participation of the Scottish Government in that task force give us any insight into any improvement that we might sensibly see, or is it simply focusing on doing what it can to mitigate the domestic effects of this appalling agreement?

Michael Russell: I would like to think that there would be substantial co-operation to mitigate what can be mitigated, although a lot cannot be mitigated. It got off to a bad start when the industry wanted to have co-chairs and proper representation to make things work and that was just ignored by the UK Government. That is symptomatic of where we have got to. It is silly stuff. It would not have mattered to the UK Government to have co-chairs. In fact, it would have added a dimension. There was not a refusal; the UK Government just ignored what other people wanted. I think that is silly.

I profoundly disagree with the policy on Brexit. It was foolish, and it has been proved to be foolish. I have always tried to differentiate between that policy and trying to get some working arrangements that make things better. It gets very frustrating when others are not trying to do that, but we keep trying—and we should keep trying, because it is very important that we provide every assistance we can to fishermen in every part of the industry.

I do not need to tell you, Mr Stevenson, that it is not a homogeneous industry. There are people in the shellfish sector in my area who are very badly affected. There are people in the deep sea sector who are very badly affected. Some people are offloading their catches in other countries such as Denmark. Some EU boats are not coming into the north-west of Scotland now because it is too complicated and too difficult to do so. Right across the board, this is a bad and rotten deal, and it is having a severe effect. I think that we should all be trying to mitigate what we can mitigate and not be playing games.

Christine Grahame: I have four questions, which follow on from the questions that I asked in the previous evidence session. The first is on small and medium-sized enterprises, which make up substantially the largest number of enterprises in Scotland, and the evidence that we had about the labyrinth of red tape, the short notice that they were given on the guidance and the quality of the guidance. Is there any way that the Scottish Government has been able to mitigate the issues for SMEs so that they can work their way through all the new red tape?

Michael Russell: When it has been possible to help—for example, in relation to food and phytosanitary inspection through the hubs—that has been and is being done. The hubs have been moderately successful. We have certainly done everything that we can to help with paperwork and elsewhere to speed up the process. I am pleased that we have made some difference there.

However, that does not apply outside the food and drink sector, and many other companies are experiencing issues. I cannot name the company, but one company in my constituency has written to me a couple of times in the past month. I will quote it, because it is important. It says:

“Inventory and goods handling capacity within continental Europe will be established progressively through 2021. It is now one of the highest priorities of our business, with recruitment of EU-based personnel forming part of this change. The irony of this outcome, given the Brexit rhetoric around jobs and business opportunities, couldn’t be starker.”

Small companies that can do it are saying that the only way that they will survive is by setting up European operations and moving jobs to Europe, and that is happening. For the companies that can afford it, that is taking place. I cannot help them to do so, because we should not be exporting jobs, but that is what is taking place. Others are simply giving up on a sector of their business that they cannot fulfil, and that will continue—that is obvious. If we can help larger companies or growth companies through Scottish Enterprise, for example, we are doing that, but there are sectors of the economy in which people have just said, “Either we don’t do this, or we export the jobs and we export the effort that we are undertaking.”

There are some particularly egregious examples that cannot be helped by normal procedures. A company in my area has a particularly important part of its machinery that comes from a European country, and it is being repaired at present. It has been stuck for two months because of difficulties with paperwork. The problem is that it is essential to get the paperwork right if you are a third country, and it is very difficult to break your way through that.

Christine Grahame: Earlier, I teased out that there will be empty supermarket shelves, particularly with regard to perishables such as fruit and vegetables coming from places such as Portugal. Are you aware of that? I appreciate that that is perhaps beyond the remit of the Scottish Government, but there might be an opportunity for local producers in Scotland with seasonal goods. Do you see the situation as completely negative, or is there a positive?

Michael Russell: We should adapt to circumstances, even if we do not like the circumstances. It is ridiculous that we are talking about a circumstance in which the flows of fruit and vegetables in established supply chains are being interrupted. We did not vote for Brexit anyway, but that is not what anybody voted for. Just as the lockdown has produced opportunities for some companies, if there are opportunities to do things differently, I am sure that they will take those, but they will not be able to substitute entirely. With the greatest respect, it is not possible to grow in Achiltibuie all the things that are grown in greenhouses in Portugal or southern Spain. You can grow some of them, but you cannot grow all of them, and not in commercial quantities, so it will not be possible to replace that.

I do not want to exaggerate the issue. People are not going to starve as a result, but there will be a diminution of the quality of life—that is what Brexit is bringing about—and some people will suffer financially.

Christine Grahame: My third question is about the impact of Covid in the middle of Brexit. It undoubtedly has exacerbated problems. Earlier, I made the comment that, in my view—you may not agree—the UK is basically a consumer economy, often built on credit, and Covid has exacerbated the effects in the wider economy, because we have changed our shopping habits. Those changes may be permanent. We have changed what we buy and how we buy it. Of course, people who were perhaps able to get by using credit will not be doing it now, because they are losing their jobs and they are probably having to deal with a lot of debt. Can you comment on how that might impact on the Scottish economy?

Michael Russell: There is a lot of published information that shows clearly that there will be a drop in gross domestic product as a result of Brexit. The level of the drop is clear and it is admitted by the UK Government. I do not want to add to the burden of paper that you have, but we can provide you in electronic form the documents that we have published on that. There is plenty of material on the issue.

A point that I made earlier in answer to, I think, Claire Baker, applies here, too. I have no doubt that the reason why no extension was sought was

in essence to hide the economic effect of Brexit behind the economic effect of Covid. I am sure that that was at least part of the thinking. That is what has taken place, but what cannot be hidden will be the effect that will be obvious to ordinary people when travel resumes, because the last time substantial numbers travelled from here to Spain, Portugal, France or Germany was before Covid. People might think that some of the changes are due to Covid but, when they go back to those countries, they will discover that the changes as a result of being a third country—not being able to use the passport gates, much longer delays and issues such as access to phone roaming—are a result of Brexit. I think that people will wake up to that there and then.

I hope that they do not follow some of the prejudice that says that that is all the EU's fault. I hope they look at the issues and say, "Oh dear—this is because of Brexit and is not something we wanted to happen."

Christine Grahame: You have pre-empted my final question, which was simply about whether Brexit should have been pursued in the midst of a Covid pandemic.

Michael Russell: The most interesting point to me today is the attempt to change the border operating model and to postpone it yet again. That clearly suggests to me that there was an empirical need to have a period of extension, because the border was not ready for the change. By refusing to extend the period, the UK Government has created circumstances in which it has had to change the border operating model and has got into difficulties with the Northern Ireland protocol. Clearly, there should have been an extension, as we said at the time—and as everybody said at the time—but, of course, the UK Government refused to do it.

Christine Grahame: You said:

"as everybody said at the time".

Who is "everybody"?

Michael Russell: It was everybody who was not blinded by the ideological obsession with Brexit or who was not nervous about speaking up. The Scottish Government spoke up, as did the Scottish Parliament, by a majority. I think that "everybody" means those who saw the situation coming, alas.

Dean Lockhart: Good morning, cabinet secretary. It was good to hear you define a generation as more than 40 years in your response to Stewart Stevenson.

My question follows up on previous discussions that we have had in relation to the decline of the value of EU structural funds available to Scotland. Can you or your officials confirm the level of decommitments and the decline in EU structural

funds coming to Scotland over the past applicable period? Can you confirm that the structural funds have been suspended since November 2019 as a result of deficiencies in the Scottish Government management system and that the Scottish Government might face potential penalties from the EU Commission as a result of the suspension of the programme?

Michael Russell: Structural funds are a very complex area. The best way that I could provide information on it, which I am happy to do, is with written evidence to the committee on structural funds and the issues. There has been some reporting of the issue, which you are obviously aware of. The reporting does not fully tackle the complexity of the situation and nor does it tackle the need to conclude the issues in a positive way for Scotland. I am not trying to evade the question. I cannot give you a full accounting of the structural funds at this time, but I am happy to provide that information for publication by the committee.

I am also keen to clarify that I was quoting the UK Government's view of a generation, and not approving it.

Dean Lockhart: Thank you. I appreciate that you might not have the exact sums in front of you, but it would be useful to follow up in writing. It would be useful to understand whether potential penalties may be imposed by the European Commission as a result of the suspension of the funds and the underlying cause of the suspension of the funds.

Michael Russell: I am happy to provide you with that information, but structural funds are dealt with usually by either the finance secretary or the business secretary. Rather than give you an inaccurate account, I want to give you an accurate account by getting information from my colleagues and making sure that you are provided with that information. The committee can then discuss the issue.

Dean Lockhart: I understand that the financial aspects might be for the finance secretary but, on the administration of the funds, I imagine that perhaps not you but your officials who are in the meeting might be able to confirm that the programme was suspended in November of 2019 and give the underlying reason for that.

Michael Russell: It is best that we provide you with the accurate information based on what we understand to be the situation at present. It is a complex situation. I am not trying to avoid answering you; I am trying to give you a complete and comprehensive answer. I am happy to do so as soon as we possibly can and certainly within the next week or so. I want to ensure that that is vouched for by the ministers responsible for the situation.

Dean Lockhart: That is appreciated.

I will finish off with one final question. We await the details of the numbers, but there is a possibility of penalties being imposed by the European Commission. I presume that, if that was a potential outcome, you would be aware of it. Are you aware of the European Commission potentially imposing penalties on the Scottish Government because of the suspension of the programme?

11:00

Michael Russell: I would not necessarily be aware of that, because, as I indicated, I do not deal with the distribution of funds. To give a general answer, clearly, I would be concerned. We have been through periods before when there have been questions on particular projects. That happens in every country, and it happens regularly, because there are always questions. I hope that we are always able to answer those questions comprehensively and completely and to avoid any downside. That will always be our ambition.

Dean Lockhart: Would any of the officials be able to comment on some of those questions, if they have some of the detail that I have been asking about?

Michael Russell: I have made it clear that we will provide the information to the committee. That is the proper approach. I do not know whether any of the officials would like to add to that but, in my view, that is the way to ensure that you have the best and most accurate answer.

Dean Lockhart: We will wait for further information. Given the importance of structural funds and the various discussions that we have had on the topic, I find it slightly surprising that you do not have the information on potential penalties being imposed and the suspension of the funds. As you said, most of the issue is in the public domain, so I expected that level of detail to be available.

Michael Russell: I am sorry to disappoint you. I feel disappointed myself, for example, that I have no idea of the level of funds that will come from the UK Government to replace the structural funds. I have lived with that disappointment for the past three years since the replacement was announced, so I suppose that I will just have to live a little longer, as will you, alas.

Dean Lockhart: The budget document yesterday confirms that the EU funds will be at least replaced, so I can give you some reassurance on that point. I look forward to your written response.

The Convener: Thank you. Our last questioner is Kenneth Gibson.

Kenneth Gibson: Good morning, Mr Russell. It is, indeed, the end of an era. I, for one, certainly regret your leaving Parliament, and I wish you all the best in pastures new.

On the point that Mr Lockhart raised, I recall that, way back in 2016, the then Prime Minister said in response to a question from Patricia Gibson MP that the replacement for European structural funds—the shared prosperity fund—would be in place long before Brexit and, indeed, that consultation was going to take place to end before the end of that year. That never took place, so I think that the Tories are on difficult ground on that one.

I want to focus on the economic impact. In the evidence that the Confederation of British Industry submitted for today's meeting, it talks in great detail about the impacts of new guidance, IT system disruption and delays in clearance; concerns about enforcement levels and increased costs, by which it means the 35 per cent tariff through rules of origin; and difficulties with bilateral communication, enforcement and trade for UK-EU services. We subsequently heard from William Bain that many of the 200,000 SMEs that traded with Europe before Brexit are now reluctant to do so or are having difficulties.

Has the Scottish Government undertaken any kind of review or analysis of Brexit's economic impact on Scotland? What does it think the impact will be in the next year, or in the years ahead, given those concerns and the fact that some of them appear to be deepening rather than lifting?

Michael Russell: There are two levels to this. I would certainly echo your view about the shared prosperity fund. We have heard comparatively little about that. I was interested in Mr Lockhart's use of words. I do not think that we had any moneys confirmed yesterday. We had a statement made of what they might be. They would be confirmed when I see the colour of that money, and I am sceptical about whether we will see it.

Let me put this on two levels. The first level is that we published extensively and over a long period of time on the cost of Brexit. The "Scotland's Place in Europe" papers have all that information. I know that you are familiar with them, but I am happy to have them sent to you again. We think that the deal, as agreed, will cut Scotland's GDP by about 6.1 per cent—that is £9 billion in 2016 cash terms by 2030—compared with UK membership. The Office for Budget Responsibility published an economic model on a typical agreement that was similar to the one that happened, and it modelled for 5.2 per cent of UK GDP being lost over 15 years. We will be poorer as a result.

We then need to cut down below that and see how individual sectors will operate. The Scottish Salmon Producers Organisation, whose industry would be regarded as well prepared for Brexit, reported losses of at least £11 million in January alone as a direct result of the changes brought about by Brexit. Scottish farmers will lose out on about £170 million between now and 2025, compared with the subsidies that they could have expected under the common agricultural policy.

Scotland Food & Drink is saying that, at present, Scottish seafood exporters are losing around £1 million in sales a day because of what is happening. The seed potato producers are facing losses in the region of £11 million. The Scottish Association of Meat Wholesalers has estimated an annual bill of £1 million across the sector just for export health certificates. Scottish Engineering reported in February that only 25 per cent of businesses were registering no or little impact from Brexit processes, while 56 per cent reported a harmful impact of additional administration costs.

We begin to see what the financial problems are at the business level, and then there are wider issues to do with interruption to trade. I mentioned earlier people who cannot get things repaired and people who are having to fill in lots of extra forms.

To add to that—I am sorry to give you a long answer, Mr Gibson, but there is some additional information—there are the costs that build up. Money could be better spent elsewhere, but we have had to allocate millions of pounds for food standards to put in place new regimes to ensure continuity and safety of food exports. We put in a £7.75 million package of support for fishers, agricultural businesses and ports and harbours. The food and drink recovery plan has required additional money, and we have already discussed the additional costs in relation to Cairnryan.

This is a very, very expensive project, and there is no actual benefit from it.

Kenneth Gibson: Thank you for that answer, cabinet secretary, but do you agree that it is not just those sectors that are adversely affected? One of the most adversely affected groups is young people. I take you back to a debate that took place only last night. Addressing a virtual audience of young voters during BBC Scotland's "Debate Night", Conservative Aberdeenshire MP Andrew Bowie said:

"am I going to sit here and say that Brexit is perfect, and that your generation is going to reap the benefits? No, I'm not, because you're not, frankly."

When he was pressed on whether the younger generation is going to reap the rewards or benefits, this vice-chairman of the Conservative Party in Scotland replied,

"Not right now."

How do you feel young people, in particular, are being affected by Brexit? For example, how are they being affected by the inability to work and travel abroad, not just because of Covid but, beyond that, through Brexit?

Michael Russell: We have the structural problems that will come from the lack of Erasmus, for example. I thought that the evidence that you heard on that earlier today was interesting. The attempt to say that the Turing scheme will provide some major advantages over Erasmus is simply nonsense. The loss of the Erasmus programme will be grievous. We are doing our very best to mitigate it, but it will be grievous.

You are right to emphasise the wider issues. You and I had the expectation—I am a little older than you, but not a lot—of being able to travel freely across Europe "without let or hindrance", as the UK passport says, in order to work or study. That will be far harder. It will not disappear completely, but it will be far harder.

I saw Andrew Bowie's statement. He looked like a man under some pressure, but the pressure is of his own making. He has supported a policy that his constituents, by and large, did not vote for and that Scotland did not vote for. He is continuing to support something that is costly and without benefit. He has to admit that, and he has admitted it. What he should do now is apologise for it and see that the policy is changed. Of course, the best way to do that is to secure independence.

Kenneth Gibson: Indeed. Of course, Mr Bowie did not actually support Brexit, but he is helping to railroad it through.

My final question is on visas for EU countries. The CBI has concerns about the lengthy process of eight to 10 weeks. It mentions a company that has seen up to 40 employees who work with customer commitments in Germany, France and Spain impacted. What is your view on the way that the issue is impacting on businesses? I made the point earlier that it could make Scottish and indeed other UK firms less and less enthusiastic about even attempting to trade with Europe, therefore increasing our insularity rather than internationality.

Michael Russell: We have thrown away for no good purpose the ease by which people could work in other European countries. It was a remarkable thing that just does not exist elsewhere. The opportunity that we have had to interchange has been hugely beneficial to business and to Scotland, with people coming in. We have thrown that away for a reason that is impossible to understand, and that will be detrimental to business. As I said when I mentioned the company in my constituency, companies that have been forced into this position

will set up either subsidiaries or their main companies elsewhere, and we will lose jobs.

Kenneth Gibson: Thank you, cabinet secretary.

The Convener: If members have any supplementary questions for the cabinet secretary, they should type the letter R in the chat box and I will bring them in.

Cabinet secretary, I would like to remind everyone of some of the people who are most directly impacted—European citizens who are living in Scotland. The First Minister wrote an open letter to them in December last year, explaining some of the support mechanisms that the Government had put in place; reminding them of the UK Government's settlement scheme, however unwelcome that is; and encouraging them to apply before the deadline of June this year.

Do you know how things are going, two months in, for our EU citizens? Are you satisfied that they are feeling any more secure? Do you have a message for them?

Michael Russell: I am not satisfied that they are feeling any more secure, but I want them to know how welcome they are in Scotland and how we need them, value them and want them to continue to be here. That is a message that goes out from the First Minister. My colleague Jenny Gilruth is now responsible for migration and has the whole responsibility for this, and she is very proactive in making sure that people understand how important and welcome they are.

As I said to Mr Gibson, the loss of freedom of movement is grievous and it has affected all of us. It has affected particularly badly those who come to make their lives here. I was talking to a Polish lady yesterday. This is just a small detail, but it is an interesting one. We were talking about the cost of sending things from Poland, and she said that she wanted to get books in Polish so that her daughter, who is Scottish—the woman is married to a Scot—can become more fluent in the language. The cost of getting them from Poland is now greater than the cost of the books.

Barriers are being put up in small ways that will be disadvantageous. That will affect people's lives and it will make people decide how they will live the rest of their lives. Many people are settled here and want to stay here, but some people who are marginal will say, "Is it worth it? Wouldn't I be better off where I know that I am not going to be subject to this?"

It is going to be difficult, but we will do everything that we can to encourage people to stay. We want them to stay and we believe that their contribution is really important. I have worked

hard on that over the past five years and it is work that will have to continue.

The Convener: Thank you. As there are no further supplementary questions, I thank the cabinet secretary and his officials for their evidence. I repeat my best wishes for the future, cabinet secretary.

Michael Russell: Thank you very much.

The Convener: We will move into private session.

11:14

Meeting continued in private until 11:44.

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