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Economy, Jobs and Fair Work Committee

Report on the Economic Impact of Leaving the European Union



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Economy, Jobs and Fair Work Committee

Remit: To consider and report on matters falling within the responsibility of the Cabinet Secretary for Economy, Jobs and Fair Work.


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Note: The membership of the Committee changed during the period covered by this report, as follows:

Bill Bowman joined the Committee on 24 January, replacing Liam Kerr.

Introduction

Background

1. The Economy, Jobs and Fair Work Committee has carried out an inquiry on the potential economic impact of leaving the European Union, focusing on the following areas:

   - Possible impacts and opportunities for Scotland's exporters;
   - Possible impacts and opportunities for non-UK companies investing in Scotland;
   - Potential impact on labour market issues, including migration and worker rights.

2. Through this inquiry, the Committee has sought to hear, understand and convey the views of and potential impact on Scottish businesses and workers based in Scotland.

3. The remit of the inquiry is as follows:

   To investigate the impact of the decision to leave the EU, in the context of Scotland's economic strategy, on exports, inwards investment and labour and employment rights; to explore ways to mitigate the immediate impact and to seize any opportunities arising from the decision and to make recommendations to the Scottish and UK Governments in this regard.

4. The Committee has taken oral evidence, gathered written evidence and visited and met with numerous businesses and organisations. Links to that evidence and notes of visits are set out in annexes B and C of this report. The Committee would like to thank all of those who engaged with members in relation to this inquiry.

5. The Committee had originally intended to conclude this inquiry with letters to the Scottish and UK Governments. However, having heard a wide range of evidence the Committee decided that a report would be more appropriate. The UK's exit from the EU is an evolving policy area. This initial report represents a snapshot in time and the Committee will consider whether to carry out further inquiry work on this policy area when more is known about the terms of leaving the EU.

Research

6. Although the Committee has gathered a wide body of evidence through this inquiry, the Committee believes that more information is needed. Whilst some general conclusions can be drawn, the impact of leaving the EU will vary depending on factors such as the location of a business and the sector within which it operates. Scottish Development International (SDI) confirmed that the

specific international opportunities are different for different sectors and even sub-sectors.[1]

7. The Committee has asked the Scottish Parliament Information Centre (SPICe) to prepare a paper on the economic impact of leaving the EU on specific sectors. In addition, the Committee may commission further research in this area.

Statistics

8. A common thread of the work of the Committee in this session has been the lack of reliable economic statistics. The Committee has agreed to conduct an inquiry into this topic. The issue was raised by a number of witnesses in relation to export and labour market statistics.

9. The Scotch Whisky Association (SWA) highlighted the challenge in obtaining accurate Scottish export statistics due to competing sets of figures from the Scottish Government and HM Revenue and Customs. They said,

> it is important that we get more comprehensive, consistent figures and set a benchmark, so that we can understand how this country's exports are doing and what is working as we look forward.[2]

Scottish Engineering also spoke of the difficulty,

> it is quite difficult for the [Office for National Statistics] (ONS) to pick up whether something is an export.[3]

These concerns were echoed by SDI[4] and Dr Matias Margulis, Lecturer in Political Economy at the University of Stirling who said,

> One of the problems is that British statistics are national and they are not broken down internally, which makes it difficult to know the extent of the Scottish economy. Most of the statistics that I see are based on surveys, so they are to some extent limited data.[5]

10. Jane Gotts, Director of GenAnalytics Ltd, agreed that we need more information about exports, "it is interesting that Scotland's biggest export market is the USA". She said we need to get more detail on which companies generate the bulk of these exports, "are exports to the USA primarily determined by USA-owned businesses in Scotland?" and that such information would be welcome to "allow

[1] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 24.
[2] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 48
[3] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 49
[4] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 12
[5] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 47

us to understand more the potential risks and opportunities for the Scottish economy".[6]

11. On labour market statistics, Professor Robert Wright, Professor of Economics at the University of Strathclyde, said that there is a lot of labour market data but that more relevant data analysis is needed.[7]

12. To shed some light on this issue, the Cabinet Secretary highlighted the Scottish Government's frequently asked questions (FAQ) document on Scottish Export Statistics.[8] The FAQ explains that the Export Statistics Scotland (ESS) estimates only capture the first point of export. This means if a good is exported to a company in the rest of the UK and that company then exports it somewhere else, ESS will only capture the export to the rest of the UK. Direct sales from Scottish companies to international destinations are counted as international exports regardless of where they leave the UK.

13. The FAQ sets out that although it does not matter which port in the UK that Scottish goods leave from in counting export statistics, the port in Rotterdam acts as a major distribution hub as well as a port. This means that Rotterdam is often the destination of many goods exported from Scotland (and the rest of the UK) which are then subsequently re-exported to other destinations. This results in what is known as the "Rotterdam Effect", where the amount of exports to the Netherlands is artificially inflated.

14. The FAQ also states that while undoubtedly some exports to the rest of the UK will be re-exported, including as part of other products, it is not possible to say exactly what this proportion is. However over half of Scottish exports to the rest of the UK are services (such as financial services) and are unlikely to be re-exported abroad. Also, many of the goods exported to the rest of the UK are in sectors where re-exporting is unlikely (utilities, retail and wholesale).[9]

15. The Cabinet Secretary said that the Enterprise and Skills Review Group will look at the issue of statistics, information and data; phase two of the review will be concluded in March 2017.[10]

[6] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 47
[7] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 47
[8] Economy, Jobs and Fair Work Committee, Official Report, 29 November 2016, col 6
[9] http://www.gov.scot/Topics/Statistics/Browse/Economy/Exports/ESSFAQ
[10] Economy, Jobs and Fair Work Committee, Official Report, 29 November 2016, col 9

Statistics - recommendation and conclusion

16. In the course of this inquiry the Committee has received useful evidence about the economic impact of leaving the EU but there are gaps in the information available. The Committee will examine the outcomes of phase two of the enterprise and skills review to assess whether improvements have been made. The Committee will include this as part of its forthcoming inquiry on economic data.

Scotland's exporters

17. According to the Scottish Government's "Exports Statistics Scotland" survey, Scottish businesses exported £78.6 billion worth of goods and services in 2015. This figure excludes direct oil and gas exports from the Scottish section of the UK Continental Shelf. Of this total, £49.8 billion (63%) went to other parts of the UK, £12.3 billion (16%) went overseas to other parts of the EU and £16.4 billion (21%) of goods and services were exported to the rest of the world. The USA is the top destination for overseas exports, accounting for £4.6 billion worth of Scottish goods and services in 2015.[11]

18. The Committee heard the views of a wide range of exporters both during formal evidence sessions and visits to company premises. Some businesses and witnesses spoke of the importance of access to the single market. Scotland Food and Drink Ltd highlighted the importance of continued access to the single market,

> roughly 76% of all the food that is exported from Scotland and that goes out of the UK goes to the European Union, so continued access to the European market in as pragmatic, tariff-free and sensible a way as possible is a priority.[12]

19. Oil and Gas UK told members that all gas and 75% of oil exports went to the EU in 2015 (oil was global, gas more regional), with the need to keep commercial codes and tariffs consistent. The Scottish Fishermen's Federation (SFF) set out that the Scottish fishing industry exports a considerable proportion of its catches such as whole langoustine, monkfish, megrims and scallops to the EU.[13] SDI

[11] *http://news.gov.scot/news/scotlands-exports-increase*
[12] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 24
[13] Visit notes

said that the importance of access to the single market depends on the type and nature of the business.[14]

20. Highlands and Islands Enterprise (HIE) told the Committee that the EU market is a priority export destination for a majority of the region's exporters,

> EU markets are commonly a 'first step' into exporting for the region's SMEs.[15]

21. Jane Gotts said,

> We know the statistics on Scotland's trade with the EU. How that trade will be impacted by Brexit we do not yet know.[16]

22. Dr Margulis commented on the potential impact on market access,

> No matter what the scenario is, Brexit will reduce market access for British exports, so we have to look at whatever strategy is chosen in the context of reduced market access. The final option for the nature of Brexit will determine exactly how much market access will be lost.[17]

23. For some businesses, the potential imposition of tariffs is a concern. Scottish Leather Group was concerned about the potential impacts of increased trade duties and tariffs,

> the imposition of tariffs could make already extremely competitive business unprofitable—certainly, less profitable—and that, in time, may render some businesses unsustainable. It could also impact on our future investments in Scotland.[18]

24. The role of the market with the rest of the UK was the focus of some of the evidence. Professor Graeme Roy, Director of the Fraser of Allander Institute, said that proximity is important and one of the big focuses for the Scottish Government in future policy rounds should be integration into the rUK market and what it can do to support expansion into it.[19] NFU Scotland said that sectors of the agricultural industry vary considerably in what they need and want, for example, milk prefers a more domestic approach,

> some 80% of our produce goes to the rest of the UK and this cannot be undermined.[20]

[14] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 16
[15] Written evidence, para 6
[16] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 37
[17] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 41
[18] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016,cols 26-27
[19] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 45
[20] Written evidence, paras 18 and 19

Similarly, 95% of current market for Liberty Steel is domestic (i.e. UK).[21]

25. Dr Fabian Zuleeg of the European Policy Centre said that the decision to leave the EU has wide implications for trade,

> It is not just the relationship between the EU and the UK that will change fundamentally, but the relationship between the UK and the rest of the world. Should Scotland aim for the rest of the world, rather than for the rest of the EU? It is about both, rather than either.[22]

Looking beyond Europe

26. The Committee has heard evidence about the opportunity for expansion of markets beyond the EU. Future GDP growth in emerging and developing markets is projected to be around 4.6% in 2017, compared to 1.5% in the Euro area. Specifically, growth in China is forecast to be 6.2% in 2017, and 7.6% in India.[23]

27. As confirmed by Jane Gotts, exports to China in 2014 were £530 million, 0.7% of total (international and rUK exports) or 1.9% of international exports. Exports to India were valued at £225 million; 0.3% of total exports or 0.8% of international exports,

> China and India are two of the fastest-growing economies in the world and our export levels to them remain very low.[24]

28. Professor Brad MacKay, Chair in Strategic Management at St Andrews University said that one area in which Scotland is likely to be slightly more resilient than the rest of the UK is in having some of the big exporting success stories, which are global industries (e.g. whisky and oil and gas),

> there is probably quite a substantial opportunity to continue to look at global opportunities.[25]

Scotland Food and Drink Ltd agreed, "we really need to think beyond Europe".[26] They said that there is,

> potential for us in premium markets and tapping into consumers' desire for quality, authenticity and provenance. None of those global trends has changed because of Brexit.[27]

[21] Visit note
[22] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 43
[23] http://www.imf.org/external/pubs/ft/weo/2016/02/pdf/c1.pdf
[24] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 37
[25] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 14
[26] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 52
[27] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 34

29. Dr Zuleeg told the Committee that there is,

> an economic proximity factor: the closer a country is, the more you trade with it.[28]

30. SDI agreed that proximity will always be an advantage but said that Scotland also has to look at the size of the markets and the growth in these markets, and that some further away markets, such as the US and Asia, are potentially very large and are growing at a faster rate than others.[29]

31. The Scottish Council for Development and Industry (SCDI) said,

> maintaining our trading links with the single market and grand-fathering the EU's existing trade agreement with non-EU countries where possible should be key priorities.

However, they also recognise that there may be a "significant opportunity" to create new free trade agreements with international markets, such as the US, China and India and believe that on leaving the EU, the UK may be able to engage "in a quicker negotiation process" on bilateral deals.[30]

32. Professor MacKay warned of the difficulties of simply "re-pivoting" efforts towards other markets,

> the reality is that most trade, even in this global world, is still regional. Canada's top trading partner is the US and the US's top trading partner is Canada. Australia's top trading partner is China. They call it the gravitational effect. In effect, there are certain location advantages to trade, so Europe will always be very important (to the UK).[31]

33. On the issue of improving market access to China, the China-Britain Business Council was optimistic about the opportunities presented to the UK by the decision to leave the EU,

> Since Brexit, we have surveyed the companies that we represent—primarily British companies that engage with China either here in the UK or operationally in China—on their opinion about what Brexit might mean for them. Perhaps somewhat surprisingly, they came back rather positively and optimistically in terms of the opportunities that Brexit might offer them—most concretely in the form of the possibility, in the medium term, of forming some kind of free-trade agreement with China. Because the EU currently has no such agreement in place, it may be one of the countries

[28] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 43
[29] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016,col 14
[30] Written evidence, paras 16- 18
[31] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, cols 2-3

> with which the UK Government chooses to negotiate a free-trade agreement.[32]

Improving exporting capacity

34. The Committee heard that Scottish businesses are not taking full advantage of export opportunities; Jane Gotts explained that this is due to lack of access to finance, awareness of opportunities and international mentality,

> The Scottish Chambers of Commerce did a lot of research and found that some Scottish businesses do not think that their product can be sold overseas. However, businesses that are selling into England or Ireland are, in effect, exporting; it is just about getting a more international mentality. [33]

35. Professor Roy and others put it down to challenges with growing small and medium-sized companies, saying that Brexit is,

> a potential opportunity to take a fresh look at, and to make a frank assessment of how we start to address, the structural challenges we face.[34]

36. Jane Gotts highlighted that over 50% of our exports are still being generated by 50 companies,

> it is important to have an overarching look at the current export situation for Scotland and ask why we still have very low levels of exporting among our business base, particularly among our small and medium-sized enterprise business base, which remains the key driver of Scotland's economy.[35]

37. The SFF stressed the need for sufficient support should be given to businesses looking to develop exports.[36]

38. Similarly, Richard Marsh of 4-Consulting suggested that,

> we must ask what we need to put in place to ensure that some of the smaller, creative, technology-based companies in Scotland that are doing well but do not yet have the scale can still trade and integrate online with the rest of Europe and the rest of the world.[37]

[32] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 5
[33] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 40
[34] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 54
[35] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 37
[36] Visit note, para 4.3.4
[37] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 39

What can be done?

39. In terms of government policy to support exporters, Dr Margulis made the distinction between trade promotion and market access.[38] SDI clearly has a role in promoting trade. Scotland Food and Drink Ltd was highly praising of the work of SDI. They specifically focused on the impact of sector specialists based around the world,

> who are securing existing strong markets and trying to secure new markets… Having that expertise and local market knowledge is an absolute game changer for us.[39]

40. The SWA highlighted the need to build up policy expertise and capacity and for businesses,

> to take a long-term view and tackle trade barriers consistently over time, working with Government.[40]

41. One example of this is the international certification services which are being delivered by Glasgow Chamber of Commerce, to allow companies to sell their goods overseas. Uptake in these services has increased by 50% in the past three months.[41]

42. The need for businesses to plan for changes ahead was highlighted by witnesses. Jenny Stewart of KPMG believed that businesses with any exposure to European markets will be doing some sort of scenario planning over the coming period.[42] This was echoed by Dr Zuleeg,

> I would be astonished if, at least among larger companies, there is no contingency planning. It would be a failure towards their shareholders if they were not doing some contingency planning at the moment.[43]

43. Dr Margulis felt it is important for the Scottish Government to,

> start a consultation process with stakeholders across sectors to get a better sense of their concerns and identify the kind of measures that will need to be put in place in the interim to replace the supports and benefits the UK currently enjoys as part of the EU.[44]

[38] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 41
[39] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, cols 45-46
[40] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, cols 46-47 and 51
[41] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 5
[42] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 29
[43] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 52
[44] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 58

Working together

44. Some witnesses highlighted the importance of working together. SDI stated that,

> we need to mobilise as wide a partnership as possible across Scottish business life, whether that be the private or the public sector, to build the narrative that supports companies becoming more ambitious to trade internationally.[45]

45. Scotland Food and Drink Ltd have a collaboration charter in place with SWA. The model seeks to promote collaboration through the regular exchange of information on export markets and opportunities, among other things. The Committee heard that the food and drink industry and Harris Tweed have both worked with the Scotch whisky industry in seeking to enter overseas markets.[46]

46. Glasgow Chamber of Commerce made a plea for Government involvement in such collaboration,

> it would be great if the Government could start to consider collaborating on business-led engagement on trade-to-trade links and priority markets to help us to develop those new market opportunities and explore what those could look like.[47]

47. In its report on *Internationalising Scottish Business*, our predecessor Committee recommended that SDI review such models of sectoral collaboration and assess the potential for them to be replicated.[48]

Scottish Government action

48. Scotland's trade and investment strategy was published in March 2016. The Scottish Government has produced a four point plan aiming to boost Scottish trade and exports across Europe: the establishment of a new Board of Trade, the appointment of Trade Envoys, the establishment of an Innovation and Investment Hub in Berlin and the doubling of SDI's staff across Europe. The Scottish Government recently announced that it will provide £400,000 to the Chambers of Commerce to support new business-led trade missions and forge new trading alliances between Chambers here and abroad.

49. The Cabinet Secretary accepted that more needed to be done to expand the export base, telling the Committee that one of the reasons for the Government review of the enterprise agencies is,

[45] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, cols 24-25
[46] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 47
[47] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 19
[48] http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/89419.aspx, para 111

> that we realise that we have not done what we need to do on exports or on internationalisation.[49]

50. Evidence to phase one of the enterprise and skills review suggested that more companies might benefit from advice and support, with a wider core offering around increasing productivity, innovation, digital support and exporting. In the phase one report on the review the Scottish Government pledges to look at the best way to take forward a "wider and more coherent offering of core support to more businesses".[50]

51. The Cabinet Secretary mentioned tapping into the Chamber of Commerce network and the University Sector and highlighted that the Scottish Government has a presence in 29 offices across the world with a new office being set up in Dublin.[51]

52. The UK Government's Department of International Trade is responsible for, among other things, providing operational support for exports and facilitating inward and outward investment.[52] In its report on *Internationalising Scottish Businesses*, our predecessor Committee received evidence that co-ordination between SDI and UK Trade and Investment (which was replaced by the Department for International Trade in July 2016) was not as strong as it could be and that this was limiting the effectiveness of the support available to Scottish companies.[53]

European rules and regulations

53. A number of issues were raised with members in relation to certain EU rules and regulations.

54. Denholm Seafoods were concerned about what a post-EU documentation and accreditation system would look like, including the process covering product quality and food safety. The company was anxious to ensure that a cargo of fish dispatched to a port in Russia or China, for example, would be correctly certified, licensed, registered and meet all bureaucratic stipulations so as to successfully reach its export market.[54]

55. The EU Protected Food Name schemes came into force in 1993 and provide a system for the protection of food names on a geographical or traditional recipe basis. This system is similar to the familiar *appellation contrôlée* system used for wine. The three schemes (Protected Designation of Origin, Protected Geographical Indication and Traditional Speciality Guaranteed) highlight regional

[49] Economy, Jobs and Fair Work Committee, Official report, 29 November 2016, col 6
[50] http://www.gov.scot/Resource/0050/00508466.pdf
[51] Economy, Jobs and Fair Work Committee, Official report, 29 November 2016, cols 6 and 7
[52] https://www.gov.uk/government/organisations/department-for-international-trade/about
[53] http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/89419.aspx (paras 50-62)
[54] Visit note

and traditional foods whose authenticity and origin can be guaranteed through an independent inspection system.[55]

56. Quality Meat Scotland values the European Protected Geographical Indication (PGI) status which protects the integrity of the product and ensures that producers cannot "be bullied" to have the products produced elsewhere for less. They told members that this protects the Scottish economy. PGI status also leads to significant grants to promote the product. A country outside the EU can have PGI, but PGI must be protected within the UK. Therefore, they want to ensure that legislation is brought forward recognising the integrity of PGI within the UK.[56] NFU Scotland concurred, stating that having influence over new EU rules and regulations is "extremely important".[57] Scottish Salmon Producers Organisation also benefits from PGI.[58]

57. The SWA told the Committee that currently the single market rules cover everything from the size of the bottles that they sell their whisky in and the label that goes on them to the very definition of the product. They stressed the importance of having continuity and certainty in that regard.[59]

Exports – recommendations and conclusions

58. We heard a wide range of views from witnesses on the potential effect of leaving the EU. It is clear from evidence received that more needs to be done to support and encourage Scottish businesses, especially SMEs, to export both to the EU and beyond. The Committee expects this to be addressed by the Scottish Government and Enterprise Agencies as part of the ongoing enterprise and skills review. However, an increased effort is required in the wake of the decision to leave the EU.

59. Evidence received shows that access to the single market is vitally important to many exporting businesses in a number of sectors in Scotland; others are less dependent on this market. The Committee recommends that the Scottish Government works to assist those businesses that are dependent on exporting to the single market to continue to operate and grow as the negotiations to leave the EU progress. The Committee also recommends that the Scottish Government represents to the UK Government the aspirations and needs of Scottish businesses, in relation to trading with countries in the single market.

[55] Scottish Government website: http://www.gov.scot/Topics/Business-Industry/Food-Industry/national-strategy/rep/PFNs.
[56] Visit note
[57] Written evidence, para 16
[58] Visit note
[59] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 24

60. The Committee notes the increased investment in Scottish international trade and investment and recognises the good work that SDI is doing. Trade promotion must be the focus of the Scottish Government going forward both within the EU and beyond. More needs to be done to support businesses in exporting across the world. Now is the time to maximise on opportunities in growing markets such as China and India.

61. The Committee heard from a number of witnesses about the importance of focusing on emerging markets (for example, South America).[60] The Committee recognises that resources are finite and asks the Scottish Government to provide it with information on the criteria for the location of SDI offices in certain countries and on its strategy for choosing to focus on these areas. The Committee expects the Scottish Government to work with the UK Government on trade promotion. Such collaboration will be vital to maximise the use of resources.

62. The Committee welcomes the Scottish Government's investment in the work of the Chambers of Commerce in promoting trade. The benefits of collaboration between businesses and sectors in promoting trade must be encouraged and supported by the Scottish Government at this critical time for exporting businesses.

63. The Committee notes that witnesses cited proximity as one determinant of exporting scale. Given that we export more to the rest of the UK than to the rest of the world, the Committee recommends that the Scottish Government continues to support Scottish businesses in trading with this rUK market.

64. The Committee will keep the Scottish Government's four point plan under review and asks the Government to provide the Committee with updates on progress of the implementation of the plan.

65. The Committee notes the points made by businesses regarding EU rules and regulations (set out in paragraphs 53 to 57 above), including the value of effective accreditation, licensing and certification systems and the need for certainty and continuity, and asks the Scottish Government to reflect these views in any negotiations with the UK Government.

Financial services industry

66. The International Public Policy Institute (IPPI), based at Strathclyde University, recently published a study into the potential impacts of Brexit on Scotland's financial

[60] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, SWA, col 37

services sector. As highlighted in the report, the financial services industry – which includes banks, insurance, investment management and asset servicing – contributes around £8 billon to the Scottish economy and employs around 90,000 people directly and a further 90,000 indirectly.

67. Some of the main points raised by the IPPI report include:

- Companies who may be most impacted by leaving the EU will be those to whom passporting rights and access to high-skill non-UK personnel matter most.
- Fund managers and asset managers based in Scotland may face the most significant impact (due to a potential loss of passporting rights).
- However, the use of "management companies" in other locations means they could operate in a broadly similar manner to other non-EU fund providers.
- Retail banking and insurance sectors appear to be less at risk.
- Investment banking is very limited in Scotland.[61]

68. Passporting means that a bank, an asset manager, an asset servicer, a wealth manager, an investment bank or even those in the legal profession or accountancy profession who are involved in similar activities,

> can manufacture their product—whether it is mergers and acquisitions, a deal or whatever they are doing—and trade their services across European borders effortlessly.[62]

69. Jeremy Peat, one of the authors of the IPPI report, said that the loss of passporting, on leaving the EU, will have less impact in Scotland than elsewhere in the UK. This is because in some cases the financial sector is pan-EU and in other cases it is not (e.g. pensions are primarily single-nation based and do not need passporting). Within the banking sector in Scotland, there are essentially retail and commercial banks that also mainly work within a single-nation context and do not need the passport.[63]

70. However, in asset servicing, most of the high-skilled value-added entities in Scotland are selling to institutions that require passporting in order to sell their services across Europe. Jeremy Peat told the Committee that asset management is an important sector for Scotland and is unlikely to be affected by the loss of passporting because Scottish asset managers have already established entities across Europe that will continue to operate after Brexit.[64]

71. Jeremy Peat highlighted the,

[61] https://pure.strath.ac.uk/portal/en/publications/brexit-and-the-scottish-financial-services-sector(2433b7bb-6d48-44a4-b076-38501a59e3db)/export.html
[62] Scottish Financial Enterprise evidence to the Economy, Jobs and Fair Work Committee, Official Report, 27 September 2016, col 13
[63] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, cols 4-6
[64] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 7

> need to look at each subsector of financial services and work out whether passporting matters to it, and then look at the breakdown of Scottish financial services activities and see whether Scotland is going to be affected in those different sectors by the loss of passporting.[65]

He went on to say that financial services in Scotland could be affected by the impact on institutions that do require passporting,

> It is not just whether we are selling to the rest of Europe that is important; it is also whether we are selling to other UK-based entities that are exporting to Europe.…Although we do not need passporting in order to sell our services to a London-based entity, that entity will not, after Brexit, be selling across Europe, so the market for our activities among the UK institutions might dry up. You have to go down to the micro or sector level to work out whether passporting matters.[66]

72. Stephen Boyle of the Royal Bank of Scotland (RBS) confirmed that,

> the UK market matters to Scottish financial services to a considerably greater extent than the non-UK market does.[67]

Professor Roy expanded on this point,

> RBS has largely been a domestic bank, for which service to the rest of the UK is crucial. That is the same with a number of other big financial players in Edinburgh, such as Standard Life, that are very much linked to the rest of the UK market.[68]

Financial Services industry – recommendation and conclusion

73. The Committee notes that some financial services sectors will be more affected by the potential loss of passporting rights than others. The Committee recommends that the Scottish Government does analysis of the financial services sector in Scotland to enable it to represent the needs of the sector in relation to passporting rights to the UK Government to ensure that they continue to be able to do business in Europe following the UK's departure from the EU.

[65] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 7
[66] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 7
[67] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016,col 44
[68] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 44

Import inflation: business input costs and impacts on households

Impact on companies

74. Asked about the impact of a devalued Pound on exports and manufacturers, SDI stated,

> there is some anecdotal evidence from the company base that there is an increase in the volume of exports to existing customers and they put that down partly to the difference in exchange rates. That picture changes for those who import raw materials or components in order to make their final product; the cost of imports is more expensive so the situation switches round.[69]

75. Stephen Boyle of RBS echoed this view in relation to winners and losers,

> Because of the nature of supply chains, the losers look predominantly to be those in the manufacturing sector who might be exporting but who also have a substantial amount of imported input content.[70]

76. Dr Margulis stressed the importance of having a better understanding of where Scotland fits in global supply chains.[71] Professor Roy gave an example of this,

> if I am a firm in Edinburgh that is producing a good that is part of a supply chain going to a company in Leicester and then into the EU, understanding the supply chain becomes crucial.[72]

Similarly, Professor MacKay referred to one manufacturing business whose costs have gone up 20% since Brexit and is now losing money so,

> it has to figure out how to reconfigure its supply chain to carry out more of its total manufacturing activity in the UK.[73]

77. Scottish Engineering provided some further illustration of how this is impacting manufacturing businesses in this sector,

> we are suffering terribly from increases in the prices of raw materials…. We cannot pass on all those price increases to customers, so we are seeing businesses trading on the margin. If they can absorb the material costs, the

[69] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 5
[70] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 50
[71] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 51
[72] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 45
[73] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 11

> labour costs and the fixed and variable overheads, they will take business but beyond that there is virtually no margin.[74]

78. Richard Marsh highlighted the impact on public services,

> sectors such as health and public administration make significant purchase of specialist equipment and plant from outside the UK, and such sectors export very little, because they are public services.[75]

The Food and Drink and Drink Federation Scotland said that additional costs of raw materials risks,

> causing lasting damage to Scottish-based manufacturing and triggering food price rises.[76]

79. Other sectors are less affected by the devalued Pound. Members visited Aggreko's Lomondgate site which employs around 200 people, primarily on the shop-floor working on the assembly of electricity generators. Taken as a whole, the recent fall in the value of the Pound has been generally positive for the business. Aggreko is part of a global supply chain, with engines manufactured in the UK, USA, Austria and India. The generator cases are made in China.[77]

80. The Cabinet Secretary acknowledged the difficulties presented to some businesses by high import costs,

> it will be felt mainly in increased input prices, which squeeze margins and will affect profitability.

81. Gary Gillespie of the Scottish Government suggested that "the depreciation may provide opportunities for import substitution" and the Cabinet Secretary said that the enterprise and skills review should be designed to ensure that "we maximise that".[78] One example of companies seeking to address this is Liberty Steel, who told members that they aim to supply the UK market, substituting current imports.[79]

Impact on households

82. Households are also likely to be impacted by any fall in the value of the Pound. According to Stephen Boyle of RBS,

[74] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, cols 28-9
[75] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 51
[76] Written evidence, para 8
[77] Visit note
[78] Economy, Jobs and Fair Work Committee, Official Report, 29 November 2016, cols 24-25
[79] Visit note

> Different households are affected in different ways by the change in the exchange rate. So far, the input cost rises have been greatest in energy, food and clothing, which constitute a higher proportion of the spending of the country's older and poorer households. Such households are likely to be disproportionately adversely affected.[80]

83. Gary Gillespie of the Scottish Government said,

> we expect to see a rise in inflation in the UK over the next year or two, which will impact on household consumption and affordability.[81]

Import inflation – recommendations and conclusions

84. The Committee is concerned about the impact of import inflation on some Scottish businesses and agrees with the Cabinet Secretary's view that opportunities for import substitution should be maximised through the enterprise and skills review. As the impact of import inflation is already being felt by businesses, the Committee asks the Scottish Government to report back on its strategy for this work as a matter of urgency. This work should include mapping out of supply chains and working with businesses to maximise opportunities for import substitution.

85. The impact of cost rises on Scotland's older and poorer households is of particular concern to the Committee. The Committee recommends that the Scottish Government does work to assess any potential impact and reports back to the Committee.

Inward investment

86. Jane Gotts told the Committee that Scotland has been "phenomenally successful" in recent years in attracting foreign investment.[82] The Scottish Government's document *Global Scotland – Scotland's Trade and Investment Strategy 2016-21* states that in each year since 2006 Scotland has ranked in the top two UK regions outside London in terms of number of foreign direct

[80] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 50
[81] Economy, Jobs and Fair Work Committee, Official Report, 29 November 2016, Col 22
[82] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 52

investment projects secured and in four of the last five years has been the top location outside London.[83]

87. Jeremy Peat said,

> inward investment projects are exceptionally important to Scotland for a number of reasons. We still do not export anything like enough from Scotland to the rest of the world, whether to the EU or to non-EU locations, including China. A lot of the high-productivity, high-skill, export-oriented businesses are based on inward investment as much as domestic investment, so that matters to Scotland.[84]

88. Where EU market access is not a primary factor, HIE said that Scotland continues to be an attractive investment location with further investment secured for Highlands and Islands by existing investors in 2016/17.[85] SCDI attributes much of Scotland's success over recent years to securing repeat investment but said that "we have been less successful in attracting new investors".[86]

89. Dr Zuleeg stated,

> in the long run, we will see an effect on investment. There will be more reliance on indigenous growth.

He stressed the need to work out how Scotland can internationalise medium-sized businesses, which has been achieved in countries such as Germany.[87] Professor Jeremy Peat believes it is inevitable that there will be some impact on inward investment arising from Brexit, initially because of the uncertainties,

> if foreign investors from a range of non-EU member states come to Scotland in order to access the single market, a constraint on that access would have to be a negative factor in their considerations. How important that would be in the overall balance of their decision making would depend on each individual case.[88]

[83] Scottish Government website, Global Scotland – Scotland's Trade and Investment Strategy 2016-21 http://www.gov.scot/Publications/2016/03/7779/326365, Chapter 7
[84] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 10
[85] Written evidence, para 12
[86] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 10
[87] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 52
[88] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 9

90. In written evidence, COSLA said that,

> the inflow of foreign investment into commercial property fell 50% in the first three months of 2016 and has continued to decline.[89]

91. In evidence to the Committee on the draft budget 2017-18, Dr Wilson, Chief Executive of Scottish Enterprise, told the Committee that, in relation to foreign companies investing in Scotland,

> Our track record is not that those companies take flight; rather, it is that they continue to invest. I am not blasé about anything. My job is to maximise the Scottish economy. Would I love it if we had so many global home-grown companies in Scotland that there was no room for foreign direct investment? Of course I would, but we have to be realistic. We do very well in high-value jobs. We have seen the highest growth in the UK for high-value jobs and [research and development (R&D)] jobs as a result of foreign direct investment. That tells me that that is a terrific investment in the economy, not a fly-by-night investment.[90]

92. In relation to attracting foreign direct investment Dr Wilson went on to say,

> the foreign direct investment that comes to Scotland is high value and is here to invest in Scotland. It is not either/or. We must at the same time do everything that we can to grow Scottish global firms.[91]

93. The Cabinet Secretary told the Committee that,

> inward investment can often bring new skills and new productivity gains into the market and the domestic economy, which is extremely important.[92]

What can be done?

94. Professor MacKay encouraged Members to think about the general competitive environment in Scotland,

> if some of the advantages of being located here vis-à-vis the EU either disappear or become more cumbersome or complex, we need to think about the various things that Scotland can do to maintain an attractive and competitive environment.[93]

95. The Scottish Government's trade and investment strategy stresses the need to cast the net wider,

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[89] Written evidence, para 29
[90] Economy, Jobs and Fair Work Committee, Official Report, 6 December 2016, cols 47-48
[91] Economy, Jobs and Fair Work Committee, Official Report, 6 December 2016, col 48
[92] Economy, Jobs and Fair Work Committee, Official Report, 29 November 2016, col 31
[93] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 17

> Scotland's success in attracting repeat investment from existing investors, especially those from the US, needs to be sustained and matched by attracting more new investors to Scotland. In particular, there is relatively low awareness of Scotland among investors in Asia, with China, the fifth biggest investor into the UK, not making Scotland's top 10 sources of investment. Furthermore, in 2014 37.5% of projects into Scotland came from new investors, compared to 68% in the UK.

> Scotland also needs to respond to the rapidly changing scale and nature of foreign direct investment towards, for example, smaller scale projects with a strong emphasis on R&D and innovation and inward investors, especially those from China and India, placing more emphasis on mergers and acquisitions and less on greenfield projects.[94]

96. SDI acknowledged that there is work to be done in relation to inward investment,

> ultimately, we would like to see inward investment performance improve in relation to both India and China. We are working towards that, but it is quite difficult. You have to be patient, persistent and balance the effort against our opportunities elsewhere in the globe.[95]

97. The Scottish Government has pledged to "ensure a much stronger focus on co-ordinating international activity across the public and academic sectors to deliver maximum benefit for Scotland" as an outcome of the ongoing review of enterprise and skills. In addition, there may be changes made to SDI as a result of the review,

> we will consider the role, position and governance of SDI and its possible establishment as a distinct and separate organisation under the new Scotland-wide statutory board delivering a broader range of international activities and support.[96]

98. Stephen Boyle of RBS recommended prioritising exports,

> my judgement is that if we have a fixed pot of money for the purposes of promoting internationalisation, that money will likely be more productively spent on export promotion than on the attraction of foreign direct investment.[97]

SCDI supported using universities to assist with this in maintaining links on innovation, research, etc with the EU and wanted to ensure that cities are best

[94] Scottish Government website, Global Scotland – Scotland's Trade and Investment Strategy 2016-21 http://www.gov.scot/Publications/2016/03/7779/326365, Chapter 7
[95] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 13
[96] http://www.gov.scot/Resource/0050/00508466.pdf
[97] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 59

placed to be at the cutting edge of developments (eg. in digital and mobility terms).[98]

99. On a practical level, the China-Britain Business Council said that visas for people attending meetings from around the world are difficult to secure and that it should be made easier to get such visas,

> over time, that has an effect on people's knowledge of the Scottish economy and the assets that are here.[99]

Inward investment – recommendations and conclusions

100. The Committee recognises Scotland's progress in attracting inward investment. We note the work being undertaken by SDI and Scottish Enterprise to attract foreign direct investment. The Scottish Government's Trade and Investment Strategy recognises the need to attract new investors. The Committee notes proposals to strengthen the role of SDI and provide stronger focus on co-ordinating international activity across public and academic sectors. The Committee agrees that universities can play a key role in promoting Scottish business overseas. The Committee supports this ongoing work and asks the Scottish Government to provide it with further detail on progress with its foreign direct investment strategy.

101. We also stress the importance of continuing to promote the growth of indigenous businesses and believe that the right balance must be struck between supporting foreign direct investment and home-grown businesses. The Committee notes the conclusions of phase one of the enterprise and skills review and that the Scottish Government is looking to do more work in offering core support to more businesses. The need to support SMEs is more crucial than ever.

102. The Committee intends to carry out an inquiry on support for businesses, specifically to investigate the financial support available to companies beyond the start-up stage and looking at international comparators.

[98] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 10
[99] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 24

Scottish labour market

103. There are 181,000 people resident in Scotland who are nationals of another EU country, with an estimated 115,000 in employment, representing 4% of the Scottish workforce in employment. There are different ways of presenting employment levels among the population in Scotland. The "unemployment rate" expresses the number unemployed as a percentage of the economically active population aged 16 to 64. EU nationals living in Scotland have an unemployment rate of 5.8% which is in line with the Scottish average of 5.9%. The "employment rate" is the number in employment expressed as a percentage of the population aged 16 to 64 (both economically active and inactive). For the Scottish population of this age as a whole, the employment rate is 73.1%. Overall, the employment rate for EU nationals within the same category is 78.9%.

104. These figures have to be considered in the context of a number of factors. More EU nationals living in Scotland are aged 16 to 64 than the general Scottish population; 80% of EU nationals in Scotland are aged 16 to 64, compared to 65% of the Scottish population as a whole. The age profile of EU nationals in Scotland is different from that of the Scottish population as a whole. Just over half (57%) of EU nationals in Scotland are aged 25 to 49, compared with only a third (33%) across the Scottish population as a whole. Only 4% of EU nationals in Scotland are aged 65+ compared with 18% of the Scottish population as a whole. This means that a higher number of people from another EU country living in Scotland are within the "economically active" category.[100]

105. The role of non-UK EU nationals in the Scottish economy was highlighted in evidence to the Committee. Scotland Food and Drink Ltd provided a specific example of the benefits to Scottish business of the increased supply of labour from the rest of the EU from the early 2000s onwards,

> Walker's Shortbread Ltd is based in Aberlour. The managing director, Jim Walker, phoned me just after the Brexit vote and explained that during the 1990s, his business could not grow because Aberlour is fairly close to full employment. Things changed dramatically in the early 2000s when he had greater access to labour from, in particular, east European countries. He now employs 350 Polish staff, and most of them have moved into the community with their families. He has huge concerns about the future of his business without access to that labour.[101]

[100] http://www.parliament.scot/ResearchBriefingsAndFactsheets/S5/SB_16-86_EU_nationals_living_in_Scotland.pdf

[101] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 33

106. These concerns were echoed by a number of individual businesses (for example Angus Soft Fruits, Denholm Seafoods and Scottish Leather Group) and entire sectors (for example Scottish Engineering and Scottish Care). The latter wrote,

> our members have expressed concern that the current uncertainty will not just impact on their ability to recruit and attract EU citizens but that there might be negative impacts on the ability to recruit from other parts of the world.[102]

107. Scottish Leather Group explained,

> About 25% of the people we employ—over 900 people—are from eastern European countries and have come here over many years, primarily from Poland since it entered the EU. Leather working is a skill that it takes years to train people in, and many of those people are now experienced and skilled workers. It is therefore important that their future in Scotland is secure and that we can secure other labour as and when it is required.[103]

Denholm Seafoods in Peterhead told members that 80-90% of their staff are eastern European, mostly from Poland and the Baltic states.[104]

108. Scottish Engineering concurred,

> The easing of skills shortages has not happened to the extent that you might expect, and we are quite dependent on European labour, in particular.[105]

Angus Soft Fruits said that without non-UK EU labour, they would have to scale back production to match available labour or source fruit from overseas berry farmers.[106] Jenny Stewart also highlighted "significant skills gaps" in Scotland, particularly around construction and technology.[107] Clydesdale Bank stressed the issue of recruiting the best graduates from local universities many of whom will be from other parts of the EU.[108]

109. Skills Development Scotland (SDS) told the Committee that there is some data available through the Labour Force Survey that indicates the scale of EU migrants within the workforce. Hospitality, food and drink manufacturing are significant areas. There are significant challenges for agriculture which is seasonal and lower skilled and more manual,

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[102] Written evidence, para 10
[103] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 27
[104] Visit note
[105] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 35
[106] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 10
[107] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 57
[108] Visit note

> we need to think about how we can help companies to retain existing European staff.[109]

110. The Committee heard that there is a role for employers in supporting workers from the rest of the EU in the aftermath of the vote to leave the EU. For the University of Edinburgh, such workers constitute 25% of academic staff (1,600-2,400) and 17% of the total staff cohort (13,000+). The University told members that it has worked hard to address fears of staff post-vote, holding town-hall meetings and drop-in sessions with legal advisers. They are actively trying to send a message that the University wants them there.[110]

Demographic challenges

111. Professor MacKay and Professor Wright highlighted demographic challenges facing Scotland; Professor Wright told the Committee that,

> the Scottish labour force is going to shrink.[111]

Professor MacKay stated,

> immigration is fundamental. Scotland is facing very particular demographic challenges and a range of industries in Scotland are very reliant on immigration—particularly skilled immigration but also non-skilled.[112]

112. Professor Roy also voiced concerns about potential impacts on the skills profile of the Scottish workforce,

> we know that we have an ageing population in Scotland and that most academic studies show that attracting skilled migrants to the country is good for the long-term health of the economy. We then start to get into questions about what we do to respond to that.[113]

113. Professor Wright highlighted the distinct needs of the Scottish labour market,

> the discussion will have to be about Scotland's demographic situation. Labour growth is much slower here; relatively speaking, we need more people in the lower-skilled and middle-skilled group than the UK as a whole does, which in effect is England.[114]

[109] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 28-29
[110] Visit note
[111] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 36
[112] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 2
[113] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 35
[114] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 32

What can be done?

Local workers

114. The labour market challenge was addressed by Stephen Boyle of RBS,

> I would turn quickly to the fact that, in Scotland, a very large proportion of the working-age population is still outside the job market. By all means focus on the actions that you can take to try to secure a good deal on the free movement of people, but it is at least as important to try to draw more people back into the job market, because that is in a sense a form of internal migration that you could think about drawing on.[115]

However, Professor Wright said, "the evidence is out there that it is difficult to get those people back into work and keep them there" and that "what they have on offer is not in demand".[116]

115. Some businesses told the Committee that it is not possible to fill these vacancies with local workers. Angus Soft Fruits said,

> the days when we could source enough labour locally have gone.

They highlighted that this is because the work is seasonal and the hours are unsocial and it is difficult to manage without people living on the farm.[117]

Similarly Quality Meat Scotland referred to a lack of local willingness among British nationals to do many of the jobs in the sector associated with the nature of the task, the physical working environment and the working hours. Denholm Seafoods also told members about the difficulty in attracting local people or students into the workforce.[118]

116. When asked whether they had advertised locally for workers, Angus Soft Fruits confirmed that they did recruit local workers for repair work in January one year but that they lost a number of these workers within two weeks. They also told the Committee about a local machinery ring cooperative which offered internships to local people. The company, Ringlink, is keen to roll out such an approach on a larger scale. Angus Soft Fruits said that there are initiatives to bring in young local people but highlighted the difficulties in recruiting the number of workers required to emigrate "en masse into the countryside".[119]

[115] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, cols 35 -36
[116] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 31
[117] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 11
[118] Visit notes
[119] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, cols 11-12

117. Scottish Care outlined a number of barriers to recruiting locally to address the current 28% vacancy level in social care,

> one is that many of our younger generation struggle to relate emotionally to individuals who are older and may have challenging behaviour. Only over time do people develop the maturity to be able to deal with what are at times harrowing and difficult situations.

They are working closely with schools, colleges and the Scottish Social Services Council to offer social care as an attractive career choice for individuals.[120]

118. The Golden Jubilee National Hospital has sought Scottish workers in the first instance but there were shortages in certain roles, theatre nurses and heart surgeons for example, that required looking more widely and in some cases there were international shortages.[121]

119. When asked whether people in Scotland not in employment could be brought into the labour market to address any gaps arising from the decision to leave the EU, the Cabinet Secretary said,

> I substantially agree that we should be looking to reskill these people.

but Gary Gillespie of the Scottish Government said,

> the question was whether we can have direct substitution in a dynamic market, and the answer is probably not, for reasons of location and specific skills.[122]

Skills

120. SDS suggested that one way to address skills issues is to work through industry leadership groups to get a clear picture of what the skills challenges will be and to work with the Scottish Further and Higher Education Funding Council, training organisations and employers to make sure that firm plans are in place.[123]

121. Professor Wright suggested that there should be a rebalancing away from higher education to further education.[124] SDS agreed that, "there has to be much more of a focus on technical and vocational skills, because that is the way that the economy is moving". They said,

[120] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 18
[121] Visit note
[122] Economy, Jobs and Fair Work Committee, Official Report, 29 November 2016, cols 29-30
[123] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 29
[124] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 37

> it is not just a challenge for the public sector; it is a challenge for employers in the public and private sectors to think about their workforce planning, their needs for the future and how they are investing in their workforce.[125]

Oil and Gas UK also stressed the need for better workforce planning, with better linking in between Scottish and UK Government.[126] Professor Wright said that a conscious decision can be made to use the immigration system to fill certain skills gaps.[127]

122. Scottish Leather Group is already focusing on skills it requires, working with the University of the West of Scotland to develop particular Scottish vocational qualifications in leather-making,

> we are working with education institutes to bridge the gap and to home grow talent for the future.[128]

123. The Cabinet Secretary referred to the new labour market strategy which sets out "how we try to boost particular sectors" and that the enterprise and skills review will try to identify ways of making the interaction between SDS, the funding council, which includes colleges, and local authorities more effective.[129]

New migration arrangements

124. Some witnesses touched on the type of new arrangements which could be put in place if free movement of people were to change. Scottish Care stated that any new arrangements should be flexible. NHS Scotland echoed this saying that they aim to develop health support workers with a programme designed to give people an opportunity to enter healthcare at a relatively modest level, to be educated and trained and to progress through the various levels.[130]

125. Angus Soft Fruits agreed on the need for a simple and flexible system,

> we have proposed a seasonal agricultural workers scheme that would be similar to the one that was in place until 2008.[131]

Professor Wright said, "if we want more control over immigration, we have to adopt a system that is similar to those in Australia and Canada", and "I do not see any serious problem in attracting low-skilled or middle-skilled workers to the UK.[132]

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[125] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, cols 38-39
[126] Visit note
[127] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, cols 38-40
[128] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 36
[129] Economy, Jobs and Fair Work Committee, Official Report, 29 November 2016, col 28
[130] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 7
[131] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 8.
[132] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, cols 35 and 31

Conditions for workers

126. Witnesses such as Scottish Leather Group[133] and Angus Soft Fruits[134] were keen to stress that there is no pay differential between local workers and European workers. Stephen Boyd of STUC echoed this,

> there is no serious evidence that immigration to Scotland has led to higher unemployment levels or lower wages among the indigenous Scottish workforce.[135]

127. Thompsons Solicitors told the Committee about protections afforded to workers under European legislation. They said,

> we must vigorously hold on to protections for workers that have come through Europe (such as protection of the rights of agency workers, etc) and not allow them to reduce in any way, shape or form.[136]

Dr Rebecca Zahn from the Law School at the University of Strathclyde said,

> a future UK government would, in such a case, be free to apply - in the sense of mirroring in UK law and practice – any future EU employment laws where it agrees on its content.[137]

128. Thompsons Solicitors also highlighted opportunities in relation to procurement. Patrick Maguire, a Solicitor Advocate at Thompsons Solicitors, said that there have been attempts to harness some of the powers of procurement by imposing conditions such as paying the living wage but that has always floundered in the past because of the relevant EU framework directive,

> there are massive opportunities to harness the power of procurement.[138]

129. Dr Zahn of the University of Strathclyde told the Committee that the Scottish government has already introduced more stringent measures on public procurement than is required under EU law. She cited the example of the Procurement Reform (Scotland) Act 2014 which places a number of more general duties on authorities in relation to their procurement functions which require authorities to assess prior to tendering, how each procurement can improve the "economic, social, and environmental wellbeing" of its area and involve wider stakeholders, giving potential scope for greater involvement of, for example, trade unions and workers.

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[133] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016,col 36
[134] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 10
[135] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 33
[136] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 40
[137] Written evidence, para 3
[138] Economy, Jobs and Fair Work Committee, Official Report, 22 November 2016, col 35

130. The Act also includes measures designed to encourage payment of the living wage and for local authorities, when assessing bidders, to have regard to their recruitment and remuneration policies (including on the living wage) to the extent these could affect their ability to perform the contract. Dr Zahn said,

> currently, a requirement to pay the living wage would fall foul of the Court of Justice of the European Union's jurisprudence. However, post-Brexit, there may be scope for the Scottish Government to introduce clearer guidance and/or legal requirements.[139]

Scottish labour market – recommendations and conclusions

131. The Committee notes the reliance in some sectors of the Scottish economy on EU labour, both skilled and unskilled. This is in the context of demographic challenges in Scotland. Such challenges are specific to Scotland and should be highlighted to the UK Government. It is vital that such locational differences are taken into account when negotiating new immigration arrangements.

132. The Committee explored the possibility of internal migration to fill vacancies in areas where the workers are not available. However, location and specific skills can be barriers to this approach. The Committee recognises that there are significant skills gaps in some sectors and a need for workforce planning, which takes the EU referendum decision into account, particularly in certain regions in Scotland where there are insufficient people available to fill vacancies. We recommend that work continues to seek to address both these issues, with an increasing of efforts in the context of the UK leaving the EU.

133. The Labour Market Strategy, produced by the Scottish Government in September 2016, refers to the establishment of a strategic labour market group to ensure that the labour market strategy is responsive to developments. The Committee will keep a watching brief on the work of this group.

University sector

134. Professor MacKay told the Committee that Scottish universities,

> have a disproportionate amount of faculty from the EU and that is the same for students and research networks.[140]

[139] Written evidence, paras 12 and 13
[140] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 3

Alastair Sim, Director of Universities Scotland, confirmed his organisation's view that free movement of talent,

> is the life-blood of universities and we do not want it to be restricted.[141]

135. Post-study work visas provide a dedicated immigration route for international graduates to stay in Scotland or the UK to work, after their studies have finished. The UK Tier 1 (Post-study Work) visa was abolished by the UK Government in April 2012. Prior to this, Scotland had a "Fresh Talent: Working in Scotland Scheme" visa which enabled students from Scottish education institutions to remain in Scotland for two years to work. This scheme ran from 2005 to 2008, when it was subsumed into the UK-wide Tier 1 (Post-study Work) visa.[142]

136. In July 2016, the UK Government introduced a pilot of post-study work visas in a small number of Universities in England. The two-year pilot scheme, which launched on 25 July, eases visa rules for those applying to master's courses at four universities, including Oxford and Cambridge, to allow participants time to find jobs via the established Tier 2 skilled worker visa route.

137. Addressing the issue of changes to post-study work visas and the impact on universities' ability to attract international talent, Universities Scotland stated,

> on post-study work visas and on student immigration, we have made the point—and there has been extraordinarily strong cross-party agreement on it—that Scotland is disadvantaged in relation to competitors such as the USA, Australia and Canada by not having a competitive post-study work regime. A lot of students want to leave India, China or wherever, come to do their degree, get some professional experience following on from that degree and then go home and use that combination of academic and professional experience to position themselves extremely competitively in their home workforce. Basically, our competitor countries all see the advantage of that, so we are at a particular disadvantage.[143]

St Andrews University also stressed the importance of post-study work visas.[144]

138. SDI and Jeremy Peat highlighted the importance of keeping students in Scotland after they graduate,

> anything we can do to enable some of our students to stay longer so that they can … connect with businesses here and then connect back in their home markets, would be a great thing for us.[145]

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[141] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 29
[142] Scottish Government website, Post-Study Work Steering Group Report of Final Recommendations, http://www.gov.scot/Publications/2016/03/5056/1
[143] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 31
[144] Visit note

SCDI agrees and thinks that it is a "reasonable ask of the UK Government" for Scottish universities to have access to a pilot of the post-study work visa at as early a stage as possible.[146]

139. Universities Scotland said of Scottish universities not being included in the recent pilot of post-study work visas,

> They're not being included was a great shame. The rationale that was given by the UK Government was that four institutions were chosen that had particularly low rates of visa refusal. Quite a number of our members would say that they have low rates of visa refusal and wanted to be in the pilot, as well. Also, the pilot penalised institutions that are active in slightly riskier markets. For instance, if an institution is trying to attract really good people from Pakistan, it has a higher risk of visa refusal, so it would have been penalised for being entrepreneurial

Universities Scotland also suggested that international students should not be counted as part of our migration totals.[147]

140. The China-Britain Business Council said that there is a ripple effect from foreign nationals coming to work and study in Scotland,

> when they return to their country of origin they are a huge source of investment in the longer term.[148]

Jeremy Peat concurred.[149]

SDI told the Committee in relation to companies that have been successfully attracted to Scotland,

> a strong common thread seems to be that they have had a prior connection to Scotland.[150]

141. The China-Britain Business Council stressed our universities must grasp the importance of maintaining those links with their alumni,

> that is a huge pool of resource we should be confident will bring us returns in the future.[151]

142. The University of Edinburgh told members that they would like to maintain Scottish university access to EU research programmes – seeking income,

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[145] SDI, Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, cols 16-17
[146] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 17
[147] Economy, Jobs and Fair Work Committee, Official Report, 8 November 2016, col 31
[148] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 8
[149] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 13
[150] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 25
[151] Economy, Jobs and Fair Work Committee, Official Report, 15 November 2016, col 18

partnerships and influence – preferably through remaining part of the European Research Area which produces one-third of the world's research outputs.[152]

University sector – recommendations and conclusions

143. The Committee notes the evidence on the value of post-study work visas and recommends that consideration should be given to extending the pilot to include Scotland.

144. The Committee recommends that the Scottish Government should work with the UK Government to ensure that Scottish Universities can continue to collaborate and lead on pan-European research projects.

Economic and trade and investment strategies

145. Consistent with his blog post in July - that the "Economic Strategy's priorities have been turned on their head by Brexit", Professor Roy argued,

> The delivery of the economic strategy cannot be exactly the same prior to Brexit as afterwards. There will be new challenges and opportunities, so it becomes crucial to reassess the economic strategy when we are no longer part of the European Union. What levers does the Scottish Government have at its disposal at the moment that it can use differently to have an impact on certain sectors?[153]

146. The Cabinet Secretary said that there are no immediate plans to alter the economic strategy but that he would continue to monitor it,

> we have made changes in relation to the growth scheme that is being developed, the enterprise and skills review, the beefing up of the trade side of what we are doing, and the attracting of inward investment. We have responded to the situation but we have not changed the economic strategy.[154]

[152] Visit note
[153] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 36
[154] Economy, Jobs and Fair Work Committee, Official Report, 29 November 2016, col 34

Economic and trade and investment strategies – recommendations and conclusions

147. In light of evidence heard by the Committee on the changing economic landscape following the decision to leave the EU, we recommend that the Scottish Government's economic strategy should be reviewed.

148. The Committee notes the announcement of the Scottish Government's "four point plan" in response to the decision to leave the EU; however, with such a significant change in our relationship with our largest overseas trading bloc, the Committee asks the Scottish Government whether an updated trade and investment strategy is now required.

Consultation with businesses - recommendation

149. The Committee was impressed by the level of engagement from businesses during its inquiry and their interest in informing policy-making. In light of this and reflecting the call from Dr Margulis for a "consultation process with stakeholders",[155] the Committee asks the Scottish Government to detail how it will engage with businesses, of various sizes and sectors, over the next few years on issues arising from Brexit negotiations.

[155] Economy, Jobs and Fair Work Committee, Official Report, 1 November 2016, col 58

Annexe A

GLOSSARY

Acronyms used in the report—

European Protected Geographical Indication (PGI)
Export Statistics Scotland (ESS)
Gross domestic product (GDP)
Highlands and Islands Enterprise (HIE)
International Public Policy Institute (IPPI)
National Farmers' Union (NFU)
Office for National Statistics (ONS)
Royal Bank of Scotland (RBS)
Rest of the UK (rUK)
Scotch Whisky Association (SWA)
Scottish Council for Development and Industry (SCDI)
Scottish Development International (SDI)
Scottish Fishermen's Federation (SFF)
Scottish Parliament Information Centre (SPICe)
Scottish Trades Union Congress (STUC)
Skills Development Scotland (SDS)
Small and medium-sized enterprises (SMEs)

Annexe B

Extracts from the minutes of the Economy, Jobs and Fair Work Committee and associated written and supplementary evidence.

9th Meeting, Tuesday 1 November 2016

3. Economic Impact of Leaving the European Union: The Committee took evidence from—
Dr Graeme Roy, Director, Fraser of Allander Institute;
Richard Marsh, Director, 4-Consulting;
Stephen Boyle, Chief Economist, The Royal Bank of Scotland;
Dr Matias Margulis, Lecturer, University of Stirling;
Dr Fabian Zuleeg, Chief Executive and Chief Economist, European Policy Centre;
Jane Gotts, Director, GenAnalytics Ltd;
Jenny Stewart, Head of Infrastructure and Government, KPMG.

5. Economic Impact of Leaving the European Union (in private): The Committee considered the evidence heard at today's meeting.

Written Evidence

- Fraser of Allander Institute
- Jane Gotts, GenAnalytics Ltd
- 4-consulting

10th Meeting, Tuesday 8 November 2016

2. Economic Impact of Leaving the European Union: The Committee took evidence from—
Neil Francis, International Operations Director, Scottish Development International;
Professor R. Bradley MacKay, Chair in Strategic Management, University of St Andrews Management School, University of St Andrews;
Alison McRae, Senior Director, Glasgow Chamber of Commerce;
David Williamson, Director of Public Affairs and Communication, Scotch Whisky Association;
James Withers, Chief Executive, Scotland Food & Drink Ltd;
Alastair Sim, Director, Universities Scotland;
Karen Marshall, Managing Director of Bridge of Weir Leather Company Limited and a Director of, Scottish Leather Group Limited;
Mark Hogarth, Creative Director, Harris Tweed Hebrides;
Bryan Buchan, Chief Executive, Scottish Engineering.
Gil Paterson declared an interest as a part owner of Gil's Motor Factors.

3. Economic Impact of Leaving the European Union (in private): The Committee considered the evidence heard at today's meeting.

11th Meeting, Tuesday 15 November 2016

2.Economic Impact of Leaving the European Union: The Committee took evidence from—
Jeremy Peat, Visiting Professor, University of Strathclyde, International Public Policy Institute;
James Brodie, Manager, Scotland and China Business Adviser, China-Britain Business Council;
Gareth Williams, Head of Policy, Scottish Council for Development & Industry (SCDI);
Neil Francis, International Operations Director, Scottish Development International.
3.Economic Impact of Leaving the European Union (in private): The Committee considered the evidence heard at today's meeting.

12th Meeting, 2016 (Session 5) Tuesday 22 November 2016

2.Economic Impact of Leaving the European Union: The Committee took evidence from—
James Porter, Angus Soft Fruits Ltd;
Dr Donald Macaskill, Chief Executive, Scottish Care;
Shirley Rogers, Director for Health Workforce and Strategic Change, Scottish Government;
Bartlomiej Kowalczyk, Director, Polish Business Link.
4. Economic Impact of Leaving the European Union: The Committee took evidence from—
Stephen Boyd, Assistant Secretary, Scottish Trades Union Congress;
Professor Robert Wright, University of Strathclyde;
Gordon McGuinness, Director of Industry and Enterprise Networks, Skills Development Scotland;
Patrick McGuire, Solicitor Advocate, Thompsons Solicitors.
5. Economic Impact of Leaving the European Union (in private): The Committee considered evidence heard at today's meeting.

Written Evidence

- Scottish Care
- Thompsons Solicitors

13th Meeting, Tuesday 29 November 2016

2. Economic Impact of Leaving the European Union (in private): The Committee discussed commissioning research and will consider a further paper at a future meeting.

3. Economic Impact of Leaving the European Union: The Committee took evidence from—

Keith Brown, Cabinet Secretary for the Economy, Jobs and Fair Work, Michael Russell, Minister for UK Negotiations on Scotland's Place in Europe, Gary Gillespie, Chief Economist, and George Burgess, Deputy Director - EU and International Trade and Investment Policy, Scottish Government.

4. Economic Impact of Leaving the European Union (in private): The Committee considered the evidence heard at today's meeting.

15th Meeting, Tuesday 13 December 2016

5. Economic Impact of Leaving the European Union (in private): The Committee discussed commissioning research and will consider a further paper at a future meeting.

16th Meeting, Tuesday 20 December 2016

1. Economic Impact of Leaving the European Union (in private): The Committee considered issues for its draft letters to the Scottish and UK Governments on the Inquiry on the Economic Impact of Leaving the European Union. Having considered the issues, the Committee agreed to produce a report and to consider a draft report in private, at a future meeting.

2nd Meeting, Tuesday 17 January 2016

1. Economic Impact of Leaving the European Union (in private): The Committee considered a draft report on the Inquiry on the Economic Impact of Leaving the European Union. Various changes were agreed to, and the Committee agreed to consider a revised draft, in private, at a future meeting.

3rd Meeting, Tuesday 24 January 2016
4. Economic Impact of Leaving the European Union (in private): The Committee agreed the report, subject to revisions to be agreed by e-mail, and the arrangements for its publication.

List of other Written Evidence

- Dr Rebecca Zahn, Strathclyde Law School
- NFU Scotland
- Scottish Contractors Group
- The Royal Society of Edinburgh
- Chartered Institute of Taxation
- Global Justice Now
- Food and Drink Federation Scotland
- Highlands and Islands Enterprise
- Nourish Scotland
- Scottish Council for Development and Industry
- COSLA
- Highlands and Islands of Scotland European Partnership

Annexe C

NOTES OF VISITS

- Aggreko Manufacturing
- Clydesdale Bank
- CodeBase
- Denholm Seafoods Ltd
- Edrington
- Festivals Edinburgh
- Golden Jubilee National Hospital
- Liberty Steel Motherwell
- Oil and Gas UK
- Quality Meat Scotland
- Scottish Fishermen's Federation
- Scottish Salmon Producers Organisation
- University of Edinburgh
- University of St Andrews
- Vegware

