



Scottish Council
for Development
and Industry

Culture, Tourism, Europe and External Affairs Committee

SCDI consultation response

Article 50: Preparedness

The Scottish Council for Development and Industry (SCDI) is an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members and partners across the private, public and third sectors to collaborate to deliver inclusive and sustainable economic growth.

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Introduction

1. The **Scottish Council for Development and Industry (SCDI)** is an independent and inclusive economic development network which has been serving Scotland since 1931. Our diverse membership represents all sectors and all geographies of the Scottish economy. We work on behalf of FTSE 100 companies, world-class universities and colleges, local authorities, charities and social enterprises, public sector agencies, trade unions and small- and medium-sized enterprises from across Scotland. Our mission is to inform, influence and inspire our members, alongside government, policymakers and other stakeholders. Through research, analysis and events, we provide the thought leadership, policy support and platform for collaboration necessary to deliver greater social and economic prosperity.
2. The UK's departure from the European Union (EU), and its potential impact on our members and the Scottish economy as a whole, have been key priorities for SCDI since the referendum result in March 2016. We have engaged with our members on this issue on an ongoing basis during the Article 50 negotiations between the UK Government and the European Commission. This has been completed in-person and online throughout the 18-month period.

What impact have the Article 50 negotiations had upon businesses and organisations to date?

3. The Article 50 negotiations have had a negative impact on a wide range of businesses and organisations in Scotland, including many members of SCDI. Business values stability and predictability, which has not been forthcoming to date. The terms of the UK's exit from the EU – and even whether a bilateral agreement on the future economic relationship will be secured – remain unclear. The difficulty, complexity and deeply political nature of the negotiations to date has generated significant uncertainty for both employers and employees.
4. Some of our members report that their businesses or clients have postponed, scaled-back or cancelled planned investment because they cannot confidently predict the regulatory landscape and macroeconomic climate of the post-Brexit Scottish economy. There is some evidence that activity in the construction sector has slowed as capital leaves the UK. Investment levels would be expected to rebound if, and when, a positive deal which supports the frictionless movement of goods, services, capital and people is agreed.

5. Securing the rights of EU nationals as soon as possible is fundamentally important. Our members have raised concerns that the uncertainty over the terms of the final deal, particularly the future legal status of migrant labour from the EU and the European Economic Area (EEA), has already had a negative effect on the retention and attraction of EU/EEA migrants in Scotland. Significant and increasing numbers of EU/EEA nationals who call Scotland home are deciding to leave the UK, because of a perception that the UK is hostile to migrants – and that Brexit will negatively impact the performance of the UK economy and labour market. This trend of outward migration will widen existing skills gaps and labour shortages, which have been a drag on economic growth. Scotland's population would be in decline without the current level of migration from the EU/EEA.
6. As our members inform us, migrants are valued contributors to Scotland's social and economic prosperity – they raise families and enrich our communities; study or teach at our world-class universities and in our schools; create jobs and economic growth as innovators, entrepreneurs and small-business owners; and perform essential roles in the NHS, agriculture and hospitality. The rights of EU/EEA migrants resident in the UK on 29 March 2019 should be guaranteed, whatever the outcome of negotiations and regardless of 'no deal', to support Scotland's economic and demographic needs. SCDI's preference is for the continuation of freedom of movement of people between the UK and the EU to ensure Scotland remains an open, inclusive economy.
7. SCDI welcomes the commitment by the Scottish Government in its **Programme for Government 2018-19** to create an information and support service on immigration and citizenship matters for EU citizens resident in Scotland.

What preparations, if any, are being made by businesses and organisation for the range of scenarios which may result from the Article 50 negotiations?

8. Completing adequate and effective preparations for the UK's exit from the EU, given the wide range of divergent scenarios, has proven challenging for business, particularly those which operate with EU supply chains and just-in-time processes, or those which are reliant on EU export markets. Some businesses and organisations are operating on the assumption of a 'worst-case scenario' – that is, a 'no deal' outcome – in order to minimise risk.
9. The degree to which businesses and organisations are prepared for Brexit varies considerably. Most businesses and organisations have committed time and resources, albeit often limited, to Brexit scenario-planning. Substantial

numbers of businesses have engaged in comprehensive planning for a range of divergent outcomes to the Article 50 negotiations.

10. However, it is clear that a significant minority of businesses have not undertaken any planning to date citing insufficient capacity, insufficient information, uncertainty around the final terms of the UK's departure or unknown factors such as changes in input and labour costs. This final cohort of businesses and organisations, which SCDI expects to be particularly representative of small- and medium-sized enterprises, is of significant concern. SCDI has informed its members, in line with advice from the UK Government and the European Commission, that it is critical that all businesses, organisations and individuals plan now for Brexit.

What would be the impact of a no-deal outcome for Scotland's businesses and organisations?

11. It is clear that a 'no deal' outcome would be disastrous for the Scottish economy, particularly in the short- to medium-term. SCDI does not believe that there is a scenario in which 'no deal' is better than any kind of deal.
12. 'No deal' would disrupt the seamless flow of goods and services between Scotland and the EU, and the seamless operation of continental supply chains and just-in-time processes. It would create substantial delays for imports and exports at airports and ports, including perishable products and agri-goods which generate billions in exports for Scottish food and drink companies. Scottish pharmaceutical, chemical and related products would no longer be accredited for sale in the EU. The attractiveness of Scotland as a leading destination for inward investment would be severely damaged. The supply of labour and skills would decrease in an already tight labour market. Input and labour costs would likely increase, causing significant price inflation for consumers. Some observers, including the **Chief Executive of The Royal Bank of Scotland, Ross McEwan**, have suggested that 'no deal' could precipitate a UK-wide recession.
13. The best outcome for Scotland's businesses and organisations is that the UK remains part of the single market and the customs union. This model would be the only way to maintain the frictionless movement of goods, services, capital and people and to prevent a hard border on the island of Ireland.

To what extent has the guidance issued by the European Commission and the UK Government been helpful in assisting businesses and organisations to prepare for the UK's withdrawal from the EU?

14. The **technical notices published by the UK Government**, which SCDI has promoted widely to our membership, set out clearly and in some detail the

consequences of ‘no deal’ in various areas. Some of our members report having studied this guidance and found it useful in assisting their preparedness.

15. Nevertheless, these notices are not sufficient because they neither cover all sectors of the Scottish economy nor the consequences of other potential outcomes. It is these scenarios, which remain more likely than ‘no deal’, which require more supporting information.
16. Full preparedness, however, can only be facilitated by the clarity of a final deal. SCDI encourages the UK Government and the European Commission to reach agreement as soon as reasonably possible and to promptly and clearly communicate the details and implications of this agreement to businesses, organisations and individuals in Scotland. SCDI stands ready to assist in this effort through its members, stakeholders and networks.

What further support or guidance should the Scottish Government, the UK Government and/or the European Commission provide to enable individuals, businesses and organisations in Scotland to prepare for the UK’s withdrawal from the EU?

17. The Scottish Government and the UK Government need to provide further clarity on what will replace **existing revenue streams from the EU** which deliver economic growth, employment and productivity by funding regeneration, infrastructure, research, innovation and training. Between 2014 and 2020, Scotland had been expected to receive €5.6 billion from the EU, principally through the Common Agricultural Policy (CAP) (over €500 million annually); the European Structural Funds programme to support economic development (€941 million); and the European Maritime and Fisheries Fund (€108 million). In 2016, Scottish organisations were participating in projects supported by the Horizon 2020 research and innovation programme worth €250 million, of which nearly three-quarters was won by Scotland’s higher education sector. Scotland outperforms its share of the UK’s population (8.3%) by securing 14% of EU funding delivered to the UK. Some Scottish Government, Scottish Enterprise and Highlands and Islands Enterprise activities are directly funded by the EU. Scotland also participates in various socially and economically valuable EU programmes such as Erasmus, access to which should be maintained for Scottish-domiciled students.
18. The UK Government has previously announced that the **UK Shared Prosperity Fund** will replace the European Structural Funds programme. However, little to no information on what it will be or how will it will operate has been released. More clarity on the design of this and other replacement schemes, particularly the successor to the CAP, is urgently required.

19. SCDI believes that there should be an extended transition or implementation period after 29 March 2019 to mitigate the risk of the UK's withdrawal causing significant social and economic disruption and to enable businesses and organisations to maximise their preparedness. Extending the conclusion of the agreed transition period beyond 31 December 2020 should be explored by the UK Government and the European Commission.