



Trade and Cooperation with the EU: Actions to Support Scotland's Economy

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www.scdi.org.uk

About us

SCDI is Scotland's Economic and Social Forum. We are an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members, partners, and stakeholders across the private, public and third sectors to deliver inclusive and sustainable economic growth.

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Introduction

SCDI's mission is to convene debate and fresh thinking around the major issues for Scotland's economy. We do this working in consultation with our diverse and extensive membership, and governed by committees and working groups of expert members in these areas of focus.

SCDI's roots are in forging and increasing the value of Scotland's trading relationships as well as in increasing Scotland's capabilities in international trade. At a time of change in the UK's trading relationships with the world, SCDI re-established our International Business Committee (IBC) last year to drive SCDI's international trade policy and engagement with government. It is focussing on tackling market access barriers as well as trade promotion.

The IBC agreed that an early priority for its work was the impact of the first year of the UK-EU Trade and Co-operation Agreement (TCA) and set up a short-life working group to oversee it. This decided that the main objective of its report would be to propose **practical and deliverable** actions by businesses, organisations and the UK and Scottish governments to improve UK-EU trade and cooperation in support of the Scottish economy in the near and the longer term¹.

The working group gathered evidence from SCDI members in a range of sectors and areas of Scotland in December 2021 and early 2022 through a call for evidence and interviews. It developed draft recommendations based on this consultation. The evidence and potential recommendations were then tested with SCDI members on our Policy Committee, our three regional committees (North East Scotland, Highlands & Islands, and South of Scotland) and the full IBC. The full list of membership of our International Business Committee can be found [here](#).

Based on this, we are proposing 6 key actions:

Action	Including by:	Primary Responsibility
1. Work with industry to capture and act on trade frictions	<ul style="list-style-type: none">• Creating domestic TCA advisory groups• Tasking Government overseas offices with resolving trade frictions• Sharing examples of successful actions	UK and Scottish governments, industry
2. Work with EU counterparts to close gaps in the TCA		UK Government and regulators
3. Deliver secure and efficient digital borders		UK Government
4. Secure future Horizon Europe access		UK Government
5. Engage positively with the EU on policy development and impact	<ul style="list-style-type: none">• Scaling-up Scotland House Brussels' engagement with EU institutions and Scottish industry/stakeholders• Facilitating a programme of regular Policy Missions from Scotland to EU institutions	Scottish Government, industry and civic organisations
6. Increase industry/ civic engagement with EU counterparts		Scottish industry and civic organisations, Scottish and UK Governments

These are supported by additional actions explained in this report.

¹ A list of International Business Committee Members is linked above from our website. It should be stressed that this paper reflects the collective view of the committee rather than the views of any individual member.

Our proposals provide more details on some of the recommendations for Scotland's international trade made in SCDI's Blueprint for Scotland in 2030, [Making a Good Living](#).

In some areas, there has already been positive progress since the Blueprint was published. For instance, we proposed that an independent Scottish Trade Policy Observatory linked with economics and international relations research excellence should be created which, like the UK Trade Policy Observatory, is an independent expert group which analyses trade policy, gathers evidence with a long-term perspective and offers training to policymakers and others.

We were delighted to note, therefore, that the UK Trade Policy Observatory will evolve into a multi-institutional Centre for Inclusive Trade Policy which includes the University of Strathclyde², and we look forward to working with and engaging our IBC and members with the new Centre.

SCDI would like to thank the members of the UK-EU Trade and Co-operation Agreement Working Group and all of our members who provided evidence and comments for this work.

Following the re-establishment of our IBC, SCDI is ready to play our part in the implementation of the proposals set out later in this report: for example, in developing a Scottish TCA advisory group; policy missions for Scottish organisations to Brussels; raising awareness of opportunities in trade agreements and increasing insight into trade preferences in existing agreements/ evidence of why these are not always used by businesses; and supporting the enhancement of trade policy skills across more Scottish organisations.

We look forward to discussing this report with the UK and Scottish Governments, and our members and partners, and working together on actions which support Scotland's economy.

Scotland's trade with the EU single market

While departure from the EU represented a major change in the UK's trading environment and pivot in the UK's trade policy, the EU will remain Scotland's, and the UK's, largest trading partner for the foreseeable future. Equally, the UK will remain one of the EU's largest trading partners. Minimising formal and informal barriers to trade in goods and services and agreeing partnerships where possible and mutually advantageous will be critical for businesses, organisations and the Scottish economy. Retaining and enhancing connections and dialogue between organisations and governments at all levels in Scotland, the UK and the EU in areas of shared priorities will help maintain a positive policy environment for trading with the EU for the Scottish economy.

While trade and cooperation between the UK and the EU is the main subject of this report, we appreciate that the challenges, or opportunities, which the UK leaving the EU has created or increased for some organisations cannot be addressed by developments in the TCA alone. We have, therefore, also included some recommendations which would help organisations to overcome TCA-related challenges and to maximise the potential of new Free Trade Agreements (FTA).

The EU single market is Scotland's largest international export market. It alone accounted for 47% of the total value in 2019, the most recent year for which there are official export statistics for Scotland, compared with 53% exported to non-EU markets. These proportions were the same as at the time of the UK referendum on EU membership in 2016 - although in 2019 exports to the EU increased more slowly at 2.6% compared with 4.1% for non-EU markets³.

² [New £12m research centre for inclusive trade policy : Broadcast: News items : University of Sussex](#)

³ [Export statistics Scotland: 2019 - gov.scot \(www.gov.scot\)](#)

While the relative growth of exports to the EU and non-EU markets has fluctuated, the clearest conclusion from a review of long-term trends in the destinations of Scotland's international exports is the continued importance to the Scottish economy of the EU.

Since 2002 and the sharp decline in Scotland's electronics manufacturing sector at that time, the value of Scotland's exports to non-EU markets has experienced significantly larger growth than exports to EU markets. However, focusing only on the years from 2010 to 2019 within this timescale, suggests that recently at least exports to the EU have grown at a faster rate than non-EU exports.

Evidence of the impact of the TCA in economic data

The TCA was applied provisionally from the 1st of January 2021 and came into force on the 1st of May. As the latest official export statistics for Scotland cover 2019, they predate the TCA.

In addition to this lag in official exports statistics, the global economic recession caused by the COVID-19 pandemic and the global supply chain crisis which followed from 2021 onwards makes it even more difficult to isolate the impact of the TCA within official economic data.

At a UK level, Office of National Statistics (ONS) data is available for exports and imports of goods from EU countries and non-EU countries from December 2018 (the pre-pandemic period), the end of the transition period at the end of 2020 and the end of 2021. This shows:

	Exports (in GBP)		Imports (in GBP)	
	EU	Non-EU	EU	Non-EU
Dec-18	14.4bn	13.9bn	22.5bn	18.8bn
Dec-20	14.5bn	13.1bn	24bn	18.2bn
Jan-21	7.6bn	13.7bn	16.3bn	16.3bn
Dec-21	14.6bn	13.5bn	19.4bn	23.5bn

Source: Office of National Statistics⁴

Evidence of the economic impacts is also found in business surveys and economic modelling.

On the initial impact, the Fraser of Allander Institute's Scottish Business Monitor, Q2 2021⁵, which sampled over 500 businesses across the Scottish economy in July 2021, found that:

- Of the firms that trade with the EU, 70% reported that they were experiencing negative impacts since the end of the transition period, with 2% reporting positive impacts.
- 38% of responding businesses reported that leaving the EU had negatively impacted their ability to fill vacancies, with 60% reporting that Brexit had no impact at that time.

Businesses continued to face negative impacts throughout 2021. The British Chambers of Commerce's survey of businesses in November found that over half of exporters (60%) reported difficulties in trading with the EU – up from 49% at the start of the year in January⁶.

The impact of the end of the transition period and the TCA has been modelled by the Centre for European Reform and by the UK Trade Policy Observatory. The Centre for European

⁴ UK trade - Office for National Statistics (ons.gov.uk)

⁵<https://www.addleshawgoddard.com/globalassets/insights/general/scottish-business-monitor-all-reports/scottish-business-monitor-q1-2021.pdf>

⁶ BCC SAYS MORE MUST BE DONE TO IMPROVE UK-EU TRADE (britishchambers.org.uk)

Reform estimated that UK goods trade was between 11% and 16% lower in October 2021 than it would have been if the UK had stayed in the EU's single market and customs union⁷.

Using HMRC data, the UK Trade Policy Observatory estimated that UK exports to the EU fell by 41% in January 2021 but recovered to contract by 3% for the whole of 2021 relative to what exports would have been without the agreement. It estimated that the effect of the TCA on UK imports from the EU is larger and more persistent with a fall of 32% in imports in the first year⁸.

The impact on some sectors has been higher. For example, exports of UK food and drink products to the EU dropped by 13.9% between Q3 in 2020 and Q3 in 2021 (and 23.7% from Q3 in 2019, a loss of £2.4bn) driving a drop of 4.1% in total exports⁹. ONS data shows that UK financial services exports to the EU have fallen since the end of the transition period.

The Fraser of Allander Institute's Scottish Business Monitor, Q2 2021, a survey of Scottish businesses, found that accommodation & food services was the sector reporting the most difficulty in filling vacancies due to Brexit, with 60% reporting negative impacts. This was followed by IT & Communications (46%) and Professional, Scientific and Technical (43%).

Evidence from Scottish organisations on the economic impact

SCDI has gathered evidence from a range of organisations and trade associations in a call for evidence to its membership. Responses were received from organisations in the food and drink, manufacturing, wholesale and retail, education, transport and storage, financial services, and professional, scientific and technical activities sectors. Evidence was also received from SCDI members on our Policy Committee, our three regional committees (North East Scotland, Highlands & Islands, and South of Scotland) and the full IBC.

The main point of this research was to gather qualitative evidence to inform the development of proposals for practical and deliverable actions by businesses, organisations and the UK and Scottish governments to improve UK-EU trade and cooperation. A full list of areas for which there is a perceived need for development and improvements in the TCA should be brought together by trade associations and the UK and Scottish governments, but such specifics were not the aim of this report and could not be created by a single call for evidence.

Inevitably, those organisations which have experienced more negative impacts were more likely to respond to the call for evidence. Nevertheless, some overall findings are still notable.

For the vast majority of respondents, the initial impact of the end of the transition period was negative or extremely negative. For most, the situation has not yet improved, or has actually got worse. For others, the situation has improved to an extent, but challenges remain. The pandemic and global supply chain problems have of course exacerbated the issues faced. This means there are a wide range of opportunities to improve on the current situation.

On current challenges, a wide variety were identified by respondents:

Goods

- Significantly increased paperwork at customs, time delays and costly processes
- Export health certificates for the export of live animals or animal products

⁷ [Cost of Brexit | Centre for European Reform \(cer.org.uk\)](https://www.cer.org.uk/cost-of-brexit)

⁸ [Blog « UK Trade Policy Observatory « The UK Trade Policy Observatory offers a wide range of expertise and services to help support government departments, national and international organisations and businesses to strategise and develop new trade policies in the post-Brexit era \(sussex.ac.uk\)](https://www.uktradeobservatory.org.uk/blog/uk-trade-policy-observatory-offers-a-wide-range-of-expertise-and-services-to-help-support-government-departments-national-and-international-organisations-and-businesses-to-strategise-and-develop-new-trade-policies-in-the-post-Brexit-era)

⁹ [trade-snapshot-q3-2021.pdf \(fdf.org.uk\)](https://www.uktradeobservatory.org.uk/trade-snapshot-q3-2021.pdf)

- Groupage for Products of Animal Origin, especially for SMEs
- Introduction of import checks for Products of Animal Origin into the UK
- Lack of cohesion around definitions, certifications and systems between HMRC and the UK Department for the Environment, Food and Rural Affairs/ Animal and Plant Health Agency for the import of some products e.g., feed products for salmon farming
- Proposed high costs for exports through new Borders Control Posts into the European Economic Area (the EU single market, Norway and Iceland), and Switzerland
- Import duties for re-exporting into the EU
- GB-Northern Ireland is effectively a full customs control system
- Large increases in the costs of importing raw materials from the EU for a range of sectors e.g., annual growth in construction materials cost rises are at a 40-year high¹⁰

Services

- Lack of detail in the TCA on financial services and of clarity on ratification by the EU of a Memorandum of Understanding (MoU) to follow through on the joint commitment to 'agree to establish structured regulatory co-operation on financial services'
- Greater uncertainty in areas such as mobility and rights of establishment, which will now be determined by each jurisdiction adding a significant degree of operational complexity

Education and Skills

- Uncertainty around UK association to future Horizon Europe funding impacting on research
- Student recruitment from the EU is continuing to decline at universities and colleges
- Reduced mobility of students and staff by the UK not participating in Erasmus
- Lack of clarity about mutual recognition of qualifications frameworks

Cross-Cutting

- Loss of EU customers who will only trade with EU companies
- Staff recruitment and retention (compounded by the pandemic)
- Costs and administrative workload of new immigration visas and surcharges
- Difficulties caused by potential regulatory divergence
- Uncertainty about the UK Subsidy Control Bill to replace the EU state aid regime and the UK and Scottish governments' plans for public subsidies e.g. public investment in infrastructure for offshore renewables developments, such as ports and harbours

Many of the respondents report challenges due to differing implementation of the TCA by EU states or authorities. Some of these appear to be due to a lack of understanding of the rules. There is a perception among some respondents, however, that some states or authorities are being more deliberately unhelpful. While some sectors have received useful assistance with specific problems from the UK and Scottish Governments and respondents were not especially critical, support given by them so far does not seem to have made a major difference for most.

There was a positive example of a local solution from the Scotch Whisky industry of working with the British Embassy and Scottish Development International (SDI) to address the misinterpretation of EU rules at one port in Italy through meetings with local authorities.

¹⁰ [Construction materials cost increases reach 40-year high \(rics.org\)](https://www.rics.org/news/2022/02/construction-materials-cost-increases-reach-40-year-high/)

There was also a view that some challenges are not transitional, but now simply a fact of life in trading with the EU as a non-member. As a result, some scepticism remains among respondents as to whether practical solutions are available.

Companies have responded to the challenges since the end of the transition period in different ways, but most respondents said that they had stopped or reduced some activity. Other businesses have continued to trade, but have been burdened by extra admin, handling and storage costs, reducing their competitiveness. Some businesses in manufacturing, retail and financial services have opened, or will open, warehouses or subsidiaries in EU markets to serve customers and clients or meet EU market rules, reducing economic activity in Scotland.

Most respondents are exploring, or plan to examine, the opportunities from new or proposed FTAs. A significant number do not believe that there are current opportunities for them and instead are simply concentrating on addressing new challenges in existing markets where their products or services face new barriers. Others that already export to many markets have refocused efforts.

Respondents called for governments to work with organisations and their trade associations to highlight potential opportunities, alongside increasing their capabilities in addressing market barriers and communicating effectively with organisations in the private (multinationals and SMEs) and non-private sectors.

Recommendations

This report focuses on **practical and deliverable** actions which may improve the current position for Scottish organisations. We fully understand that the EU and UK Government are not at present going to reopen TCA negotiations to negotiate a fundamentally closer relationship, but we hope there is a desire to develop a greater understanding of emerging barriers and promote solutions.

While departure from the EU represented a major change in the UK's trading environment and pivot in the UK's trade policy, the EU will remain Scotland's, and the UK's, largest trading partner for the foreseeable future. Equally, the UK will remain one of the EU's largest trading partners. Minimising formal and informal barriers to trade in goods and services and agreeing partnerships where possible and mutually advantageous will be key for businesses, organisations and the Scottish economy. Retaining and enhancing connections and dialogue between organisations and governments at all levels in Scotland, the UK and the EU in areas of shared priorities will help maintain a positive policy environment for trading with the EU for the Scottish economy.

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We have grouped our recommendations under the following headings:

Improving trade and cooperation with the EU now and in the future

1. Strengthening the TCA and its implementation
2. Maintaining engagement with EU policymaking

Associated economic and trade challenges and opportunities

3. Support to address wider TCA-related challenges and opportunities
4. Supporting organisations with opportunities in new and existing agreements

Improving trade and cooperation with the EU now and in the future

Strengthening the TCA and its implementation

1. **Work with industry to address trade frictions** – The EU-UK Partnership Council and Specialised Committees under the TCA should work with industry to address trade frictions which have arisen between the UK and EU and Great Britain and Northern Ireland. This should include the identification and adoption of best practice and existing precedents more widely, including from trading frameworks between the EU and other non-EU countries. There is also a need to raise awareness of the Government assistance available - for example DIT's Export Support Service, launched in October 2021, which offers answers to practical questions about exporting to the EU¹¹ - and DIT's trade barrier reporting tool. Individual traders and large trade associations should be able to trigger similar support through use of this tool and have action taken forward¹².
2. **Close agreed gaps in the TCA** - The EU-UK Partnership Council and Specialised Committees under the TCA should work with industry to close significant gaps in the TCA for services and goods e.g.:
 - The ratification of the Memorandum of Understanding establishing a framework for structured regulatory cooperation on financial services to facilitate close dialogue regarding equivalence regimes
 - Mutual recognition of professional qualifications and mobility issues
 - An equivalence mechanism for sanitary and phytosanitary checks on animal and plant products at border controls, or agreement on the introduction of an EU audit and approval of compliance by specific facilities in the UK
3. **Create domestic TCA advisory groups** - The Foreign, Commonwealth & Development Office should introduce advisory groups on the TCA which represent the views of stakeholders from across the UK, including Scotland, based on the model of the Department for International Trade's (DIT) advisory groups for trade negotiations. The existing DIT advisory structure could conceivably be extended to include bilateral trade with the EU. A Scottish advisory group, with representatives including the UK, Scottish and local governments, Scottish members of UK advisory groups, trade associations and other stakeholders, should be set up by the end of 2022. This should meet biannually to develop a comprehensive view of TCA market access issues for resolution in the Specialised Committees and review progress.
4. **Task government overseas offices with helping resolve local trade frictions** - The UK Government's diplomatic missions and SDI should commit to respond quickly where challenges arise in the implementation of the TCA and work with industry to set up meetings with relevant authorities in the EU to provide information and best practice on what the TCA requires, and to agree local solutions.
5. **Share successful actions across organisations** - Industry, with support from UK Government and Scotland's enterprise agencies, should find ways to share learnings more rapidly between organisations on how they have overcome TCA-related challenges.
6. **Deliver secure and efficient digital borders** - HMRC should deliver the new Customs Declaration Service 'digitalised border' platform for trade movements between Great

¹¹ [Ask the export support team a question - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/ask-the-export-support-team-a-question)

¹² <https://www.great.gov.uk/report-trade-barrier/>

Britain and Northern Ireland, the EU and the Rest of the World by early 2023, working with industry members to design, familiarise and support the automation of relevant systems.

7. **Secure Horizon Europe access** - The UK Government and the EU should agree the UK's association to Horizon Europe, and the Scottish Government, education institutions and industry should articulate the priorities for research and innovation¹³.

Maintaining engagement with EU policy-making

8. **Engage positively with the EU on policy development and impact** – The UK Government and Scottish government, industry and civic organisations, should develop joined-up plans for how they will rebuild and maintain positive engagement with EU policy-making processes. This should include working with other non-EU countries (such as Norway, Switzerland, Canada, Japan and the USA) on areas where we have shared objectives. The Scottish Government Office in Brussels should develop a detailed engagement plan by Spring 2023.
9. **Scale-up Scotland House Brussels' engagement with EU institutions and Scottish industry/ stakeholders** – The Scottish Government should scale-up capacity of Scotland House to enable enhanced connections and positive dialogue in areas of shared priority with EU institutions (DG TRADE, DG AGRI, DG Research and Innovation, DG CLIMA etc) and the UK Mission to the EU. Scotland House, working with Scotland Europa, should have a more explicit role to build coalitions of interest with Scottish exporters and other stakeholders, both on specific regulatory proposals and on working links with EU Commission services. The Scottish Government/Scotland House should establish channels through which industry provide timely evidence to Scotland House on the impacts of proposed changes and Scotland House can update industry on its actions.
10. **Increase industry/civic engagement with EU counterparts** - Scottish industry and civic organisations should re-join or join and be active within EU-wide associations which inform and influence EU policymaking in relation to their interests. They and the UK and Scottish governments should engage with institutions and networks which promote positive relationships between the UK and/or Scotland and the EU (e.g. the European Friends of Scotland network and the EU-UK Parliamentary Assembly), including both public and private organisations.
11. **Start a programme of regular Policy Missions from Scotland to EU institutions** – The UK and Scottish governments should support regular Policy Missions from Scotland to Brussels to familiarise more Scottish organisations with EU policy-making and networks, and how they can work to inform policy debates. The first mission should visit by the end of 2022.

Associated economic and trade challenges and opportunities

Support to address wider TCA-related challenges and opportunities

12. **Support business investment in training in international trade skills** – The UK and Scottish government, industry and education should fund skills development for TCA- and international trade-related skills, for example in customs, logistics, regulatory compliance with the UK's, EU and other countries' standards and technical specifications, and immigration, working with organisations such as the Institute for Exporters.

¹³ [Science Europe supports 'Stick to Science' Movement - Science Europe](#)

13. **Improve access to skills through the immigration system and trade agreements** - The UK Government should work with employers, education and devolved governments to meet the skills needs of employers across the country by improving the points-based immigration system, and by implementing changes to UK work and student visa rules agreed with other countries in new FTAs.
14. **Meet the skills needs of the economy and rural areas through targeted visa schemes** – The UK Government should extend the temporary visa route from one to two years and making it available to all sectors. As recommended by the Migration Advisory Committee and in consultation with the Scottish Government, the UK government should also pilot a rural migration visa scheme, as part of wider initiatives to attract to and retain migrants in rural areas.
15. **Introduce new routes for staff and student exchanges** - The Scottish Government should introduce new routes, in addition to the UK Turing Scheme, to support staff and student exchanges between education institutions in Scotland and the EU, potentially by arrangements aligned strongly with Erasmus and extending EU Saltire Scholarships for Masters students into future years.
16. **Safeguard and enhance Scotland’s international connectivity** – Scotland’s National Planning Framework 4, Strategic Transport Project Review 2 and Aviation Strategy, and the UK’s transport policy should support Scotland’s international sea, air and rail connectivity, including via England, for freight and passengers. The Scottish Government should introduce an Air Route Development Fund to enable Scottish airports to recover and compete for services.

Supporting organisations with opportunities in new and existing agreements

17. **Work with the EU on third country access and agreements** – The UK Government should work with the EU on shared market access goals in third countries where there are opportunities and mutual benefits in collaboration, e.g. in climate action. As a first step, where UK posts are developing market access strategies for UK exports to their countries, they should put in place mechanisms on the ground to share information and co-ordinate actions with EU Delegations and/or other like-minded countries’ posts by the end of 2022.
18. **Increase trade policy skills in businesses** - The Scottish and UK governments and industry should jointly fund the creation and development of trade policy skills in businesses, creating a forum where trade associations and exporting organisations can learn, with the support of peers, the UK and Scottish governments and the Centre for Inclusive Trade Policy, how best to engage around trade policy.
19. **Communicate effectivity on trade agreements with businesses, civic organisations and the public** – The UK Government should continue to step up its dialogue and data gathering and sharing with businesses on new and existing trade agreements, including priorities, benefits and barriers. DIT’s new Scotland trade hub and SDI should increase understanding among Scottish organisations about what support is available and help them to navigate changes to trade arrangements. The UK and Scottish Governments and the Centre for Inclusive Trade Policy should engage with businesses, civic stakeholders and the public on the evidence for increasing free, fair and climate-friendly international trade.