House of Commons

Scottish Affairs Committee

Oral evidence: Scotland’s Place in Europe, HC 595

Monday 24 October 2016, Glasgow

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[Watch the meeting]

Members present: Pete Wishart (Chair); Deidre Brock; Mr Christopher Chope; Margaret Ferrier; Mr Stephen Hepburn; Chris Law; Ian Murray, John Stevenson.

Questions 64 - 178

Witnesses

I: Bertie Armstrong, Chief Executive, Scottish Fishermen’s Federation, Clare Slipper, Parliamentary Officer, NFU Scotland, Councillor David O'Neill, President, and Anil Gupta, Chief Officer (Communities), Convention of Scottish Local Authorities.

II: Sir Tim O'Shea, Principal, University of Edinburgh and Convener of Universities Scotland’s Research and Knowledge Exchange Committee, Stephen Boyd, Assistant Secretary, Scottish Trades Union Congress, and Norman Provan, Associate Director, Royal College of Nursing Scotland.

III: Fraser Grieve, Highlands and Islands Director, Scottish Council for Development and Industry, David Watt, Executive Director, Institute of Directors, Scotland, and Colin Borland, Senior Head of External Affairs, Devolved Nations, Federation of Small Businesses.

IV: David Thomson, Chief Executive, Scottish Food and Drink Association, and David Williamson, Director of Public Affairs and Communications, Scotch Whisky Association.

Examination of witnesses

Witnesses: Bertie Armstrong, Clare Slipper, Councillor David O'Neill, and Anil Gupta.

Q64 **Chair:** Welcome, all, to the Scottish Affairs Committee taking evidence today from a whole range of different sectors from right across Scotland. We are fortunate to have representatives from agriculture, fisheries and local government for our first session. We will start proceedings by going from left to right and ask who you are and for a very short statement before we ask you some questions. We will start with you, please, Mr Armstrong.

Bertie Armstrong: Thank you very much. My name is Bertie Armstrong. I am the Chief Executive of the Scottish Fishermen's Federation, which is the trade association that looks after the catching sector in Scotland, the heavyweight end of UK fishing. For us Brexit, perhaps unusually or maybe even uniquely, presents a sea of opportunity. I would like to be able to explain that to this Committee.

For us the big thing is that there is a material change. Of course, everyone will have material change on Brexit and whatever emerges but for us the sea of opportunity means the return of a very large patch of sea-space, in fact the best part of the northern continental shelf, to the control of the new coastal state that will be born on Brexit, in much the same way as Norway, Iceland and the Faroes have the rights and responsibilities of sustainable seafood extraction. That is a very big change, given the fact that now that more than half of the seafood that leaves the UK EEZ—the area that will become ours—is in the beneficial hands of others, other than the UK. That is a very big deal. It could make a big difference to the coastal communities and the industries that depend on that, some of which have not much else, if this is handled right.

If you wouldn't mind, I won't take up very long in this introductory part to demonstrate the size of what we mean. I have been carrying this Admiralty chart about—

Chair: I hope you have one for all the Committee.

Bertie Armstrong: It is getting more and more tatty as time progresses.

That blue patch, the majority of the northern continental shelf, is the UK's EEZ. That is a very valuable piece of maritime real estate. It was turned over to common grazing when six became nine in 1972; equal access. I don't think the scale of generosity of that act was appreciated at the time. As time progressed nine became 28 going on 27, 14 of which fish. It resulted in this rather distorted situation we find ourselves in that more than half the seafood that leaves is not in our hands. This is the opportunity to put that right.

Chair: Thank you, Mr Armstrong. If it is possible, could we secure an electronic copy of that, as part of our submissions?

Bertie Armstrong: Of course.[1]

Chair: I am very grateful. Councillor O'Neill.

Councillor O'Neill Thank you very much. My name is David O'Neill. I am the president of COSLA. COSLA is the umbrella body for Scotland's local authorities and my title is much grander than the reality, let me tell you. I have to make my own coffee in the morning—nobody does it for me. Can I thank you for the opportunity to make a short number of points?

While the EU structures were not perfect, they did provide a route for local elected members to influence EU-wide policies and practice. We want to make sure that, in the process of leaving and what replaces it, our output can be maintained and developed with the repatriated powers, new treaties and whatever other arrangements come our way. Our members are deeply concerned about the local negative impact of leaving the European Union.

The view that COSLA took unanimously, cross-party, was that we should not leave the European Union; that we should remain. We are concerned about having restricted access to some or all of the single market. There are long-term threats to regional structural and skills developments. The loss of access to the EU workforce will have a direct impact on our health and social-care staffing. We are also concerned about removing the certainty that the seven-year funding programmes provide: that it will reduce our ability to build the infrastructure we need and to provide support to small and medium-sized enterprises and individuals. The replacement funding needs to be adequate to confront the challenges that lie ahead.

Chair: Thank you very much. Mr Gupta.

Anil Gupta: I am the chief officer in COSLA and I report to Councillor O'Neill, so I do not have anything to add to his statement.

Clare Slipper: Good morning and thank you for inviting me to be here today. I am Clare Slipper from the National Farmers Union of Scotland. Like COSLA, prior to the referendum, we were in a position where we summed up the challenges of the referendum question and came out saying that it was in the best business interests of our members to remain in the European Union. Therefore, this was not the result that we had prepared for and obviously there are going to be challenges. However, we accept the result of the referendum and we see that, while there will be challenges, there will also be some opportunities. It is still quite early days. We are obviously in a very political situation and we are consulting our members and coming out with a more detailed policy

[1] An electronic version of this map is available online.

position on how we want things to go in due course, so I will keep it fairly broad now.

The key issues for us are around trade and markets, future agricultural policy and continued support, as well as access to non-UK labour. These are the key things for our members and what they are most concerned about.

We have been engaging with UK and Scottish parliamentarians and Governments since the outcome of the referendum results and we are starting to get a small feel for what the negotiating position may be, although we recognise that it is still quite early days. What we are feeling is that there is definitely recognition from the Governments that agriculture and its input into the wider food and drinks industry is important. This is a confident place from which we can start but, basically, we are very clear that agriculture cannot become a negotiating chip in the wider negotiations, so it is from that platform that we are looking ahead.

Q65 **Chair:** I am very grateful to you all for being so concise. I want to remind everybody that we are taking a lot of evidence today from different sectoral interests right across Scotland, so I start with a plea to everyone to be as brief as possible. I assure you that the Committee is not going to be longwinded in putting questions to you.

I don't think that we spoke to any of you personally when we took some evidence in advance of the EU referendum. At that point, there was genuine concern that we just did not know what would happen if there was going to be a No vote. Now that we have that No vote and we are moving towards Brexit—I think the plan is that we will be triggering Article 50 before March next year—do any of you have any sort of idea or sense of direction about where all of this is going now? Are you clearer in your understanding of what Brexit means for your sectors?

Clare Slipper: This was not the result that we had necessarily prepared for, but we do accept it and do believe there are some opportunities. We are fairly satisfied that the interests of the rural economy have been recognised and that agriculture is not one of the industries that could easily adapt to being thrown off a cliff, for want of a better phrase. We are not as easily able to absorb a sudden shock or change in circumstances as other industries, such as, for example, the financial services industry might be able to do. It is welcome that there does seem to be some recognition of that. Clearly, we cannot say that there is a firm plan as yet, or a firm negotiating position, but we are beginning to get an idea of where the UK Government is coming from. For the agriculture industry, we have had two commitments put on record now by the Chancellor of the Exchequer regarding Pillar 1 and Pillar 2 funding of the CAP. That will only take us up to 2020 but, as we move forward through the negotiations, it is welcome that the need for continuity and certainty is recognised. It is from this platform that we are consulting our members to try to get a more detailed position.

Q66 **Chair:** From both or either of you gentlemen, do you know what this means for local authorities? Are you any closer to understanding?

Councillor O'Neill Among the issues we have is that we do not know yet what it means. Local government is responsible for the expenditure of roughly one-third of the European funding that comes to Scotland, through things like the European Social Fund, ERDF, and the LEADER programme. There is a degree of certainty up until 2020, but those of us who have held elected office for any reasonable period of time know that that is not long. It is only four years away and, in terms of how you structure expenditure, four years is not a long time and it hardly guarantees any certainty. There has been no indication about what is going to happen beyond 2020 and there is considerable uncertainty about that.

In local government, we have a great deal of contact with our European colleagues. There is a considerable degree of knowledge contained within Scottish local government. My plea to the UK and Scottish Governments is not to ignore that knowledge; make use of it and, since the decision has been taken, try to get the best deal that we possibly can.

Bertie Armstrong: For us the situation is a little clearer. The vote, which of course was frankly as big a surprise to us as it was to the rest of the nation—we thought it would be close but probably the other way—has, however, suddenly opened the door for us. What we have seen since that day is a growing understanding, by Government and by the general public, that this is potentially a big opportunity for the fishing industry of the UK. So that is a good thing.

For us the way ahead is quite clear. What we need—and it is our plea, and we are going to keep banging this drum as hard as we can and as frequently as we can with both Governments—is to recognise that the big decision to take is: yes, we are going to be a coastal state and, yes, we will be in charge of the use of this sustainable resource from our seas. The other half of that sentence is: and we will not trade that away as part of any emergent settlement.

What needs to be put in place behind that, which is one of the very big advantages of Brexit for the fishing industry, is removal from the CFP. It is not because we do not like law; it is not because we do not like rules; it is because that set is simply not fit for purpose. It is the structure and process that is not fit for purpose rather than its being populated by bad people. Co-decision, ordinary procedure, between 28 agriculture and fisheries ministries, only half of which fish, and 751 MEPs, is a recipe for getting nothing agreed quickly—nothing. In the fast moving world of fisheries regulation, that does not work. All it does is chuck the entire responsibility at the Commission, which is then subject to lobbying from different interests in 14 nations, and all of this is happening in our sea-space. That is just not right, so what the fishing industry needs to put in place, into the hands of Government and in double-quick time, is a reasonable management system that would work for us.

Q67 **Chair:** I am grateful for that and again grateful for concise responses. On that point, I will come to you first with this, Mr Armstrong, because you have mentioned the repatriation of powers. There is a debate going on just now, particularly when it comes to agriculture and fisheries, about where that power should rest once we leave the European Union, whether that is further devolved to the Scottish Parliament or whether that is retained at Westminster. What is your view about where that should go? What do you sense about the direction of travel, and about how these powers will come to the UK and which Parliament will have those responsibilities? We will come round the whole panel, but Mr Armstrong first, please.

Bertie Armstrong: Thank you very much. I am grateful for the question. We have a clear view of this. There are two levels to this. One is that the critical mass of that sea-space I showed you is conferred by its mass, because it is half the continental shelf. It is therefore in everybody's best interests if we negotiate for that space. That is at international level, setting levels of opportunity and basic principles. That needs to be done by the coastal state on behalf of that whole thing.

With regard to how policy is set, and at the second level, fishing is already devolved. There is Executive devolution and fishing is in the hands of the Scottish Government in our sea-space under the constraints of the CFP. Therefore, quite clearly we would see this as being for international negotiations to be done globally for that whole sea-space, annually, or bi-annually, with the other big coastal states, about levels of opportunity and about the split of that opportunity between whoever is allowed to fish. You make a big problem for yourself if you split it.

With regard to differential management, that is currently separate and should remain so. The Scottish industry has the big-scale volume of herring and mackerel—a big money spinner, the biggest catch in the United Kingdom, and it also has all the bulk whitefish, carefully caught, but the bulk whitefish—cod, haddock, whiting. South-west water has a very much larger number of vessels but catching much smaller quantities. Thankfully, the big bits are not mutually exclusive. When you need a policy for the south-west approaches of England, about skate and ray, about the relationship with France for scallop-dredging effort, that does not touch anybody in Scotland and we would be benignly interested in a best deal being possible for them. Likewise, when it comes to the big hitters of pelagic and bulk whitefish up north, we would expect Scotland to be in the lead for that. But, policymaking would be done between the two.

Q68 **Chair:** I think I am hearing what you are talking about, a joint-management arrangement between the Scottish and the UK Governments. Thank you. You have described a little bit about how that would work.

What is confusing for us and what we are trying to get a sense of here is—while the current arrangements for fisheries and agriculture, in particular, are a mixture of UK and Scottish Government powers—where the powers that will be repatriated from Europe with Brexit will rest. Maybe you could help us with that, Ms Slipper. Where do you see some of the regulation currently exercised by Europe coming from? Is it going to be to the Scottish Parliament or the UK Parliament?

Clare Slipper: My very limited understanding of it is that we know there will be this Great Repeal Bill, which will effectively move European regulations over to the UK Government and then those rules will be disapplied as and where devolved competence is set.

In terms of future agricultural policy, our understanding is that a UK framework will be developed, which will have devolved capacity within it. Perhaps there still needs to be a constitutional discussion between the UK and Scottish Governments as to what exactly that will mean, and what further flexibility the Scottish Government could have to build a new agricultural policy that is fit for Scotland's needs. We do see an opportunity within that because we reckon that certain amounts of flexibility will be needed to, for example, top up payments or build a different environmental regulatory system within the agricultural industry. That is the subject of a future constitutional discussion but it is important to note that, if it is the case that a lot is devolved to the Scottish Government, if we are to have hugely divergent agricultural policies across the UK, that perhaps is not favourable now because it could create distortion. It is important that there is an element of uniformity, particularly if we are looking at new trade arrangements and market access. I think we will touch on funding later.

Chair: Most definitely, we will. I know we will come back with some more detailed questions about the commitments in Pillar 1. We have a series of questions on that. But now I am going pass over to Mr Hepburn, who has a supplementary first.

Q69 **Mr Stephen Hepburn:** Mr Armstrong, I like your optimism.

Bertie Armstrong: Thank you.

Mr Stephen Hepburn: I hope it pays off, I really do. But can I ask you some questions that just cropped up in my mind? How do we extricate ourselves from the agreements we have with the likes of Spain and Portugal, the big ships? Is there any thought that we would have to pay compensation for those splits?

Bertie Armstrong: I can give you an example. It is a while ago now, but 43 years ago, when our waters were turned over to common access, in parallel, the cod wars were happening, which were less about cod and more about international regulation with regard to ownership of sea-space. Out of that came a set of decisions that resulted in EEZs, to cut a very long story very short. That resulted in the big-scale UK fleets out of Aberdeen, Fleetwood and the Humberside dying. They used to be able to fish in a certain place; they were no longer allowed to do so. There was very little thought of compensation; there was very little thought about historical rights of access. They died. Now, we are not suggesting that those fishing half of the contents of our sea-space all die but there ought to be an adjustment.

My optimism is maintained that out of that will come an arrangement where we have more opportunity and are able to govern those waters more sustainably, without having to pay through the nose for the privilege of doing something that is our right under international law.

Q70 **Mr Stephen Hepburn:** Your answer has led to another question. You say that part of the fishing industry died because of previous arrangements. What investment would have to be made to make up for that deficit, if the rest of the EU is taken out of that? I am not only talking about boats, because you are talking about huge investments to take advantage of the great opportunities, but also investment in infrastructure, like ports. The ports have not been invested in, because they did not have to cater for the massive fleets that we used to have and also other investments, such as factories on the side. Where is that investment going to come from?

Bertie Armstrong: That is a great question and you are absolutely right; you have put your finger on it. It is a bit of a first-world problem, to have much more opportunity and potential raw material and resource and have to work out, therefore, how you cope with that. I would see that certainly as a challenge but on the grade of challenges, a pretty fine one.

With regard to the catching opportunity, quite a lot of the fleet works at quarter throttle. We have had to do that for sustainability. The fleet is much smaller but none of it is fully occupied, the assets are not sweated, because of the way the CFP works. If we have much greater opportunity, the catching could be enhanced.

Processing and economic activity downstream of that will very much be a challenge, but I would note this: just to hammer the example I used to death, when the long-distance fleets fishing up in the Iceland-Faroes gaps and around Iceland died, there was a lot of processing on Humberside. There is still a lot of processing on Humberside but it is beneficially owned by the Icelanders, who import to us the fish that we used to catch. Good trick. Nice one if you can get it and I was rather hoping that we might be able to repeat something like that. If there is processing capacity that exists to process a lot of imported fish, what a joy it would be to process quite a lot of home-caught fish, our home-caught fish. So, it is a challenge, you are absolutely right, and it will have to be addressed, but on the scale of challenges I see it as one of the better, rather first-world challenges; more opportunity should result in more home economic activity.

Q71 **John Stevenson:** This is to Councillor O'Neill. COSLA has argued that you are very keen on the principle of subsidiarity and want to have it applied as fully as possible. What powers currently held at the EU level do you see being devolved back to the local authorities?

Councillor O'Neill There are three words to answer your question. Repatriation of powers is going to come. We should then be looking at devolution and subsidiarity. What do we mean by that? Devolution does not necessarily mean powers being devolved to Parliament, be it the UK or the Scottish Parliament. What subsidiarity means to me and to COSLA is not necessarily about powers being devolved to—what some people would call—the lowest level but to what I prefer to think of as spheres, rather than levels of government. What it means is being devolved to the most appropriate level.

There are some things that certainly should be dealt with on a UK basis; some that should be dealt with on a Scottish basis; some that should be dealt with on a local basis.

Q72 **John Stevenson:** Could you give specific examples?

Councillor O'Neill It is difficult to give a specific example at this time because it is so unclear just exactly where we are in these discussions. That is why it is important that all spheres of Government within Scotland and the UK are involved in these discussions to see where the most appropriate place to devolve the powers is. That is what subsidiarity means. It does not mean it all going to the one place; it goes to the most appropriate place.

Q73 **John Stevenson:** Mr Gupta, could you give us any specific examples of where power could come back to local authorities?

Anil Gupta: We are looking at getting further examples from our own members about where they would like greater flexibility. It is an issue really about flexibility and discretion being exercised appropriately through joint arrangements. We could be talking about procurement issues in particular, elements of liberalisation of the market, because we don't know what sorts of things are going to replace it. If there is going to be a whole series of trade agreements put in place, it is likely that those will impact locally.

We can see what has happened recently with the CETA discussions and Wallonia coming in and saying they have particular perspectives. We have such a big range but we are particularly pleased that at least—as my colleague on the left was saying—with the transposition of existing directives into UK law, at a point in the future we will have some ability to negotiate on some of the immediate issues around the environment, transport, and so on. The big thing at the moment continues to be trying to ensure that we have the right sort of relationship with the UK and Scottish Governments in how this whole thing unfolds.

Q74 **John Stevenson:** On that theme and coming back to Councillor O'Neill, earlier you said, "Don't ignore local authorities". Given the track record of the Scottish Government and Scottish Parliament centralising power to them, do you think there is a risk that any powers that do get devolved back are going to be taken by the Scottish Parliament rather than the

Scottish local authorities?

Councillor O'Neill: Despite devolution in the UK to Scotland, Northern Ireland and to Wales, we are one of the most centralised democracies anywhere in the world. In my opinion, devolving powers to national Parliaments is not what devolution should be about.

I will go back to the word "subsidiarity"; it is getting power to the most appropriate sphere of government and, indeed, beyond local authorities as well, right into the heart of communities. We had the Commission on Strengthening Local Democracy that looked at how democracy works in the UK, how it works in Scotland, and how it works elsewhere—everywhere else that is more successful than the UK in terms of reducing the gap between the two big inequalities in life, which are wealth inequality and health inequality. They are all better at it and they do it in a much more localised basis.

Q75 **John Stevenson:** On that basis, the real question is: are you confident or do you have concerns that, when we start to discuss the devolution of powers back to the UK and to Scotland, the British Government and the Scottish Government will play ball and see powers go down to local authorities, or do you have concerns that they will try to retain them?

Councillor O'Neill: We intend to lobby very hard to ensure that powers go to the most appropriate sphere of government. It is not something that we are going to be shy about.

Deidre Brock: In reference to your point about the powers being devolved further into the heart of local communities, does that suggest that you are interested in further devolution of those powers to, say, community councils?

Councillor O'Neill: Not necessarily to community councils, although they have a role to play. There are many organisations, the length and breadth of Scotland and indeed the United Kingdom, that play pivotal roles within our communities. To treat them just as a kind of add-on underestimates the impact they have in our communities. Again, it is getting to the most appropriate level. Some of it would be very local; some of it would be national.

Q76 **Deidre Brock:** When you talk about organisations being treated in that way, could you give us an example?

Councillor O'Neill: There are many community associations, people who run youth groups, people who run amateur football leagues, for example. There is a plethora of such things. Someone who runs a football league, you might think that is about getting folk to play a game of football but, no, it is not just about getting folk to play a game of football. It is about health. It is about participation. It is about mental and physical health. It is a whole range of things and it would be wrong for any of us in any sphere of government to ignore that.

Q77 **Deidre Brock:** Of course. You are suggesting that potentially some of those powers could go further, into those sorts of associations, and you seem to reject the thought of community councils.

Councillor O'Neill: I am not rejecting community councils; where appropriate, that is fine. Some places have good, effective community councils. Some places have other structures.

Margaret Ferrier: Coming on the back of what Deidre has just said, there seems to be a complaint that local community councils have that sometimes the ideas that they have to push things forward within a local area are blocked by local authorities. That is a concern of mine.

Another concern is about uniformity if you want powers devolved from the Scottish Government to local authorities; they do not all work in conjunction with one another. As we know, not all of them are signed up to COSLA. Some have taken themselves out of that. So how would that work?

Councillor O'Neill: I do not buy the argument that you need uniformity. Different communities have different needs. I will use my own local authority, North Ayrshire, as an example. We have a population of 138,000 people. The land mass of North Ayrshire: 50% of it is in mainland Scotland; 50% of it is the island of Arran. Arran has a population of 5,000 people but half the land mass of North Ayrshire. We do not configure our services in Arran in the same way as we configure our services on the mainland. It would be bizarre to do so. So it is not uniformity that you need; it is what is appropriate for communities. We need to design services not to communities but with communities, to meet their needs. Their needs are all different.

Chris Law: The Scottish Government has made it very clear that access to the single market is paramount. We learned from leaks from Downing Street to the press last week that there have been discussions about billions being spent for the City of London and car manufacturing to make sure they have access to the single market. Tell me, has the UK Government had these discussions with you and, if so, when and what stage are they at?

Councillor O'Neill: Not with us, no.

Bertie Armstrong: We are in the very early stages of discussions and it is ongoing. Tomorrow morning we are meeting Defra and the Fisheries Minister again. Tomorrow afternoon we are meeting with two Scottish Ministers, Fergus Ewing and Mike Russell, together, where this will undoubtedly come up. We have already a pretty strong view about that, which was typified by a statement a fisherman made to me, saying, "The Spanish buy my prawns, not because they think, 'There's a single market. I like the structure of that market. I think I'll buy prawns from Scotland'". It is because they want the prawns.

We are clinging to the thought that markets are markets of people offering stuff that others desire in a sensible way. Things are going swimmingly at the minute because the crunch on sterling has made it a great bargain, so trade is heavy. We would see the market probably being different and we are slightly concerned about the clinging to a principle rather than the clinging to the basic output, which is to sell fish for the best profit.

The other thing that will happen in Brexit, of course, is that it will open up other markets that we can tap into that are presently closed to us. A practical example was when the Russian sanctions were applied. That made a radical difference to the market for mackerel and herring; very worrying. We were able, within one year, to reset that to get these fish beneficially sold into new markets, carefully caught, carefully handled fish. So, we have an optimism that markets and market forces will work to our advantage and we are watching the challenge of making the best fist of that with Europe very carefully indeed. Undoubtedly a challenge, but we would suggest that slavish adherence to the single market, "It has got to be the single market. It has to look exactly like it does today", is possibly something of a mistake. We want a market that takes our products.

Clare Slipper: I will come in there. I would echo what Bertie said just there. We, too, have been having detailed discussions with Minsters from the Scottish and UK Governments, although nothing on the specifics of leaving the single market yet because there is still quite a lot on the table.

What is important to say—and it might sound fairly obvious—is that the biggest fear of Scottish farmers and crofters just now is the combination of limited access to markets, the fast removal of direct payments and little or no control over regulatory schemes. We do not seem to be staring down the barrel of that gun and the Governments seem to appreciate that at the moment, but clearly we need to start looking at what different free trade arrangements might be on the table if we are to leave the single market. Obviously, it will be something akin to the free trade agreement that we have now but this time replicated within the EU. It will mean that the UK has free access to the free market for some products but for others there may be certain controls and we recognise that certain agricultural products could be included within that.

What we need to do now is get a much better understanding of things like sanitary and phytosanitary measures, which could put tariff-rate quotas or tariff trade barriers on certain products. In an ideal world we would have free access to markets and limited exposure to cheaper imports, but there needs to be negotiation and we need to start looking at what the different scenarios will be.

Q78 **Chris Law:** I was trying to get a sense of timing and a timetable, given that we are less than four months from Article 50 being likely to be triggered. Do you feel you are comfortable with discussions where you are at the moment and are there essentially detailed issues surrounding Brexit?

Clare Slipper: It is quite difficult to say. We are beginning to narrow down where the negotiating position is and we do expect that a lot more detail will start to come out before the end of this year, or at the turn of the year, as to exactly what deal we can try to push for. It is hard for me to try to give any specifics before we have finished our consultation procedure with our own members. What we do understand is that there is not going to be a one-size-fits-all model. There is lots of talk of Norwegian models, Swiss models. What we are looking at is something slightly more bespoke, so it is what bolt-ons and what certain measures will be useful for our industry, and we are beginning to get a picture of what that might be. I hope that we would have a firmer idea before the end of March 2017.

Anil Gupta: Our members, having got together once or twice, are making the point that different accesses and reductions in access to European markets will have considerable impacts locally. They are particularly concerned that it is difficult to model that at this stage. The role for local government, in particular, is our support to SMEs and to the skills and the diversification of local economies. In some areas, we are expecting potentially big issues that need to be resolved prior to our achieving Brexit because our role would have to come in along with the funding for it.

Q79 **John Stevenson:** A quick question for Ms Slipper. You mentioned the market. At present in Britain, we are 60% self-sufficient in food. There is a 40% market there. Isn’t this a great opportunity for the agricultural industry and the NFU?

Clare Slipper: Certainly. There are going to be opportunities. Here in Scotland we have a fantastic food and drink story to tell. We certainly see the opportunity in growing our exports abroad, but also making more of the fact of what it is that we do here in Scotland and the real provenance we have. So, yes, there are opportunities but we do need to be realistic about certain barriers we might have in terms of tariffs, which our industry perhaps could not compete with.

Q80 **Mr Christopher Chope:** Clare Slipper, you have not yet shared with us a positive vision, as the Scottish fisheries have been able to do. I can understand why that is, because the agriculture sector has become so dependent on subsidies that it has almost lost the ability to think for itself. Now you have this amazing opportunity for Scottish agriculture. Are you restricting your vision to thinking about hanging on to the EU nurse? Or are you thinking globally, which is where the opportunities are? More than half your exports in agriculture already go beyond the European Union and you will now be taking control of your own destiny. All your own agricultural policy could be developed within Scotland. Do you agree with that?

Clare Slipper: Yes, I do, and I would not say that we are restricting our vision. We are being realistic. Here in Scotland what we have to ask ourselves is: do we want to remove direct payments and remove that certain reliance on support payment and see a complete restructuring of our industry up here? That could seriously undermine populations in more marginal areas and communities, and production for our food and drinks industry, which is one of the biggest manufacturing industries we have in Scotland. Or do we want to retain an element of public support but use this opportunity to tailor it much better to our unique needs, whether that is by encouraging businesses to become more resilient, allowing them to use certain margin protection tools to get more back from the market and lessen their dependence on subsidy or support, as I prefer to call it? Do we want to tailor a system that allows us better environmental outcomes and also grow our productivity as we continue to supply the export market? We do see all the opportunity in that. We just have to be realistic about some of the barriers we might be working with.

Q81 **Mr Christopher Chope:** To what extent do you believe that the Scottish Government is helping you in this? Basically, the Scottish Government has a tremendous opportunity here as well and does not need to keep looking back to what it used to be like under the European Union or under the Common Agricultural Policy. To what extent is the Scottish Government helping you to develop a joint policy, so that Scotland itself can decide the balance between subsidies and other issues in relation to agriculture?

Clare Slipper: Clearly, it is a very political situation. From the discussions that we have had with the Scottish Government we are in no doubt that they hear our priorities loud and strong; that they certainly recognise the importance of Scotland’s rural economy and the feed-in that farmers and the food and drink industry have to that. Without getting myself into difficult political territory, we are aware that there are discussions ongoing—today, in fact—between the devolved authorities and the UK Government. I am sure that a positive vision will be being put forward. From the union’s perspective, Brexit means Brexit, to use the over-used phrase, and we probably will be leaving as one, so we need to try to prepare for that. We are having positive discussions with the Scottish and UK Governments to that effect.

Q82 **Mr Christopher Chope:** Turning to Mr Armstrong, your clear and positive vision is going to be music to the ears of many people who have been campaigning for a long time to leave the European Union. You have shown the extent to which you have these tremendous opportunities. To what extent do you think the Scottish Government shares your vision for complete control over our seas, as we used to have before the Common Fisheries Policy was developed?

Bertie Armstrong: That is something that will be addressed tomorrow, directly with the Ministers. We really rather hope that, under any constitutional settlement that may or may not eventually arise, the plain benefits of being in sole charge of your sea-space are there. We hope that vision will be shared by the Scottish Government. It is our intention not to get entrammelled in a constitutional debate, because that is not our business. Our business is the best possible outcome for fishing. There is an economy of scale, or a critical mass, that shouts that the best solution possible would be that arrived at between the Scottish Government and the rest of the UK Government acting together to capture this grand prize; then Scotland would be able to administer itself and finesse its own fishing industry in the best way possible.

Q83 **Mr Christopher Chope:** In your opening remarks, you said how important it was that Scotland and the United Kingdom should be in charge of this resource. You said, almost as an aside, that you do not want to trade that away. Is there a concern, then, that the Scottish Government might be willing to try to trade that away?

Bertie Armstrong: We are concerned about the general atmosphere, not of the Scottish Government, but the general atmosphere of concentrating so hard on the challenges and the changes that Brexit will bring that you end up under the table in the foetal position with your thumb in your mouth, hoping that somehow it will all go away. We do not want the strength of negotiation, from both the Scottish Government and the UK Government acting together, to be in any way damaged by an over focus on the challenges.

For fishing, it is simply a no-brainer; the best outcome would be if the Governments worked together. That is our message, under any constitutional circumstances, and we will not end up embroiled, as Clare mentioned, in that debate. That is not our debate. Our debate is the best possible outcome for the communities and the very considerable downstream processing and other economic activity associated with being what we could be: a world leader in sustainable seafood. That patch is so big and so much comes out of it that that, indeed, is the sea of opportunity grand prize.

Q84 **Chair:** Thank you. Ms Slipper, before we move on, because I think it is quite important, you were talking about the relative funding arrangements and things. There is a lot of talk about what would come into place being a Barnett formula-type share for Scottish agriculture. Just briefly also, too, we know that the Government have made a commitment to UK agriculture that they will fund relative to the CAP funding up to 2020. We do not know what happens beyond that, but that is only for Pillar 1. Apparently, there is no inclusion of Pillar 2. Could you talk briefly about what that means to your sector and if there are any concerns about that? We would be grateful if you could answer those questions as briefly as possible because we have a lot to get through.

Clare Slipper: Sure. To take the latter part of your question first, there was an initial announcement on the Pillar 1 funding. Since then, it was announced by the Chancellor at the Conservative Party Conference that structural and investment funding would also be honoured past the autumn statement. Our reading of that is that it effectively guarantees the UK Government's share of Pillar 2 funding up to the end of 2020. The concern we now have, of course, is that quite a large portion of that is funded by our Government here in Scotland, particularly the less favoured area support scheme, which is a huge stream of funding for Scottish farmers. Around 70% of that is funded by the Scottish Government, so we are pushing for clarity from our Cabinet Secretary for Finance here as to whether or not that will be committed to. Our presumption is that it will be delivered as planned.

Q85 **Chair:** What is your understanding of the Barnett formula solution for agricultural funding for Scotland?

Clare Slipper: This is quite a difficult area. As I said in my written evidence, at the moment we get around 16% of the European agricultural money and that is based on an historical allocation. If we were to revert to Barnett formula funding, pre- or post-2020, that share could come down to about 8% or 9%. Of course, that is before we even know how much will be given by the Treasury towards some future agricultural policy.

We need to work through the various options that might be available. I am aware that the Barnett formula was bypassed in a previous example—I think it was to do with infrastructure funding for the Olympics—so there is a mechanism for that to happen. What we need to do is be a bit cleverer about how such funding is distributed across the UK in the future, whether that is looking at different land types and productivity of the land and classification in due course. We are currently looking at the different options.

Q86 **Ian Murray:** Can I pick up a little bit on the Barnett formula issue, Ms Slipper? There is an inherent danger, isn't there, across the United Kingdom in opening up the argument about the Barnett formula to essentially what the Common Agricultural Policy would give as a needs-based formula in terms of percentages? How important is it in this particular discussion for both Governments to work together, mainly on the funding? I think if you repatriated all the powers, in a very rough calculation, about three-quarters of a billion pounds would have to come to Scotland. That is unlikely to happen in a Barnett formula-based scenario, so we end up in a situation where both Governments have to work hand in glove to get the best deal. Fish do not stop at the border; bees do not stop pollination at the border; local authorities require that subsidiarity in terms of the spheres of government. How can we get to a situation where your sectors feel as if both Governments are going to work constructively together to get the best deal, not just for the UK but also for Scotland?

Clare Slipper: It is quite a difficult question to answer, to be honest. I suppose it is about making the case for recognising the role of agriculture and, indeed, the various different sectors that underpin Scotland's economy. I can look into it more and perhaps come back in writing as to the Barnett formula and how that might play out in the longer term.

From our perspective, we are keen to try to emphasise the importance of having an agricultural policy that is fit for Scotland's unique needs. As I said, while that will likely be devised by a UK framework that then has devolved capacity, it will be extremely important because it means a highly significant element of the Scottish agricultural industry and keeping our resilience longer term. I can come back on the specifics of Barnett.

Q87 **Ian Murray:** Can I ask Bertie one very quick supplementary, Chair? You talked about international agreements, in terms of that framework giving the foundation for how you would then operate the regulatory environment. What would happen then if some of that regulated environment was, therefore, devolved and there became a differential in the waters? You would not be advocating that Scotland or England or Wales or Northern Ireland had to patrol the waters in order to make sure the regulated environment was being applied equally on both sides of that particular imaginary waterline?

Bertie Armstrong: Again, a good question. I am clinging to the fact that it happens already, that we have devolved Executive devolution for fisheries. A practical example is: in order to recover the cod stock or in an effort to do so we introduced something in Scotland called real-time closures. If you fall upon an aggregation where fish shouldn't be caught, you shut that area and the surrounding area for 21 days and move somewhere else. We have hundreds of those a year. Those do not apply south of the border because it is a Scottish devolved matter. What we do not find is large quantities of the rest of the UK vessels coming up and using that as an indicator to where the fish are. It simply does not happen, so I am reasonably relaxed.

The big bit is the overall regulation of catching opportunity, which happens already in the set piece arrangements called Coastal States—capital letters; there is a physical meaning to that—arrangements. We would simply join that party at the top table and that would be a very different affair. I am absolutely certain we can get over all the necessary differences in regulation because we do not really care what happens about selectivity measures for skates and rays in the south-west approaches. Nor do the fisheries there give a damn about what happens about pelagic mesh size up in the north-east Atlantic.

Chair: I wondered when we would get to pelagic net size, and there we are.

Q88 **Deidre Brock:** For Councillor O'Neill. As has been mentioned, the UK Government have stated they will guarantee certain EU funds until 2020. Of course, additional statements are expected in the autumn statement next month. I think we have heard your views pretty clearly on the guarantees that have been given so far, but what would you hope will be included in that statement next month?

Councillor O'Neill: I would hope that they could give indications beyond 2020. As I said earlier, we spend about a third of the European money that comes to Scotland. We do that in conjunction with other sectors quite often. On the other hand, there are three certainties in life: death, taxes, and the other one is change. If you do not embrace change, you get swamped by it. We need to embrace the changes that are coming. We need to get definite answers as to what is going to happen after 2020, and the sooner we do that, the sooner we can plan. One of the great advantages that we have had from European money was the seven-year blocks that it came in. That was really, really useful in terms of planning. We need to be planning today for what is going to happen after 2020.

Q89 **Deidre Brock:** Mr Gupta, you look like you want to add something.

Anil Gupta: To say perhaps the obvious thing that, at the moment, already in Brussels our officers are working on the post-2020 framework. We hope that, as soon as we get into the discussions of the various forms of funding, we will be in a position to be able to start shaping those and get the degree of certainty that Councillor O'Neill has referred to.

Q90 **Deidre Brock:** Can I ask what the Scottish Government are offering, therefore?

Councillor O'Neill: In terms of finance?

Deidre Brock: Just in terms of assistance.

Councillor O'Neill: You will be aware that the Scottish Government recently appointed their own Brexit Minister in the form of Mike Russell. We have had meetings with Mike and there are discussions taking place between COSLA and the Scottish Government. We are more than happy to pursue a team Scotland approach with the UK Government to ensure that we get the best deal for our communities here in Scotland. We are also working with the Local Government Association in England, which has a fairly major role in the discussions that have taken place with the UK Government. We are very much aware that there is much more still to be done.

Q91 **Deidre Brock:** Of course, at present Scottish local authorities are bound directly by EU law. Your evidence has highlighted some areas such as public procurement where that affects local authorities. Removing that obligation to abide by EU law would, I understand, be a matter for the Scottish Parliament, but would you expect that to happen upon the UK's withdrawal from the EU?

Councillor O'Neill: We would hope that there could be additional flexibility built in—procurement is an example—where you could have a degree of buy local. It is important that economies of scale can be used where appropriate, but sometimes it is also appropriate that you can buy local. It is also appropriate that we ought to be able to support business sectors that might otherwise be struggling. You could have a business sector that might thrive in a city centre but would not necessarily thrive to the same extent in a rural community. We need to be able to have that flexibility so that we can support where appropriate.

Q92 **Deidre Brock:** That concentrates on the opportunities. What are the challenges that might occur as a result of that?

Councillor O'Neill: The challenge is nobody expected Brexit. I think it came as a shock to everyone, including probably the Brexiteers, and the challenge is uncertainty. We need to get as much certainty as soon as we possibly can. I go back to an earlier comment: change is inevitable; either embrace the change or get swamped by it. We always need to be embracing the change.

Q93 **Deidre Brock:** Certainly, but you must have specific concerns about that obligation to abide by EU law on certain issues in relation to local authorities that perhaps you could expand upon.

Councillor O'Neill: Again, I will use procurement as an example. I will use the Working Time Directive as an example. There are many people who are employed not necessarily directly by local government but are certainly paid for through local government—in the care sector, for example—where employment laws and the Working Time Directive have an impact. There are opportunities to do that a bit differently. Yes, there are. Let's embrace those opportunities but embrace them in a way that does not disadvantage the workforce, for example, but allows a degree of flexibility that is positive for the workforce and positive, it has to be said, for the business sector that they are working in as well.

Q94 **Margaret Ferrier:** The first question is to Mr O'Neill. You mentioned that one of the issues was reduced migration once the UK leaves the EU. Why is that a key concern for you?

Councillor O'Neill: It is a concern. I think it was this morning I heard Mike Russell quoting a figure. Within some of our industries 100,000 EU workers come to Scotland to deliver in specific business sectors. If we lose that, that could be problematic for those business sectors. The issues in Scotland seem to be somewhat different from the rest of the UK. I think we have not only to be aware of that but, again, to embrace that and take account of it.

This is not something that is peculiar to Scotland, but our NHS has a considerable reliance on workers from outwith the UK. If they were all to suddenly go home, the NHS would be in difficulty. The care sector, where people are employed either directly by local authorities or by people who provide the services for local authorities, a considerable degree of non-UK residents are employed in that. We need to do it however it is appropriate for Scotland.

Q95 **Margaret Ferrier:** I am going to come to Ms Slipper now because obviously this is a big issue for farmers, to meet farmers' needs for seasonal workers if we suddenly lose this free movement of people. How is that going to affect you? What would happen if the freedom of movement ceased?

Clare Slipper: Yes, you are spot on there. We estimate that at any one time in Scotland there are between 5,000 and 15,000 non-UK workers employed on Scottish farms or in the wider processing industry. There is a huge concern about the temporary workers and what scheme we might have there, but also for permanent employees on farms, particularly in the meat processing industry. Typically, these businesses will find the roles are extremely difficult to fill domestically, so there are serious concerns there.

In terms of what we are calling for, it has to be a sensible solution—it sounds obvious—that allows farmers and processors to seek out employment or to be able to fill jobs that can quite often be gruelling abattoir work, or quite intensive but temporary in nature, such as fruit or veg picking roles, as I say, that cannot be filled domestically. With the first example, we could be looking at possibly a work permit scheme. We do not have the screeds of detail yet, because we are still working through it with our members to see what would be most desired by them and most appropriate to their circumstances.

For the second example, the fruit and veg and temporary work scheme, we are calling for a return to the seasonal agricultural worker scheme that we had up until 2012. It was a highly successful scheme and it was always at full capacity every year. Essentially, it would allow businesses to employ non-UK workers for a period of up to six months, following which they would return home. It was something that worked very well for the industry here but also for the workers who would tend to come over from overseas. We want to try to work with Government to design a similar scheme to that to allow those jobs to be filled.

Q96 **Margaret Ferrier:** Could I come to Mr Armstrong to ask the same question? We have heard a lot about the catching side of the fishing industry, but we have to consider the actual processing part as well. They depend quite a lot on these seasonal EU workers coming in and working in that side of the fishing industry. Do you think you will have similar issues in that regard?

Bertie Armstrong: Yes. For the catching sector, most of the non-UK labour employed is non-European Economic Area. It is under a different set of rules and it is offshore and it looks like the rest of the maritime industry of the world. That is not so much of a problem for the catching sector, but you are right about the processing sector. Of course, I do not speak for the processing sector, but I can see it and we depend upon it. If you do not have a whole supply chain, you do not have any supply chain. My answer, therefore, would reflect what Clare has just said.

I cannot see that any Government would deliberately cut its nose off to spite its face with regard to the use of foreign labour if we need this. It may be that achieving the correct numbers of the right workers is not the same thing as allowing everybody who wants to come from any given country into the UK. I hope there is a solution there and it does certainly apply to the supply chain.

Q97 **Margaret Ferrier:** I have one final question. I was going to ask what kind of immigration system you would all like to see after the UK leaves the EU, but maybe the question should be: should immigration be devolved to the Scottish Government so that we can make decisions about who does come in and who does not? As we all know, things are getting tightened up and it could pose a real problem, even going back to the system that we had before. What do the panel feel about that?

Chair: It will have to be a quick answer because we are running out of time.

Bertie Armstrong: The quickest possible answer is: we would like to see a system that would provide us with the right number of workers at a price we like, and I am sure that is not beyond the wit of man, we hope.

Clare Slipper: To keep it short, I would echo exactly what Bertie has just said.

Councillor O'Neill: Scotland embraced immigration many years ago. I recall Jack McConnell having a campaign for it. I think we do have a different attitude to immigration in Scotland from the rest of the UK.

Chair: Thank you for that. I am reminded by the questions from Ms Ferrier that I have a world-class soft fruit sector in my constituency in East Perthshire, which is 100% dependent upon foreign workers in order to get the crop from field to harvest to supermarket, so these are big issues for all of us. We are very grateful for your time this morning. You have kicked this session off and set a high bar for the other sessions. Thank you for coming along this morning.

Examination of witnesses

Witnesses: Sir Tim O'Shea, Stephen Boyd, and Norman Provan.

Q98 **Chair:** Gentlemen, good morning. We have an hour and you can see how quickly we have tried to pack in questions in the last session. We will have introductions and very brief opening statements, if there are any, before we get down to some detailed questions. We will start with you, Mr Provan.

Norman Provan: Good morning. I am Norman Provan, Associate Director of the Royal College of Nursing in Scotland. Very briefly, we believe that the UK's exit from the EU will have a profound impact on nursing in a wide range of areas, ranging from workforce planning and recruitment of nurses to the regulations, the standards of health and public health research, employment, social law and the cross-border exchange of people. The nursing and healthcare workforce is absolutely central to the successful delivery of health and social care services. Against the backdrop of the RCN's recent staffing level warnings contained in their unheeded warnings report and the recent labour market review, we believe Brexit presents an additional challenge to safe staffing levels and workforce planning for the NHS in Scotland and the wider care sector.

Sir Tim O'Shea: Good morning. Thank you for inviting me. If you look at the European research area, it is responsible for about a third of the world's research—very, very important—and obviously that currently includes the UK. If you take one particular university, Edinburgh, but we are typical, about a third of our research outputs are done in collaboration with other EU countries. A quarter of our research staff comes from the EU—and, of course, we have almost 5,000 staff, many of whom have been in Scotland for 20 or 30 years and are now desperately worried about their future—and about 10% of our research funding. The research funding is important for us; it was 31.5 million from the EU. It is not as important as the research outputs. It is not as important as the research staff. It is not as important as the students: 42% of students at the University of Edinburgh come from outside the United Kingdom.

For us, for Scottish universities—and Scottish universities are obviously a very important part of the Scottish economy—a relationship in the future that allows for the mobility of highly skilled talent, students and staff, is vital. If you look at the Scottish universities, they are international in character but the slight majority of that international nature is EU. The previous suggestion that Scotland might if necessary have devolved immigration authority would certainly be warmly supported by the Scottish universities. We saw how successful Lord McConnell's initiative on the post-study work visa was. It did not damage the UK in any way. It was a tremendous boost to Scotland and a tremendous boost for Scottish universities.

We would want a relationship that enables research collaborations and access to funding, some sort of negotiated European research area. The big research problems, whether it is the environment or dementia or the hunt for the Higgs boson, are not done at the level of Scotland or the UK or, for that matter, often at the level of Europe. These are deeply international and there need to be mechanisms for those. A bespoke relationship between either the UK or Scotland and the EU is absolutely vital.

These are really important issues. The current situation is that British and Scottish universities have been damaged a bit by the Home Office visa restrictions. If Brexit is not appropriately negotiated, they could be damaged in a very serious way. Yesterday, the Prime Minister said helpfully that perhaps a special relationship might be necessary for workers in the City, known for its highly skilled labour, and for the car industry, but, God help me, if the City and the car industry deserve a special deal, then the universities are more dependent on the international mobility of highly skilled labour than any other sector in the UK.

Stephen Boyd: I am Stephen Boyd. I am an Assistant Secretary with the STUC. My main responsibility is economic and industrial policy. You will probably receive more optimistic interventions this morning, I think, than my opening words here. It is fair to say that the STUC is profoundly concerned about the implications of Brexit for the future of the Scottish economy, for jobs, wages, growth, trade, labour supply, household income, the distribution of that household income, for innovation and for productivity. Even the best case scenarios that imply ongoing, strong economic integration with the rest of the EU all entail significant negatives for the Scottish economy vis-à-vis the status quo.

We are often asked at the moment to comment on opportunities that we perceive flowing from Brexit and I find this particularly difficult. The four areas I have are around: fiscal savings, bureaucracy, career opportunities, and additional scope for industrial policy. I am more than happy to come back to this in questions, but I think we struggle very much to discern hard, realisable opportunities from the current situation.

Q99 **Chair:** I am grateful to all of you for being so brief. I want to talk a little bit about the major themes here. The debate about Brexit, thus far, has been characterised around access to the single market and immigration. We have heard Mr O'Shea's concern from the universities sector on the value that you place on EU citizens being able to come freely to the UK. I don't know if Mr Provan and Mr Boyd could help us a little bit more about our dependency on EU workers and perhaps if there is anything that you have detected about how the arrangements here in Scotland are different from the United Kingdom and our requirements are a little bit more nuanced when it comes to the reliance on European Union workers. We will start with you, Mr Boyd, if that is all right.

Stephen Boyd: I absolutely support what Tim has had to say about higher education. It is a sector that we have had flagged up to us via our members, and my understanding is about 16% of people working in higher education are EU nationals, and clearly in terms of continuing to deliver the quality of the product that we currently do, the ongoing participation of those people in that sector is absolutely vital.

In a number of other sectors like health, which clearly Norman can speak more knowledgeably about than I can, and a couple of sectors we were hearing about earlier—food and drink would be an important one—I think EU nationals have played a very important role in general in the Scottish economy over the last decade. It is very important to stress this as strongly as I can, with no serious detriment to Scottish workers in general. We cannot identify any negative impacts on the rest of the Scottish workforce due to the recent inflow of EU migrants, and I think that is very important to highlight. Unless new mechanisms can be found, and we would look very favourably on having this linked to the Scottish economy in that regard, then again this is another potential significant detriment to the Scottish economy in the years ahead.

Q100 **Chair:** I am grateful. Just before we come to Mr Provan, I had a meeting on Friday in my constituency where I invited EU nationals we were able to identify. I could not believe the numbers that turned up, particularly people who worked in the health service. Is it 7% of the total workforce of the Scottish NHS are EU nationals?

Norman Provan: I cannot give you in strict percentage terms. We have asked for some clarity on this from the Nursing and Midwifery Council. They are currently trying to break down exactly from the Scottish workforce perspective.

From a national perspective, in terms of registered nurses, I can tell you that currently on a UK basis there are 33,000 nurses registered with the NMC working in the UK. If we did not have access to those nationals, or if those nationals could not stay within the UK, that would create a significant difficulty in a workforce that already is pushed. Vacancy rates in Scotland in the NHS are going up. For example, a report recently stated that last year we spent £7.5 million alone on agency nurses, so there is clearly a bit of an issue in terms of supply just now. Cutting off any additional supply in future would be very difficult. Of course, that only takes into account the registered nurses. There are many more unqualified nurses, unregistered nurses, working in care roles. Certainly, the impact for the independent care sector would be very difficult.

Q101 **Mr Stephen Hepburn:** A question first to Sir Tim O'Shea. What is going to be the impact on Scottish universities with Brexit, inasmuch as Scottish kids are now being deprived of places in Scottish universities because richer kids from England can come up and take the places? What happens when people from mainland Europe, because of Brexit, are in the position then to pay at Scottish universities? Are Scottish kids going to take a double whammy?

Sir Tim O'Shea: I am sorry, and I hope this does not sound disrespectful, but your premise is totally incorrect. The funding of higher education is a devolved matter in Scotland. The Scottish Government provides funding for a certain amount of places that are available. We have not seen a reduction in the number of Scottish students. We have seen an improvement in the university sector's widening participation figures. So, your premise is not right. I am sorry to say that, but the premise is absolutely false so the question does not make any sense.

Mr Stephen Hepburn: Okay, I will check my newspapers reports then.

Sir Tim O'Shea: There are statistics and I can assure you that my accountancy is correct.

Q102 **Mr Stephen Hepburn:** If you can, that would be very useful. Just for Mr Boyd, what mechanism are you going to use to engage with the British Government, whether through the Scottish TUC or the British TUC—

because this Government are not very famous for engaging with the TUC—over future workers' rights? I am worried about losing those workers' rights that we have gained through the EU and that we will get involved in a race to the bottom with nations that basically do not have our rights on health and safety, working hours, pay and so on.

Stephen Boyd: I obviously share your concern. We will endeavour to engage as constructively as we can with the UK Government. We have a good working relationship with officials in the Scotland Office. I met the director there just a couple of weeks ago to discuss a range of Brexit-related issues. It is fair to say we are not able to influence at UK level at the very highest levels that we can do in Scotland, so I think it will be a struggle. We will be discussing this with the TUC. We are wholly independent of the TUC, of course, but I think it will be difficult.

Q103 **John Stevenson:** Even if there were restrictions put on immigration, as has been said in the earlier session, it is not in the interests of a Government to have policies that are detrimental to the economic performance of its country. Therefore, logic would dictate that, whatever Government is in place, they are going to introduce policies that are beneficial and that will attract either highly skilled where they need that or lower skilled if that is what they need. Would you accept that that is likely to be the case and, therefore, there is a danger that we overegg this issue?

Sir Tim O'Shea: I am happy to have the first go at answering. Certainly in the universities sector, we have seen the Home Office bringing in increased restrictions in terms of the availability of visas both for students and for staff. To take a simple example, but a very clear one, if you look at Tier 2, over a quarter of our researchers who work in Scottish universities—and Scottish universities have a fabulous record worldwide for their research—come from the EU. If you look at the way that Tier 2 is being done on salary, many research workers are early career. They do not earn the sorts of salaries that bankers earn. They earn relatively low salaries, but they work very well. Before Brexit we saw life being made harder for UK universities, so your suggestion that we would assume that any future Government would, in the Brexit context, be sensible with regard to immigration, well, they are not being sensible at the moment, I am afraid.

Norman Provan: That is echoed in the health service. Nurses were added to the occupation shortage list this year for international recruitment for those very reasons, but even then the restrictions of the very high level of earnings that you need to have to qualify is really difficult. In fact, the vast majority of nurses do not earn anywhere near that threshold. You want to be a country that is seen to encourage people to come and embrace them as part of your communities. Having people believe that they can come but they cannot stay is not really a good message. I fear that people would not regard us as a good place to come and we would be left trying to fill the holes and the gaps created by not having access to a skilled workforce.

Q104 **John Stevenson:** Both your comments are interesting, because there could be an argument that we are doing a disservice to other countries: that we are attracting their talent and their skilled labour into our economy to benefit us, which is detrimental to their economies and their countries. In actual fact, the real crux of the matter is that, for many, many years in this country, both Scotland and the UK, we have not trained and educated our workforce in the way that we should have and it is our problem rather than their problem and it is for us to rectify that through education and training rather than an immigration policy.

Sir Tim O'Shea: It is not a question of poaching. It is a question of exchange. If you look at the careers of university researchers—and I would be a perfectly normal example of that, spending time in the United States and Germany—they move from country to country. If you look at things like the very successful Erasmus scheme, it has involved about 12,000 Scottish students going to Europe to benefit and about 12,000 continental Europeans coming to Scotland to benefit. It is about exchange. It is about learning how other labs work, and it is as much about the researcher from Edinburgh going to Heidelberg as it is about the researcher from Heidelberg coming to work in Glasgow.

Q105 **John Stevenson:** That is interesting because I accept the point that there is a benefit for people going abroad and people coming to this country, but it does mean that there is not necessarily a shortage. It is just a movement of people going round from different countries to different countries.

Sir Tim O'Shea: There is inevitably a limited supply of the very best people. In Edinburgh, for example, we have the very best database person in the world, who came to us from China. We have an absolutely wonderful medic who came to us from Croatia. If you are building up critical mass in an area like regenerative medicine, which is a key area for Edinburgh, of course, with Dolly the sheep, you do not want the middle-ranking people. You want the very best people from around the world to come to you, and you want your younger researchers in your laboratory to go to the very best laboratories in Palo Alto or Boston.

Q106 **John Stevenson:** Mr Provan, just to finish off, would you agree with my analysis, though, that the reality is we should be training and educating our own nurses rather than attracting them from elsewhere?

Norman Provan: Yes, and I will come to that in just a moment. The first question you asked was in relation to potentially being seen to poach from other countries. At the moment, across the European Union, we have reciprocal arrangements about recognising the qualifications of nurses so that we can guarantee that, when people move from country to country, they are suitably qualified to work in a way that we would be certain that they are suitably qualified to work within our NHS. If we lost that, we would be then more focused on international recruitment where that becomes more difficult. In fact, there are very many third world countries that we would then be poaching from, so you would enhance the problem rather than resolve it.

In terms of training more nurses here, yes, absolutely I agree with you, but it takes four years to train a nurse, so we would have to start doing that now. More than 54% of the people who work in the NHS in Scotland are over the age of 45 and getting closer to retirement, so decisions would have to be made.

The other thing I would say is we would need to make nursing a very attractive job for people, and many young people do not regard nursing as a very attractive job. It is hard work. It is not as well paid as other graduate professions. People have to work very unsocial hours. We would be fishing in a market with everybody else who wants to do exactly the same because they would not have access to a European cohort of people who travel from country to country to work. Yes, it would take time. There are opportunities involved in that, I accept, but I think we would also have to look at making nursing more attractive if we were going to recruit the numbers of people that we would require.

Chair: Mr Boyd, I think you want to come in.

Stephen Boyd: I will make a couple of points if I can. First, I do not share your confidence in the first question that Government will not do things that are detrimental to the economic interests of the nation. I think the research shows absolutely unequivocally that recent immigration to the UK has been massively beneficial economically. Yet I do not hear any senior UK Government Minister giving that message as clearly as it really should be, given the weight of the evidence.

Secondly, you ask about the implications for other countries of us receiving their skilled workers. I think, particularly from Eastern European countries, periods of immigration, at their stage of development, are absolutely normal and good. The remittances that workers send back while they are in the UK, and the skills that they develop while they are here, are then taken back to those countries and used to develop their economies, and this is a good thing and absolutely normal, as I say, at that stage of development.

Thirdly, it is important to stress that we do train people in Scotland. Our stock of skills is very high. We currently sit in the first quarter of OECD nations when it comes to skills. Of course, there are always issues at the edges of any labour market where we might need short-term immigration to fill particular needs, but we do invest in Scottish skills and people should not have any doubt about that.

Q107 **Margaret Ferrier:** My questions are to Mr Boyd again. I think I spoke to you at a previous evidence session about this as a strong advocate of human rights. When we heard from you ahead of the EU referendum, you told us, "The EU provides a very strong floor to employment rights". You were obviously concerned before the EU referendum. Has that changed now that we have the result? Basically, what is your current assessment of how the UK's withdrawal from the EU is likely to affect workers' rights taking into account all the things like, as we have heard, the Working Time Directive, health and safety, women's rights? Collective redundancy consultation is also a big one, going on the UK record of having quite a lot of hostility towards unions and workers previously. How is it all going to pan out now that we have arrived at a leave vote?

Stephen Boyd: I fear, not particularly well. We believe over time that the EU has been absolutely crucial in building a very strong minimum set of employment standards. There are a lot of different areas of employment law where the EU was pivotal in bringing forward the provisions in the first place or strengthening the minimums that were already there at a UK level: equal pay legislation; agency workers' rights; maternity rights; non-discrimination laws; negotiation and consultation is an implicit one that is very often overlooked; paid time off; working hours.

I am happy to accept that because we are leaving the EU it does not necessarily mean that we are going to lose these rights. I am happy to take the Prime Minister's recent guarantee at face value, but it would also be remiss of me not to say that, within the trades union movement, Scotland has a pretty strong and, I would argue, quite justified scepticism that this will be delivered in the longer term. We have seen since 2010 the UK Government act to undermine employment rights in a number of areas. You mentioned the Trade Union Bill; there have been others. There has been an increase in the time that the worker can be employed before unfair dismissal rights apply. There has been the removal of the statutory questionnaire for equality cases, the removal of provisions from the Equality Act that relate to third party harassment, changing of rules around consultation rights in the case of redundancies. If we look at the recent history here, it makes us somewhat sceptical that the Prime Minister's ostensibly quite strong commitment to retaining those employment rights is going to be delivered.

Q108 **Margaret Ferrier:** Are you concerned that there is going to be a focus on this free market competition at the expense of social protection? Are they going to be including environmental protection? Let's not forget consumers' rights. Do you think that the UK leaving the EU will give an opportunity to strengthen social protections, or will the focus be on other areas instead of that?

Stephen Boyd: As things stand under the current Government, I think it is unlikely that social protections will be strengthened. I think it is also important to stress that we believed for a long time that there were areas, like procurement law, which we were discussing earlier, where there has been significant additional scope under existing EU law to bring employment, environmental and social concerns into public procurement that have not been delivered by Government in the UK at any level. If they were not even prepared to use that additional scope that was there, looking forward to a time that we are out of the EU, I think we would be sceptical, and somewhat pessimistic, that stronger social protection and employment rights were likely to grow under the current Government.

Q109 **Ian Murray:** Mainly to Sir Tim, there has been some evidence—and I don’t know if you have any actual evidence—of major Scottish universities and UK universities being discouraged from either applying for current EU funding or not leading collaborative projects. Do you have any actual evidence of that being the case and, if so, could you explain to the Committee how important it is for prestigious world-class universities, like your own in Edinburgh, to be leading these European projects as the number one lead in order to not just provide that prestige but for future funding arrangements?

Sir Tim O’Shea: Obviously, the ecology around bidding for EU grants has changed. The Chancellor of the Exchequer gave a useful reassurance. It did not go as far as it should, but it said that grants gotten under Horizon 2020 before Brexit would be honoured. That is obviously helpful. It is not at all clear what would happen if Brexit occurs before the end of Horizon 2020, and obviously there are issues about the negotiation of the successor to Horizon 2020.

As I indicated in my earlier remarks, these are massively important research endeavours on the world stage and Scotland plays a very important part in those. If you look at the University of Edinburgh, for the previous year we got in the order of £300 million of competitive research grants, so obviously that gives a lot of employment in Scotland. We have the slightly surprising number of 15,000 staff at the university. It then starts to make sense when you realise that, of our £900 million turnover, a third of it is in competitive research. Access to that is very important.

Inevitably, the big important projects nowadays are collaborative. Inevitably, the really big important projects involve more than one country. A typical major project that is funded from the EU will involve three or four countries. It will involve a number of researchers. Those researchers are very anxious to secure the resources, so that they can make further contributions to our understanding of the environment or slowing down dementia or such.

It would not be surprising, in the uncertainty that Brexit has given us, and the fact that we only have a partial reassurance from the Chancellor of the Exchequer, if we were in the situation that you describe. There are countries outside the EU, like Israel and Switzerland, who do participate but they have a negotiated position. Of course, we do not have the first idea where we are going to end up. In that environment, it would be surprising, wouldn’t it, if some of these consortia did not say, “Probably the most visible university in our bid should not be a British one”, because they are committed to their work, let’s say, on infant mortality or blindness and they want the resources. It would be very surprising if it was not the case that there was some reconfiguring of the geometry. These bids are negotiated and I would be surprised if, when one looked at the statistics, which we could get from Brussels, the proportion of grants led by researchers from Scotland or researchers from the rest of the United Kingdom was not dropping.

Q110 **Ian Murray:** Can I follow up on that? I think it is important to look at the overall funding envelope and £300 million of competitive funding for a university like Edinburgh out of that £900 million of funding budget is pretty substantial. I know there have been various commitments given by the Scottish Government in terms of funding European Union students if they have already accepted courses for the next few years, but what kind of modelling has been done, either by Universities Scotland or by the University of Edinburgh, of the funding beyond that? Obviously, EU students at this current moment in time, particularly post-graduate, get the same level of funding as an indigenous student, if I can use that terminology. What is the funding envelope and what is the funding matrix beyond that period of time?

Sir Tim O'Shea: Of course, in the absence of a negotiated new arrangement, it is impossible to model with any confidence because we do not know where we are going to get to. What one can say with confidence is—and this echoes something that Stephen has said—however you parameterise it things get worse. The issue is not: do they get worse? Obviously, they will get worse. The question is: how much worse? How much less access to EU funding? How much less support?

I was delighted that—a bit late in the day given the recruitment cycle—both Westminster and Holyrood have now guaranteed the position for EU undergraduates joining us in 2017 and 2018, but unfortunately the position for research postgraduates has not been guaranteed. Research postgraduates are a vital engine of research, the people who are engaged in their doctorates who will then become the not particularly well paid but sometimes stunningly good researchers. We have no guarantee on that situation, either at the Scottish level or the UK level, so there is a large amount of uncertainty. I guess when you run the different models it ranges from bad to awful to catastrophic.

Q111 **Chair:** Can I clarify before we move on from this because it is an important point? The Scottish Government have confirmed that they will provide the funding for EU students who—

Sir Tim O'Shea: EU undergraduates.

Chair: EU undergraduates, that is right, from 2016 and 2017, but beyond that there has been nothing said about—

Sir Tim O'Shea: Exactly. There is nothing for undergraduates in 2018-19, but there has also been nothing for the postgraduates, who are very important. Of the postgraduates, for a research university like Edinburgh—Edinburgh is ranked in the top 20 universities in the world—it is early career talent. It is the people who are working on their doctorates, and some of those doctorates will provide research so it has a world impact; it will result in major new projects coming. They are the future. The PhD students, and the young post-doctorates who have just got their PhD, will get nowhere near the financial barriers for Tier 2 with regard to visas. They are our research future. They are vital. At the moment, they are in a situation of complete uncertainty.

Q112 **Chair:** I am grateful for that response. On that point, given that we are now in this Brexit situation—and of course European Union students are considering where they are going to study, and perhaps some of them have looked internationally, even at Scottish universities—is there a sense that, potentially, European Union students are considering their options, that Scotland is now seen as an undesirable place to study, because of this uncertainty and this lack of what is going to happen in the next few years?

Sir Tim O'Shea: With regard to Scotland, that has not happened yet. One of the benefits we have, of course, is that Scotland is perceived as a place in Europe that is particularly friendly. The University of Edinburgh—with its 43% of students coming from outside the UK, with almost 50% of its staff coming from outside the UK—is perceived as very, very internationally friendly.

In terms of the ecology of applying to universities, the Scottish universities—Scotland being the country that pioneered the post-study work visa, which is a fabulous thing—have the benefit at the moment, from the way Scotland voted in Brexit and from the very international nature, that we are still perceived as very welcoming. We have had an Edinburgh Town Hall meeting for EU staff and students, and the anxiety and distress for the future is palpable. At the same time, they say to me that the amount of emotional support they get from Scottish colleagues—both Scottish from longer-term origin, but also Scottish from domicile—has been stupendous, and they do feel very welcome.

What will happen inevitably is that people will look and say, "What is the long-term horizon? Where is this going?" At the moment, we do not have a notion of what the long-term arrangements might be, neither for the students nor for the research funding.

Q113 **Chris Law:** I am going to touch on the undergraduate EU students that you said had been guaranteed free tuition fees for 2016-17. Was it yourself who sought those guarantees, and are you looking for further guarantees? Are you seeking them now?

Sir Tim O'Shea: Yes. We had done a risk analysis at the University of Edinburgh and, within minutes of the outcome, we—and I am sure other Scottish principals—were seeking those guarantees. We were really delighted that the Scottish Government were so fast with regard to 2016-17, because of course that was in June when we had literally thousands of EU students waiting to come to Scotland in September. All the ones coming to Edinburgh got personalised letters from me.

We were a little disturbed that in the application cycle it took a bit longer to get the reassurance for 2017-18, but we have that now for the undergraduates, so that is a blessing. A key thing to understand about university, whether you are looking at students or at grants, is that we are like farming times five. We seem to operate in an annual cycle, but we don't. We actually operate a five-year cycle. If you look at a four-year degree, then the six months are more recruiting and then there is some time finishing. If you look at major grants, they are five years. What we need now is some certainty—obviously, we want it of a positive nature—of where we are going on that five-year cycle, and we do not have that. We do know where undergraduates will be who are applying now for entry in September 2017, and we are very pleased about that.

Q114 **Chris Law:** I appreciate the level of anxiety that universities are expressing at the moment. I want to know what further reassurances you may have had, either from the Scottish Government or indeed the UK Government, with regard to the future of Scottish universities and their relationship with universities in Europe.

Sir Tim O'Shea: The Scottish Government have been quite unambiguous in terms of their support for the universities and their support for their role. As you will be aware, within Scotland a number of years ago universities were identified as one of the seven key industrial sectors, the seven key income-generating sectors of the Scottish economy. I have to say, with regard to the Scottish Parliament, the support is completely broad-based. MSPs of every political persuasion have publicly stressed their support for the Scottish universities and their wish for us to continue to prosper. I was talking to the Swiss Ambassador the other day, and, if you look at Scotland and England separately, we out-perform England a bit, and England does very well. If you look at us pro rata for size, you cannot do better than Scotland. It would be nice to stay there, would it not?

Q115 **Chris Law:** Yes, it would. A last question from me. When the UK leaves the EU, the Scottish Government will no longer be required to fund EU students in the same way as Scottish students. Do you see this as an opportunity for Scottish universities for more places for Scottish students?

Sir Tim O'Shea: That is very much a matter for the Scottish Government to assess. As I indicated in my earlier answer, in relation to demand, we are doing quite well in Scotland. It is a question that cannot be considered independently of the colleges because it is very important that students coming into universities are equipped to succeed. A lot of work has been done for access routes through the colleges. That is quite a big question. It is one for the Scottish Government to look at the available sources of evidence. The universities will participate in that. As the evidence demonstrates, we have worked very closely and positively with every Scottish Government since devolution in terms of meeting the needs of Scottish school leavers.

Q116 **Chair:** To you again, Sir Tim, if it is all right, this Committee had a look at a post-study work scheme and we submitted a report to Government, to which we just received a response that we will publish soon. Is one of the opportunities not from breakfast—Brexit? It shows you where my mind is going, does it not? Breakfast to lunchtime. One of the benefits from Brexit might include the possibility or prospect that we could now secure some sort of post-study work scheme. If we did manage to secure something like this, would that allay some of the concerns that you presented to the Committee today about the terms of travel that seem to be going with this?

Sir Tim O'Shea: A post-study work scheme would definitely be a plus. There is no question about that. But if you look at where the majority of our non-UK staff come from and where the majority of our non-UK students come from, they come from the European Union. In each category, it is about 20% higher. I don't see it as an opportunity. It could be swings and roundabouts, and you would have to do a careful analysis to see how much you gained from the post-study work as against how much you lost from the reduction in the ability for easy movement in the EU.

The post-study work scheme was a tremendous success. It was copied from Scotland in the rest of the UK and ran very, very successfully. There was no evidence of any statistically significant abuse of that scheme. Wherever we are going, we ought to bring that back.

Q117 **Chair:** We took evidence from the Scottish Secretary and the Immigration Minister last week in another session that we are doing on demography and population, where it was identified that four English universities will benefit and be part of a pilot of a post-study work scheme, and he was pressed very hard by this Committee about why there was no Scottish university included. I do not know if you were approached or anybody in Scotland was asked if they would be part of this pilot. I wonder if you have any views about this pilot that is in place just now and what it will mean for the future.

Sir Tim O'Shea: I was not approached. I was jolly annoyed. If you look at the students that we recommend for visas to the Home Office, our acceptance rate is more than 99%. We are incredibly punctilious in ensuring before the forms go in that the students have everything that is necessary. In terms of our reliability in this domain, the University of Edinburgh is outstanding and known for it, operating at better than 99% success. I would have to say we were jolly annoyed.

I am not aware that any other Scottish university was consulted on this matter. All the Scottish universities are very good internationally. I think it is fair to say we were all jolly annoyed. I was probably the most annoyed.

Chair: That is duly noted. Thank you for that.

Q118 **Deidre Brock:** A quick question again to Sir Tim. Wearing your hat as Convener of Universities Scotland's Research and Knowledge Exchange Committee, can I ask: of the EU funding that Scottish HEIs currently receive, how much of that is exclusively available to EU member states?

Sir Tim O'Shea: I am afraid I do not have that statistic. I know that, for Scotland as a whole, the sum of money in terms of the EU was about £92 million in the last year, so it is very substantial for the Scottish universities. I am not aware of the proportion that was available under different arrangements to countries that are not in the EU. I am sure you would be aware that for countries that are not in the EU, like Switzerland and Israel, to participate, they contribute. You do not get to remove funds from Horizon 2020 without putting funds into the pot beforehand. That is why it is very important to negotiate some sort of European research area where, under Brexit, it is very clear that the UK will be putting into the European Research pot so that we could take money out. The UK in general—and Scotland even more than the UK—overachieves in this competition at the moment.

Of course, the difficulty is that, in an arrangement like the one that is applied to the countries that are not in the EU, you no longer participate in planning the big research agenda. Therefore, under Brexit you are not able to say, as we currently are, "We should, put more emphasis on dementia and early ageing. We should put this much emphasis on the environment. We should put that much emphasis on regenerative medicine", unless some very special deal was negotiated, which is not inconceivable. That is why we are very keen for a bespoke arrangement to be negotiated for a European research area. If you look at the committees that have determined the structure, the number of Scottish and UK researchers on those committees is very, very high. Unless there was a bespoke arrangement, we might still have access to the money—if you put money in, you can take money out again—but we would not have access to the overall strategic planning of the research agenda, and that would be a great pity.

Chair: I am grateful. Apologies to Mr Boyd and Mr Provan, but we want to ask a couple of questions of Sir Tim again—and I think the clerks have briefed him—about the Higher Education and Research Bill that is currently going through Parliament and some of the concerns this Committee has about some of the provisions. I know that it is an issue that we are possibly going to be looking at. Now that we have such an eminent academic in the presence of this Committee, we have a couple of questions we would like to ask you, if that is all right. I will leave it in the hands of Mr Christopher Chope.

Q119 **Mr Christopher Chope:** Chairman, just to include Mr Provan in this, can I ask a question arising out of something that was said earlier? Is it not right that at the moment it is not easy to recruit staff from within the European Union to become nurses, without those staff being entitled to come here even if they cannot speak very good English? Whereas, if we go outside the European Union, we can choose staff in our hospitals who are better qualified at the English language. Is that correct?

Norman Provan: From my experience, there have been very few issues in relation to people's ability to speak English. Obviously, the Royal College of Nursing supports many nurses through employment disputes and NMC cases. In the seven years that I have been in this post there was only one time when I had to arrange for an interpreter to be involved with an EU nurse.

Q120 **Mr Christopher Chope:** I think I am right in saying that under EU law we cannot test applicants from the rest of the European Union on their language abilities, whereas we can test applicants from outside the EU on language ability.

Norman Provan: Yes, we do test international but not European Union. As I say, around 74% of qualified nurses are members of the Royal College of Nursing. If that was regarded as a problem, I would have seen it. From an employment relations point of view, that just has not been reflected.

Q121 **Mr Christopher Chope:** Sir Tim, following up the question from Mr Stephen Hepburn and, in a sense, also the question from Chris Law, there was the report in *The Herald* newspaper in July that St Andrews, Dundee, Edinburgh and Glasgow had decided to select a higher percentage of applicants for undergraduates from England than from Scotland. The reason they had done that was because that would enable them to have a stronger financial position because the undergraduates from England pay full fees, whereas those from Scotland do not.

Sir Tim O'Shea: I am not aware of any such policy in the other four universities, but I cannot speak for them. There was certainly not such a policy in the University of Edinburgh. Clearly, we operate in regard to demand. One part of that is looking at the different subjects we teach and ensuring that we have sufficient sized cohorts in them. If you look at the fee that students from the UK pay, it does not cover the average cost of the University of Edinburgh undergraduate provision. The fee is about £9,000; the average cost to us of providing it is about £9,650. There is reliable track data that can show you that.

Let's take a hypothetical subject area like astrology. If you were looking at your astrology course, you might say, "Oh, my gosh, we don't have enough applicants for astrology. If there are any who are competent, we will get them because that will ensure that the professor of astrology has enough students to teach". The decisions about the makeup of courses is partly—clearly, the top priority—to meet our contract with the Scottish Government, which we have to do, and then it is to look at the balance of different types of students and different types of subjects to ensure that the university is healthy.

One of the reasons that some of the Scottish universities are so concerned about the future pattern of EU students is that, in some quite important areas, it is the students from the EU demand that are ensuring that some key subjects have enough highly qualified students to study them. If you have maybe a very specialised branch of engineering, you need to ensure that you have a sufficient cohort. There is a concern that these changes might result in some Scottish universities with some subjects becoming unviable, in the sense that there are not enough students to teach.

Q122 **Mr Christopher Chope:** That is a very long answer. I hope you are going to be briefer in answering this question. Chris Law asked you about what is going to happen, post-Brexit, in relation to undergraduate students from the EU, who currently study for nothing. You said or seemed to imply that this was going to be a matter for the Scottish Government. Surely it is going to be a matter for the Scottish universities. If you will be able to charge fees for students from the rest of the European Union, will you be doing that or not?

Sir Tim O'Shea: I cannot answer that question because it is too hypothetical at the moment.

Q123 **Mr Christopher Chope:** Hypothetical? What, you mean about leaving the European Union? From your evidence so far, it seems to me that you are having real difficulty coming to terms with the outcome of the referendum.

Sir Tim O'Shea: It is obvious, I think, that Brexit represents a tremendous challenge. The thing is, of course, because Brexit is unspecified, it is a range of challenges. We do not know what the particular challenge is, but it represents a range of challenges for the Scottish universities and for the British universities as a whole. That would be clear if you were talking to the head of any British university.

Q124 **Mr Christopher Chope:** Did you see the article in Saturday's *Telegraph* by Sir David Greenaway, the Vice-Chancellor of Nottingham University, who said that academics have to think globally in the post-Brexit world? He gave the example of himself and Nottingham University and how they were the first university to set up a campus in China, and he says in his article, "The spirit of endeavour that took us there was the same spirit that took me from a Glasgow tenement as a child to Vice-Chancellor of Nottingham University, and I'm keen to rediscover the sense of breaking free and exceeding expectations all over again. We all can. Brexit might be the catalyst we all need". Would you agree with that distinguished man of Scottish birth?

Sir Tim O'Shea: I know David very well. I certainly agree that, whatever version of Brexit we end up being saddled with, it is important to be ambitious and it is important to do new things. If you look at the University of Edinburgh—one of my particular preoccupations—there are different ways of doing transnational education. One is to open campuses. The other is to go online. We have reached 2.5 million learners in more than 200 countries through our massive open online courses. We have a suite of 100 online courses now, and of course the benefit of online courses is that the Home Office does not have anything to say about who studies them.

I certainly agree with David. I was chatting to him the other day about the need to be ambitious in whatever context, but it would be deceitful of me to pretend that Brexit is not a problem. The issue is that the shape and size of the problem has not been properly defined for us yet.

Q125 **Mr Christopher Chope:** Turning to the Higher Education and Research Bill, are you concerned about that Bill, or do you think—rather like the Scottish Government seem to—that diffidence is the appropriate order of the day?

Sir Tim O'Shea: I am concerned about the Bill in two regards. One is in terms of the creation of UKRI—UK Research and Innovation—made up of the seven research councils, Research England, which is the research funding function of the Higher Education Funding Council for England, and Innovate UK. Two MPs have been very helpful on this: Roger Mullin and Carol Monaghan both tabled amendments.

The difficulty we are going to end up with is that the dual support models—which is the formulaic research funding and the competitive research funding for English universities—will all be inside UKRI, whereas the Scottish formula funding from the Scottish Funding Council will be outside. We strongly believe that the Secretary of State and UKRI should have a duty to consult with the Scottish Funding Council and the funders in the other two devolved Administrations on research policy matters, because otherwise—to express it simply—the two sides of the dual support function could be too cosy in England, and in Wales, Northern Ireland and Scotland we could be removed from it. We think it is very important that there be some sort of financial firewall within UKRI with regard to Research England and a duty of care.

The other aspect that we are concerned about is the TEF—the Teaching Evaluation Framework. By common consent, Scotland has a better system of enhancing the student experience, and I am completely committed to the higher-level objectives of the Bill. If you read what is on the face of the Bill, what it is trying to achieve, looking at research in the big picture, I support enhancing the student learning experience. If you look at the way the quality assurance of the undergraduate programme is done in Scotland, it is done through enhancement-led institutional review. It is very well regarded, and people see it working extremely well.

If you look at what is being proposed in England, they are dismantling the agency that was doing quality enhancement, while at the same time saying there will be a TEF. One is left with this slight puzzle, which is that they are removing the people who could do a TEF, while saying they are going to have one, and that means that inevitably they will go to metrics. Those metrics could be very simpleminded. They could be inappropriate. If a TEF is introduced as a result of the Bill, it is important that Scotland has its own one, but it is important that a Scottish one be fit for purpose and move along, but can be calibrated to the English one.

The other observation I would make about the Bill is the extension of the ability to create universities. Fortunately, this does not apply to Scotland, and we are already in the situation where being a university in Scotland represents a higher-status institution than some of the universities in England. In Scotland, we are very clear that universities have to have a serious research degree and research function, whereas the Bill now makes it possible in England for a small enterprise that has no PhD students and no discernible research function to call itself a university. From that regard, I guess we will probably be more determinedly describing ourselves as Scottish universities rather than as UK universities because there is a much higher bar to jump over in Scotland before you get to be called a university.

Q126 **Mr Christopher Chope:** As a graduate of a Scottish university myself, I am delighted to hear that. I think it is actually the Teaching Excellence Framework that we are talking about. How do you think that Scottish universities will be able to ensure that they are not seen as second-class when it comes to teaching quality if this goes ahead? It is in the Bill, it is the Government's policy, and it looks as though it is going to get to the statute book.

Sir Tim O'Shea: TEF is in the Bill, but, like Brexit, nobody knows what it is. The name is there, there is going to be one, but you cannot tell me how it will operate because nobody has designed it yet. We are talking in the Scottish universities with those who are charged with attempting to design it—we are working in parallel with them to ensure that there is a Scottish Teaching Excellence Framework, but one that is fit for purpose and relates to the excellent system of enhancement-led institutional review that we already have in Scotland and which is admired around the world.

Q127 **Mr Christopher Chope:** Are the Scottish Government actively engaged in this as well?

Sir Tim O'Shea: The Scottish Government are aware of this. If I can put it this way, this is very much a technical matter that is being dealt with by people who are on the front line of quality assurance. It is the people in the universities' senior management teams who are concerned with learning and teaching and quality assurance, who are engaged with the officers in England, who are charged with developing this.

Q128 **Chair:** Lastly from me on this, I have the Hutton Institute in my consistency, which is very much dependent upon research funding, and it has raised concerns with me about the thing that you identified with UKRI and Innovate UK. Are they right to be worried about this innovation development in the Bill, and what do you see as the practical solution to ensure that we are not going to be short-changed when it comes to research funding throughout the UK?

Sir Tim O'Shea: They are right to be worried. This is a new structure that will have the funding stream from BIS, the Innovate UK stream, and the funding stream from HEFCE, alongside the funding streams from the seven existing UK-level research councils. It could be solved, I am sure, but it would have to be solved by there being a formal responsibility for consultation with regard to research strategy.

The thing that the Hutton Institute would correctly worry about is that some folks concerned with English research on soil negotiate with some other folks concerned with English research on soil, and they would work out a new programme, but one that does not take advantage or allow for an important capability that the Hutton Institute might have. We need a duty of consultation and for there to be this firewall: if funds from Research England are to be put, as they will be, alongside funds from the seven research councils, the rules for doing that should be the same as if funds from the Scottish Funding Council for research were put alongside.

Q129 **Deidre Brock:** A very quick one with regard to the governance. Is it still the case that the governance for UKRI is only accountable to Whitehall Ministers? Is that still the case after the discussions that have been going on?

Sir Tim O'Shea: I think that is right, yes.

Chair: Thank you. We could not let this pass without taking advantage of your expertise, Sir Tim, and this is an issue that has been concerning this Committee, so we are very grateful for these supplementary questions on that. I would like to thank all of you again for coming along. We have another two sessions this afternoon, so we have quite a lot to do when it comes to conversations about Brexit and what it is going to mean, but thank you for turning up to this session this morning.

Sir Tim O'Shea: Thank you very much for inviting us. It was very stimulating.

Examination of witnesses

Witnesses: Fraser Grieve, David Watt, and Colin Borland.

Q130 **Chair:** Welcome, everybody, to the Royal Concert Hall for the Scottish Affairs Committee inquiry into Scotland's relationship with Europe. This is the third of our sessions in Dundee and Glasgow. It is a real pleasure to welcome our three guests, who we will allow to introduce themselves and make anything by way of a short statement, starting with you, Mr Watt.

David Watt: My name is David Watt, the Executive Director of the Institute of Directors in Scotland. I am pleased to be here. In general terms, I think the key thing for business in terms of Europe is the fact that we will thrive and survive in whatever political context we have to do that. Business has done that over many years and will continue to do so; it did it recently through the financial crisis, and we will do through Europe. Having said that, I have not met that many businesses lately that are enthusiastic about the result of the vote in the rest of the UK, so I think there are a few challenges—which obviously we will discuss this afternoon—that have come out of that.

Fraser Grieve: Fraser Grieve, SCDI. I am grateful to have the opportunity to be here as well. Clearly this is a hugely important debate and certainly businesses across the country are very keen to get as much clarity and certainty around key issues as possible, particularly, obviously, around the free movement of people and trade deals with the EU and how that will work. It is important to have a coherent, considered message across the UK for Scottish businesses as well as international businesses working here, and to try to have as much dialogue and openness along the process as possible.

Colin Borland: Colin Borland from the Federation of Small Businesses. Yes, our thoughts on this fall broadly into three categories that I am looking forward to exploring this afternoon, first and probably most importantly, access to the right staff and the issues around free movement; access to the single market and the basis on which that may continue; also regulation and what might happen, particularly if we begin to see a divergence within the UK.

Q131 **Chair:** I am grateful, and thank you very much for those short and concise opening statements.

We heard this morning quite a lot from our colleagues in the health and education sectors about their concerns about restriction of freedom of movement. Could you speak a little bit more about how reliant Scottish business is on European Union nationals for labour sources and your concerns, worries or even the opportunities that are presented perhaps by this new restriction of freedom of movement and having access to European labour? We will start with you, Mr Watt.

David Watt: As I go around talking about Brexit, which seems to have been the single subject since 24 June, the one key issue in Scotland has very much been about freedom of movement and labour. The migrant workforce in Scotland has obviously grown significantly over recent years. There are many industries that are very dependent on the migrant workforce. It is difficult to get a precise number and I am not greatly in favour of counting the number of migrant workers in a workforce anyway, but I think we are looking at about 25% to 30% of companies across Scotland in all sorts of different industries; that is a very significant number of people.

I have two concerns: one is the general impression that some may get that they are not welcome any more, which is far from the truth. Both from employers and fellow employees, the response has been very positive, so I think that is good news. The second thing is for the future in terms of attracting more workers, it is vital for that to continue for businesses to grow. I had one employer say to me recently that he could not see his business growing without the future migrant workforce, given that in Scotland, we are down to just 4.6% I think was the latest unemployment figure. There are not a lot of people in the labour market, so if we withdraw a significant number of them, it is going to be a real challenge. If I was to nominate one thing that is the real key concern, it is about workers in general. We could probably discuss in more detail—I am sure colleagues will—some of the specific areas, but in general terms that is the real concern for employers.

Q132 **Chair:** Mr Borland, we will come to you, too, and you can answer the general point, but maybe you could help us: are there some industries in Scotland that are perhaps more dependent upon European Union national workers than others? Are there any sectors that we should be particularly concerned with if this freedom of movement does come to an end?

Colin Borland: Yes, there is a particular concern among our members around the entry-level jobs that we need for the economy to function and that we need for certain sectors of the economy to continue to function, but which, on the face of it, might not seem particularly attractive. Obviously tourism, hospitality, aspects of care, there are real needs in that. In fact, I saw a figure earlier today. It is something like about 33,000 EU migrants are employed in hospitality in Scotland, so you cannot lose that. There has to be some sort of replacement mechanism for that.

I would concur with David, that this is probably—in terms of the traffic I am getting on this whole issue at the moment—the sort of thing people want to get some clarity on. Indeed, it seems a long time ago now, but back in February when we asked our members, "What are the issues that are going to determine how you vote?" access to migrant labour had a net balance of 48%. To put that in some sort of context, the next most popular one was access to the single market and that came out at 18%, so this is obviously featuring prominently in a lot of our members' thinking at the moment.

One of the points I have made about this is that, comparing and contrasting what it is like, for example, to hire a Bangladeshi or Chinese chef for your restaurant, the procedures that have to be gone through. There is not a mass market solution, if you have to fill two dozen housekeeping jobs in your hotel, for example. I think regardless of what solution is put in place, we would say that the watchword or the end point has to be something that meets labour market demand with as light touch or with as few extra bureaucratic restrictions on small employers as possible, and I don't want to put words in Fraser's mouth, but particularly in harder-pressed remote areas, where we do not have that sort of large indigenous labour pool.

Q133 **Chair:** We will come to Mr Grieve. Maybe he could help us with this one too. It does look quite certain that freedom of movement is going to end; it is the one thing that there is a degree of certainty about. Given you are the SCDI and you have considered these issues, is there any alternative that you could envisage that would help us address some of the concerns that have been raised by your colleagues on the panel?

Fraser Grieve: There are two things. There is the EU labour that is already in the country and what we do around that. Certainly, there have been reports from some businesses of staff choosing to leave the UK. It is: how do we provide that certainty at the high-skilled level, in terms of the 10% of UK doctors that are from the EU, one in five research staff in Scottish universities? How do we deal with the highly-skilled issue as well the reliance—as Colin touched on—in hospitality, tourism and farming, on the number of people coming in? It is about the current labour market.

Also, given the unemployment numbers, how do we deal with growth if we are not able to attract in talent; how do international businesses based in Scotland or operating in Scotland continue to be globally competitive if they cannot have access to as big a labour pool as possible? Certainly, from an EU point of view, the ease of doing that without the visa restrictions and other things in place is fairly key to some of their success and how they will continue to thrive going on. Access to labour is vital.

Q134 **Chair:** Can I ask as an opening introductory question, is there any sense thus far, given the conversations that we have been having about Brexit—I do not know whether it was Mr Watt who raised this—is there a cultural thing starting to emerge, where people are beginning to examine whether they want to continue to be within the United Kingdom and maybe are looking at other options that are available? This will probably be an issue more at the high end of some of our skilled European Union nationals. Is there a sense that we might lose people that we have every opportunity of retaining because of that approach to issues like immigration and free movement of travel?

David Watt: I will just follow up. There are two things. You have heard Sir Tim talking about universities and research funding, and that is part of where many of the bright and innovative people in our community come from. Many of them are not just from Scotland but from abroad, so there is a challenge around the university space as well. There is a challenge in the highly-skilled space. I think we mentioned to you the last time we were here that, in terms of computer software engineers, for example—and at a rough estimate, they are 300 short across the central belt of Scotland right now—I could certainly take you to a company less than 10 miles away from here that could employ probably 30 of them tomorrow. They are restricting their company's growth because of a lack of these individuals. To be honest with you, they do not care where these individuals come from. They would love them to be Scottish, but—wherever they come from; through the university system—they are not available, so there is a real challenge. That is just one example.

It is absolutely not all high-skilled, it is across all industries. You have heard about agriculture and fisheries this morning, where the workforce—again, I do not know if anybody knows the numbers—the vast majority of fruit pickers in Tayside and Fife come from Eastern Europe. No doubt about that whatsoever; you don't need me to tell you that. There is a real challenge there. That is why we have been very supportive of the post-study work visa approach across the UK, as I believe that students should be taken out of the migration camp anyway. We have been saying that for about five years. I do not know why we wouldn't do that, because to keep the brightest, best people in the world is something we should all want to do. Countries are competing for them right now.

Q135 **John Stevenson:** Playing devil's advocate a little bit here: aren't businesses being rather lazy about all this? In actual fact, what you want is easy access to talent from abroad that then stops you having to train people yourselves; secondly, by having this huge access to a labour force, it drives down wages. What we should be looking at is investment by business that drives productivity and maybe increases automation and that you should be training your workforce yourselves. If we have restrictions on migration that might force business to address these specific issues, because there is undoubtedly a productivity issue in this country.

Fraser Grieve: Certainly, productivity is a challenge that the country has to address. I think the issue is very different in different parts of the country. In rural areas, where you don't have the same connectivity and access to market, that is more of a challenge than in other areas. Businesses want to be able to make more money and they want to be able to be far more productive than they currently are, and there are a number of constraints on that. I am not sure that cutting out a big pool of the labour market is a helpful way to go about that. There certainly does need to be more in terms of making sure that we have the right skills to meet demand, but that will be a gradual process and very hard to match up, because demand is constantly changing based on what the world is requiring in terms of our services and products.

I don't think it is just about access to cheap labour. Certainly, highly-skilled businesses want to be able to send their highly-skilled UK residents overseas to work in other offices and they want to be able to attract people in. It is about making sure that there is that marketplace that people can go to where the talent is of greatest use.

Colin Borland: Our members, once they get the right materials through the door, are very keen to train them up and very willing to do that. They do invest time, effort and money in getting them up to the right standard. If you ask our members about, "What do you want in terms of abilities and skills?" they will tell me, "I want an employee with the ability to learn, with the ability to pick something and take it", the sort of soft skills that perhaps are more difficult to teach. If they have two people in front of them, they have to employ the best person for the business. They will invest. They will put the time and effort in, but they will take what looks like the best raw material.

I think that is particularly the case—I do not like the phrase—at the bottom, at the entry level in the labour market, for people who are younger, without much experience, without many formal qualifications and skills, where there is an issue. That potential is far more important. That is why we have seen those workers from the EU states being so popular and so much in demand in those sectors.

Q136 **Ian Murray:** One quick follow-up, split into two parts. I suppose the three reasonable assumptions we can make is that the UK is coming out of the European Union; that free movement will end in its current form and that probably EU nationals who are currently here will be allowed to stay. I think we can make those three broad assumptions. For your organisations, what does movement then look like or what would you like it to look like to fill in these gaps? Because we can all talk about where the problems lie and I think they are fairly well-rehearsed, but what should it look like?

I suppose the second thing—which has come out in a lot of threads this morning and indeed in your introductory remarks—is that, is it a case in some of the industries that we have across the United Kingdom that we are simply not paying enough to make them attractive for people to want to do them, so we have to import cheap labour because we feel, as a society, that we should be paying less for these kinds of jobs than we should pay to make people want to do them?

David Watt: I could be quite incensed about the comment about industry not doing its bit. I could point out that the German Government has given 100% capital investment tax rebates on investment into industry, which may be a reason for industry doing quite well productivity-wise in Germany, so we could have a long debate about productivity. Also, most industry leaders that I speak to don't spend afternoons on the golf course on a Friday, as Liam Fox suggested. I think we need to calm down a wee bit.

I could take you to an industry: I had a guy that I wouldn't say was in tears but he was absolutely irate, on 27 June this year, sitting in his factory saying, "What am I going to do?" He does train his people, but he has about 25% to 30% of his workforce from Eastern Europe. He is training them; he is developing them; he is paying them pretty well for the area. There are no unemployed people where he is. He said, "My business is not going to grow and you are taking away a lot of my market, so what am I going to do?" I would love to take you to meet him and sit there with him and tell him what he is going to do now, because unless he gets some people, his business is not going to grow and the people who are currently employed may well lose their jobs. It is a very significant Scottish industry.

I could take you to Fife to an engineering manufacturer that employs 100 people. He has had a sign outside his door for the last three years looking for apprenticeships he cannot get. He is working with the local colleges, doing all he can. He has a training workshop in his factory. Don't tell me that employers are not doing anything, because that is simply not true.

To go to the lower wages thing, a really interesting discussion—I have had a lot of them recently—low wages are driven by what we will pay for our products, so if we all want to go to Tesco and other supermarkets and pay more for our food and our drink and other products, they will put the wages up. That is not a problem. It is simplistic to believe that it is all about low wages. It is absolutely not. These computer software engineers I am talking about in their first year would be earning £30,000. They are not here and we cannot invent them. Where are they going to come from in the future? It is not to do with just low wages.

For some of the low-wage industries, like tourism and social care, it is a challenge. If we as a country want to pay more for our social care and our residential care and Government wants to pay more for it, I can take you to one of our very significant members who runs a number of care homes. He said, "It is not a problem. I will put my rates up. You just need to pay for them and I will put wages up. It is not a problem". If we want to pay more for residential care and social, the wages can go up tomorrow, Ian. That is the answer.

Ian Murray: That is the answer I was looking for.

David Watt: But we all need to pay for it, not just the employer. The employer passes on that cost.

Q137 **Ian Murray:** My initial question as well was what should a future post-Brexit visa—if I can use that term, although it may not necessarily be a visa—system look like to resolve some of the problems if we take the three scenarios, that we are coming out, free movement is going to be a problem and EU nationals will probably be allowed to stay?

David Watt: I will just jump in quickly. A phrase that has come up a lot that I sort of get is "freedom to hire", so we should be looking at the movement of workers and not necessarily people. There might be a challenge around there as well and something we could define in that space.

The real concern I have if we go to a post-study work visa, which as I said, we are very supportive of, is that the threshold of the wages set are very unrealistic for a low-level—sorry, an entry level—even post-graduate in Scotland. We have a problem as well—and my final comment—in that you cannot really believe that somebody coming out of university in London is going to earn the same as they are going to earn in Inverness, because they are just not. It is not the same, so to treat the UK as if it is the same, if we have that sort of system, for example, where it is about money, it is not.

The other thing is genuinely you have to look at the population of the country. Fraser can talk better than me about this, but there aren't people standing there for looking for jobs in that part of the world, there just aren't hordes of them. I am not saying there is nobody unemployed, but there are not hordes of people looking for jobs. We have to have a system that allows low-level employment as well.

Q138 **Chair:** That is a good question Mr Murray has, and maybe we will give Mr Grieve and Mr Borland a bash at answering this, because what Mr Murray suggests—the three things that we roughly know where we are going with—seems to be the three things identified. The only other thing that has been suggested on how we deal with the ending of free movement of people is work permits. If we go in that direction, what does that mean for the businesses you represent? Is there another alternative beyond that that could be considered?

Fraser Grieve: It is obviously a challenging thing to come up with: what solution is there, given the length of our relationship and being in the EU? Whatever solution comes forward has to be by sector as well as location, it has to be quick, because there is a real concern from businesses of all sizes over the complexity of what system might come out. As David touched on, the needs and what business can afford are different in different parts of the country, where you are dealing both with what is available in the local labour market, but also what is expected by different sectors, so computing engineers simply will not move to Inverness for the wages that are on offer, and it is very hard for businesses up there to be able to pay those competitive wages. How do we help those businesses become more productive to level out the playing field there? It is not going to be easy, because it has to look at individual industries, jobs, sectors, as well as locations in the country, and certainly there would be a concern if it was based around what the south-east required. How do you map that up? It has to be a far more holistic system than the current work permit scheme that we have.

Colin Borland: This is something that we are going to have to do a proper deep dive on. We are looking at doing a bit of significant work on exactly what we think this could look like. I don't want to pre-empt that by anything I say today. However, I think we are fairly clear on what we do not want it to look like, if that is not dodging the question. We cannot go to the same sort of system that we have for non-EU nationals at the moment, given that 20% of our members are employing non-UK EU nationals at the moment. We cannot go into a system where that sort of excessive bureaucracy is making it difficult for them. Quite how we arrive at that is a different matter, but I look forward to exploring that and, of course, we are more than happy to share that with you once it is available.

Q139 **Margaret Ferrier:** I would like to speak about the single market. Obviously the UK Government has not set out its preferred option post-Brexit as to what kind of trade relations it is going to have with the EU, but there are indications that once they withdraw, it will affect our membership of the single market. How would that affect your members?

I am going to bring in a second point. There are various options, including a European free trade agreement; the World Trade

Organisation. Would either of them work for your members or would none of them work?

David Watt: I will kick off on that. I would hope we do not get to the WTO option, because that is probably the least satisfactory option, as far as we are concerned. Obviously for Scotland, as you know, 42% of our exports are to the EU—outside America, which is our biggest destination, and Norway, the top 10 countries are all in the European Union. It is a massive issue as far as Scotland is concerned, which to be honest, already has exporting challenges. It is something we really need to work hard on in this day and age to internationalise our marketplace anyway. Absolutely the EU withdrawal is going to force, perhaps belatedly, many companies to look wider afield, so we have to do that. But absolutely, we want as free as trade as possible, to be honest with you.

I think I heard some debate over the weekend about there being a number of arrangements the EU has with a whole variety of different countries and I would obviously like us to choose the best of them that we can get. Probably the EEA looks like the most likely one, but I think if we could even do better than that, for a variety of reasons of history, then so be it. We want the best we can get, I think, and off the point Colin made, the least bureaucratic, because one of the big problems—as you probably know—with trade, it is not just the cost, there will be trade tariffs fairly likely, but the difficulty in terms of form-filling and bureaucracy around the trade that limits it on some occasions.

Fraser Grieve: Certainly all that is true. There are particular complexities around companies that operate in different countries and what that means in terms of their integrated supply chain and distribution networks if there are trade barriers in place, and the cost: how does that work in terms of regulation if they have to meet EU regulations but don't have a say in how those are governed? How does that integrate with their existing business? There are lots of successful Scottish businesses that have become successful because they have developed distribution and supply networks that have given them a competitive advantage, so how does that play if that advantage is lost? They might be able to make up some of the business through more trade within the UK or to other countries, but it will have an effect on them.

I think free trade and the movement of people are integrated in terms of how companies can manage their supply and distribution and so that will be very complicated to sort out. Either way, there will be opportunities in terms of the speed of agreeing trade deals with other countries, but then again, how does the regulation around that work versus with the EU? It is a complicated picture and it is not easy to come up an ideal solution that will help businesses, because businesses have come to where they based on the current agreements that are in place, so any changes there will disadvantage some and other advantage others as they adapt.

Colin Borland: I would add two very quick points to that, the first one in terms of what is adopted. For our membership, it will be very important that services are included as well as goods, because I think that is about—I will be corrected if I am incorrect—80% of the Scottish economy. That is very much reflected in our membership make-up as well. I know that not all the options that have been mooted may include that.

The second thing to bear in mind is that we asked our members, "Give us an idea of where your markets are, where your suppliers are, where you go to physically do business" and out of that the vast majority, over three quarters of our members, do all or most of their business in Scotland. It is a very small percentage—about 6%—that do all or most of their business in the EU. On the face of it, it is possibly less of an issue for some of our members than larger organisations, but I still think it is important when you look at the sort of business that we want to do. It is not simple, like manufacturing and selling stuff, it has to be around the freedom to act as a management consultant or whatever piece of service business that you happen to be in.

Q140 **Margaret Ferrier:** Thank you very much. I have one final question. There have been reports that businesses located in Scotland could relocate to other EU member states. Is that something that you have any evidence of so far, and if there is, what is driving that decision? If you look, I have certainly heard to date, not just in England, but the Republic of Ireland seems to be benefiting already from Brexit, which is quite close, but it will still be part of the EU and there is talk of relocating businesses there. Have you seen evidence of anything or heard talk of that? If there is, why would that be happening?

David Watt: I have not seen it massively in manufacturing and other spaces, but certainly in financial services I have heard some discussion of relocating headquarters, because to operate, you need to go back to the passporting issue, in terms of labour and skills, and that is a big issue. We heard that when we were going around Edinburgh—at least fairly quickly after the vote—to speak to certain individuals, so it has been happening in terms of stealing expertise in headquarters as well, fund managers and things being approached to consider relocating to other parts of Europe. That has been mentioned. That is, as Colin said, a big part of what we do and there is a real necessity for some arrangements certainly in that space.

Colin Borland: Obviously our members are a lot more geographically tied to where they do business, given where their customers and markets are, so nothing has come across our desk yet, but it is a part of the ongoing work that we are doing and we are keeping an eye on it.

Fraser Grieve: Around that, again in terms of the integrated supply and distribution for businesses, I think a lot of businesses are trying to work out where their input or outputs are to make sure that they are ready to take decisions based on what the outcomes are. I think they are really trying to bottom out what the implications are. I think the challenge at the moment is that there is so little certainty around, both in terms of staffing, the impact of costs on products imported in as well as the impact on their exports and what markets are. But certainly there have been discussions and, certainly, some evidence that businesses are looking closely at the implications and where best to be located to take advantage or to deal with any consequences.

Q141 **Deidre Brock:** Mr Watt, you touched on the passporting issue. As an Edinburgh MP, I am certainly well aware that financial services are extremely concerned about the loss of those arrangements. Can I ask how many of your members are affected by that potentially?

David Watt: Financial services and related services accounts for about 34% of our membership, about 1,800. The numbers are not massive, but then you are talking about massive companies. We have individual directors who may well be leading Standard Life and a number of others, asset managers and so on, so that is the sort of space. In terms of funds under management, as you know, there is a lot in Scotland and particularly in Edinburgh and that is the space that would be potentially seriously damaged. It is hard to put a figure on the actual scale, but the vast majority of them will have some sort of European holdings. Indeed, in terms also of pension provision and other things, the EU, as I understand it, suggested that your headquarters had to be in Europe in order to deliver pensions into European countries and so on, so that again could be quite challenging.

Q142 **Deidre Brock:** Are those the main types of damage that could be wrought upon the sector after the loss of passporting rights, if something else is not devised as a suitable arrangement?

David Watt: Yes, absolutely. There is a potential to lose headquarters and to lose businesses. As you know, for example, already Aberdeen Asset Management have a significant presence in Singapore, looking into the Asian market, and obviously you have to make sure you have a presence in Europe to guard the European market and you potentially move a significant part of your business.

As I said earlier, another thing is the potential for headhunting, because Scotland has a very interesting record in recent years of quite a number of quite small asset managers coming in. Their impact is quite large in terms of the funds they manage and things like that, so Edinburgh has seen again, as you will know, in the past 10 years probably something like about 30 probably largely unknown smaller asset managers coming into the country. They have an impact on not a large number of jobs, but fairly high-paid jobs. They are pretty mobile people. They could be off to Ireland or Luxembourg tomorrow.

Q143 **Deidre Brock:** Just lastly, we have heard suggestions that there could be some concessions for City of London financial services. Has there been any sort of hints to you that Edinburgh’s services will be included in those concessions or what is your understanding of those arrangements?

David Watt: I think people in Edinburgh would be a bit disappointed if London got them and they did not, is all I can say. If it is a financial services derogation, then it should not just be limited to the City of London, in my opinion.

Q144 **Chris Law:** Just a really straightforward question: there have been complaints for many years about the cost to business of EU red tape and bureaucracy. Do you see any opportunities from leaving the EU in reducing the regulatory burden on business?

Colin Borland: This is a fascinating question. Regulation can be interesting; it can be. If you look at it, I suppose, there are two broad categories. There are regulations with which we would have still to comply anyway if we wanted to continue to sell into the EU, and there is probably the bigger category of things that were incorporated either into UK or Scottish law based on a directive taken or enhanced. I was looking at some of the things that have caused us particular headaches in the last couple of years, like the changes around the VAT law. If you want to sell incorporeal goods electronically into the EU, I would be astounded if you didn't still have to comply with that, so that is not going to change.

Employment law is very emotive and has been mentioned a lot: this idea that as soon as we come out of the EU we can rip up the employment law book. Again, all that has been gold-plated and added into domestic law anyway and, if we want to change that, that is going to be a matter for you and your colleagues at the Westminster Parliament.

The available evidence, if you look at the current Government, which has introduced the National Living Wage and pensions auto-enrolment and all the rest, it does not seem to be a particularly determined sort of slash-and-burn deregulatory Government. Yes, I am sure there will be particular rules where we might not need to comply with them directly—there may be in specific instances—but I think how the regulatory burden is going to fall and whether we take a decision that it makes sense to maintain compliance is going to be really interesting.

I also think if we get to a stage where the UK Government decides to go down one route, but the Scottish Government is very keen to maintain compliance with EU law, some quite interesting things will flow from that. Again, that is another strand of our regs work that we are looking at, at the moment, and looking at in some detail, because there are very interesting issues about competitiveness, but also about what happens within the UK.

Chair: Would anybody else like to come in on that?

Fraser Grieve: Just in terms of that, it is an interesting area—perhaps not as exciting for me as for Colin—but I think the challenge will be working out where it might be of interest to deviate from EU regulations versus the potential impact that if you do so, you lose that access to that marketplace and whether that restricts companies. Given the long-term relationship and the link between the EU and other trade deals it has negotiated, how does that play for companies if they are bound or operating under that framework? Are they limiting their marketplace too tightly in terms of employment? How does that work around employment law?

Also, in terms of state aid and with any trade deals that are struck, what requirements will be placed on the Scottish and UK Governments versus what they can do in order to access the market? Yes, there may well be areas where it could be beneficial, but it does make life complicated. Obviously at the moment you know that if you tick the boxes, you get to play the game and to operate in the marketplace, but there is a danger that this becomes a more complex landscape, rather than a simplified one.

David Watt: Very quickly, the point is well made that if we continue to want to trade, for example, into Germany, we will have to tender on an equal basis, so we would still have to comply with any legislation in place in Germany at that time. But I do think, having made the decision to leave the EU, we must look for all the benefits potentially, so if the proverbial straight bananas are no longer required, we should look at that. Indeed, for example, one of the things I am told was frowned on throughout Europe is our support to airlines to have direct flights into Scotland; if we are now allowed to do that outside the EU, let us go ahead and do it. I think we should look for positive opportunities. We probably need a small unit of civil servants who have to sit and unpick this, which will be a very lengthy process, but it may well be worthwhile. There must be one or two things in there that are of importance.

The final point is: I really was depressed, I must admit when, I remember it was almost literally the day that RBS hit the buffers, the European Parliament was debating parental leave for men. There is always a bit of one that wonders whether Europe has had its priorities right, so we must focus on some of the things that we need to really focus on to get benefit out of where we are. Whether we like where we are or not, we are there and we have to do the best we can with that. We absolutely must look at opportunities. One, for example, is the flights—I am told that Europe banned the funding that the Scottish Government used in terms of the Air Route Development Fund. It was taken away as a result of that. That was said to be European legislation, so let us look for that opportunity.

Colin Borland: I want to add a very quick point to what David was saying. I am sure he is absolutely right that there is going to be a need for some sort of task to be undertaken to look at exactly which pieces of directly applicable European law we can now do without and which ones would be in our interests. There is also an interesting thing about which bits of Government policy that we have been told, "It is only European rules that are preventing this from happening" can now be implemented. Whether that is around as you say, Air Route Development Funds or state aid rules or reforming procurement policy and all that sort of stuff, if it was the case that the only reason we are not doing this is because Brussels will not let us, then, in theory, there should be a floodgate of marvellous things that will be able to take place.

Q145 **Ian Murray:** There is still a question mark at the end of this, but it is more to unpack what Colin and David have just said, because there is an opportunity here because, if you look at airline subsidies for advertising routes, state subsidies, Living Wage and procurement, the list is endless in terms of—the word "excuse" may be too strong—the way that the Governments operate. They say, "We cannot do this because of Europe". There is a real opportunity, now that we are out of the European Union, with all these big issues, which have been flying around Scotland and the Scottish Government for a long time, to now just deal with them and to put them into law, when in the past we wouldn't have been able to do so.

There is an opportunity here. While I am very much a Europhile and want the UK to stay in the European Union, we know that ship has since sailed and I do think we need to be slightly more positive about the opportunities we might be able to have, both at UK and Scottish Government level, in terms of some of the stuff we have not been able to do before.

Colin Borland: Yes, I have made that point. If the position is as has been stated then, yes, we should expect real movement on that. I have had a lot of conversations with people who tell me, unsurprisingly, with international affairs it is a bit more complicated than that and there might be a bit more to it, so we will wait and see on that one.

Margaret Ferrier: This is an observation more than anything. When you brought up the state aid point, looking back, when the steel industry was in difficulty, the UK Government used that and put the brakes on, saying, "Well, we need to go to the EU, to ask about whether we can do this or not", and they use the state aid laws. So maybe now that Brexit will happen, they can save the UK steel industry, the way that we did in Scotland.

Chair: There you go; there is an observation for you.

Q146 **John Stevenson:** Very quickly, and following on from what has already been asked and discussed; assuming Parliament agrees, the Government's intention is that, when we leave the EU, all existing legislation that is in place from the EU becomes part of our own law. Do you think that is a sensible approach by Government and that, effectively, is a new starting point and then, thereafter, we can change, amend and do what we like, or should we be doing something prior to that?

Colin Borland: That seems like a sensible starting point, because so much of it has been incorporated into domestic law anyway through the domestic directives. Yes, obviously there are regulations that are going to have to come in, and then, once you have control of it you decide—

crucially, in the Scottish context—which Parliament has jurisdiction over certain bits and who is going to be free to make those changes. As a starting point, in terms of a "year zero", that seems to me a logical approach.

Fraser Grieve: I agree with that. If that was not the case, our focus would not be on a relationship with other countries in terms of re-establishing trade links. In terms of supporting businesses, if we were to start trying to unpick things from day one, we would lose our focus from where it needs to be in terms of our relationship with Europe and the rest of the world.

David Watt: I think the words we have discussed and mentioned earlier about needing clarity and certainty for a business in order to plan, so the more of that the better. Absolutely, the point made about examining some of the laws, I think that would be sensible. If we had even a deadline of when that might start, say three years out, that at least allows you to plan on the basis of which ones currently operate. That would be best, so that is a welcome suggestion.

Q147 **Chair:** Just on the Great Repeal Bill, as it has been called, obviously a lot of employment legislation is going to be caught up in this, which is primarily the concern of the UK Government. Are you confident that this will get a fair hearing and that we will make the right decisions about the stuff that we will want to continue to include as UK legislation? I think it was you, Mr Watt, who said that we have incorporated this into UK law. There is a lot that is included in Scottish law. The task of unpicking all this, deciding the stuff we want to keep, and the stuff we think is unimportant. Industry and business is going to have a view about the stuff that they think is important. Have you started to identify the areas that you would want to look at, and you would want us as MPs to continue to invest in, or is there stuff that you see that you could possibly do without?

David Watt: No. In the first instance, I think the point that was just made is sensible. Let's accept what we have at the moment but, absolutely, let's get a group of people who would—probably led by the Civil Service—consult industry and other relevant parties to actually identify in the longer term what we might do, both in terms of positive legislation we would be now allowed to do for ourselves or, indeed, things coming out of Europe that are not ideal that we should maybe fine-tune.

I am not at all against the Working Time Directive, but there were some real challenges from that about lorry drivers and other things, given Scotland's geography for example. So there are things there you might want to fine-tune without its necessarily being detrimental to employees or to the business. There are things like that that we might have to have a look at. I think it is going to be quite a lengthy process. To unpick any law, you are probably talking about two years minimum, so it needs a bit of thoughtful study.

Absolutely, MPs have a massive role to play in that, in taking a sensible approach to that. So I would welcome things but, as I say, we probably need a bit of stability and clarity at the moment. Let's get the negotiations going and during that perhaps we can then set up a little group, or whatever mechanism you decide to do it, to actually start to unpick and to also look at the positive benefits but, absolutely, please involve business in it as well.

Q148 **Chair:** Do any of you have a view on this at all, about how we do this process or anything that you have identified that you would like to see retained, or stuff that could be discarded?

Fraser Grieve: In the short term, it is about making sure that, while the negotiations are ongoing, businesses have as much certainty as possible. That we do it in a very slow and measured way, looking at the potential ramifications of any changes we want to make, in terms of how we operate as a country and how we interact with others on trade. At the moment it is important to provide as much certainty around the rules and regulations that people face until agreements are in place and then, following that, to look closely at how we make sure that we are more responsive in terms of not having to deal with some of the challenges around the lengthy negotiations within the EU. How do we make sure that we fully recognise the unintended consequences of decisions and how those will be perceived by our neighbouring countries and those we trade with? So I think a softly, softly, gradual, measured process really has to be followed.

Colin Borland: The short answer is: no, we are not there yet. We will be in due course but, as you and your colleagues have touched on, this is a big job. It is not just a case of cutting and pasting a few regulations and sticking it into a Bill, because I presume we are going to have to codify case law and everything else that follows.

I would imagine the sensible way to do it is to codify where we are today—if that is possible—and then from there we can have debates about whether certain aspects should change or not. The only difference is going to be that we are making those representations to you and your colleagues at Westminster, not in Brussels.

Q149 **Mr Christopher Chope:** I have found this session particularly depressing. What has happened to the great spirit of enterprise in Scotland? What would Adam Smith be thinking about the evidence we have just been listening to? Isn't there a radical vision that any of you have for the great opportunities that now arise for Scottish entrepreneurs and business? For example, why would you not be putting forward ideas, such as reducing corporation tax to 10%? Something radical. Why are you bogged down with this gradualism, minimalism? It is almost as though you are frightened of the power that you have been given by the electorate to actually take control of your own destiny.

David Watt: To be honest, if you were sitting in your business and you had 42% of your customers potentially removed I think you would be a bit concerned. You would want to assess the position before you radically jumped up and looked for any creative ideas, absolutely. In fact, one of our members was beautifully quoted in *The Herald* last Saturday saying that we are going to grow and expand a fantastically exciting business. My opening remarks were, "We will grow and survive under any circumstances. We will absolutely do it with Brexit or without Brexit"; absolutely we will, and Scotland will bring a lot of the innovative and creative ideas to the economy of the world, as it has in the past.

But I did say then that the "but" is that we would not have chosen to be here. If you look at the phrasing around the report, if you want to be depressed then read that and you will be seriously depressed. Its best estimate is we have lost 30% of Scottish GDP, which does not make us too happy. We were reacting, but we have, for example, suggested some ideas of other things we may do. The Air Route Development Fund was one of the best things the Scottish Government ever did. It was actually the Lib Dem-Labour Scottish Government who did it. It was brilliant, and we were told that, if we can re-establish that to build the links to the world, then great. If we can build SDIs the First Minister said the other week, great; and work better with UKTI, brilliant.

We need to grow our market in Scotland. The export of record bonuses is lamentable for the country we are and the history that we have. We are starting to address that a lot more positively now. We need to do more of that with a bit more cohesion—as Brian Wilson clearly said in his report—between the UK Government and the Scottish Government, to drive that forward. Again, if this Committee can play a part in that, that would be extremely welcome as far as I am concerned. So I am far from depressed. I am disappointed. Personally I wish it had not happened, to be honest. It will give us some real challenges but we will absolutely thrive and survive. So don't let anybody tell you any different. We will survive it. I just wish it had been made a bit easier by not happening.

Fraser Grieve: Certainly, in terms of our members' view before, they were very clear about their desire to remain part of the EU and since the decision has obviously been taken they are looking at what the opportunities are, where they can really try to grow into new markets, to spread their trading opportunities. There are opportunities around the ability hopefully to negotiate trade deals quicker than the EU can. But it is a bit of a stick driving businesses towards finding new markets for products, given that they have long-established distribution networks into the EU. So there will be opportunities, and businesses are looking at all that kind of stuff, but it is very early days.

Colin Borland: Yes, the Scottish entrepreneurial spirit is alive and well, and of course there are people who are spotting opportunities here. If you are an international change management consultant, or you are an international corporate lawyer, you are quids in. You will get the Aston

Martin out for the weekend because there is going to be a lot of work for you. But I would not be doing my job if I was not reflecting what my members are coming to me and saying, and it is simple, practical questions: what is going to happen to our workforce? What is going to happen to our markets? What is going to happen to our suppliers? What is going to happen to my bottom line? That is what we have certainly been trying to tease out a little bit today.

Q150 **Ian Murray:** The message we get from most businesses—and indeed I think the message that you are giving us today—is about certainty. Certainty, whether it be the Great Repeal Act, whether it be about migration, whether it be about what our relationship is with the EU in a trading context beyond Brexit. For your members, what additional complications are there, if you overlay that with additional constitutional uncertainty?

David Watt: Colin made a really good point that where we are right now is complicated enough, to be frank with you, in the sense of the Common Agricultural Policy, for example, and how that is going to break down for the UK Government and the Scottish Government, as you talked about earlier today. So that sort of example, and fisheries policy and others. There are a number of other policies and areas of current responsibility that need to be examined in the first instance.

The issue of an independence referendum is another question that I am not qualified to talk about, to be frank with you. I said a minute ago that business likes clarity and certainty. That is the way business will always be. They don't like any political change. That does not mean we should not have political change, it just means that businesses don't like it. They did not like Brexit and they probably would not like a referendum and independence, but if we have it, we have it. They are out there, trying to plough the furrow and make money, increase the bottom line, increase jobs and productivity as best they can. There are a lot of complications in the current situation, as Brexit comes into place, to be honest with you, over the responsibilities that currently exist.

Q151 **Chair:** We have the Joint Ministerial Committee meeting today in London, and we now have—I do not know what Michael quite calls himself—the Scottish Minister for looking at our relationship with Europe, or whatever. Can I just ask how you, as business and industry, are feeding into both Governments, and if you feel that you have the access that you require in order to put forward your concerns and anxieties? We obviously have this initiative with the Scottish Government and, obviously, it is the UK Government that are going to control it. Have you found you have the lines of communication that you need?

Colin Borland: Yes, so far. Certainly, speaking from the Scottish Government point of view first, they are setting up a consultative forum, into which we will be feeding. We met the First Minister relatively soon after the vote. One of the things that we had asked was: was there to be a single hub where businesses could go to for information if they had detailed questions? That was something that was taken on board and is now up and running, so, from that point of view, that has been encouraging.

We were at a meeting on Friday with one of the Brexit Secretaries of State and the Secretary of State for Scotland. Again, they are underlining that they want to hear from us. At the moment I am not sure that there is much more that we can do other than feed in what we are hearing from the ground because, never mind a plan, we do not really have an idea of where it is or what we are aiming for. Therefore, it is quite difficult for us to engage in that in any more detail. In fact, I don't think we really have to at this point.

One thing I would say, though, is that it is frustrating to rely on the "Kremlinology"—if I have said that correctly—when we have to examine the nuances and shifts in official communications to try to ascertain where it is we might be going. The sooner that we can get an idea of what our opening position is going to be, I think those discussions will probably become a bit more productive.

Q152 **Chair:** I want to hear from Fraser and David, just to wind this session up and maybe you could answer this too. You obviously speak to the rest of your UK colleagues about these issues. The Institute of Directors is UK-wide and David does an exemplary job in chairing the initiative here. Is there a difference in approach, in concerns and in the range of issues that Scotland has compared with the rest of the United Kingdom when it comes to these things? Or is it uniform across the UK; the same types of concerns? Is there something perhaps more that we could be doing in Scotland to address your particular concerns? Fraser, I know you were looking to go first here.

Fraser Grieve: Obviously, we are a Scotland-wide organisation. There has certainly been good dialogue and discussion in terms of round tables and others between us, our members and the UK and Scottish Governments. There has been a desire to make sure that the Scottish Government has a proper input into that and proper dialogue with the UK Government. Certainly many of our members have expressed a desire for it to be a common UK message, concerned about how other countries will interpret what we are trying to achieve. There are quite a lot of mixed messages, which can be quite hard for Scottish businesses and those they are trading with overseas. We just simply do not quite see what our starting position is, what we hope to achieve. There is complexity and what people hope to achieve is very different depending on where they are sitting. So it is a matter of making sure that there is a strong narrative, an open and welcoming approach to this, to make sure that we provide reassurance to EU nationals living and working in the UK now and to UK nationals overseas; that we have certainty around current regulations and we are not simply going to rip up the rulebook and start again; to make sure that businesses know where we are starting from as well as a desire to be an open and trading nation; to make sure that we try to get the best deal. But we also have to understand what other countries are looking to get out of this; we will not get it all our own way.

Chair: Lastly, David, from you?

David Watt: First, the conduits, both to the Scotland Office and then through to the UK Government and the Scottish Government, are quite strong and politicians of all parties have been good in terms of communication. I can’t complain. That is true of the Civil Service as well. That is healthy.

As Colin said, I don’t know how much we have to communicate yet, apart from the message that we are getting from members.

In terms of your Scottish differences, yes, we have differences in emphasis and that is why I led off with immigration because it is the biggest single difference. It aligns to the previous conversation we had about demography and it aligns to the challenges of geography that Scotland has. They are not quite unique—I know they apply to other parts of the UK—but they are pretty strong and they are big issues for us.

Something we have not talked about at all today is spending. European spending in Scotland is significant. In certain areas of Scotland, it is enormous. If there is any lack of clarity over that and what is going to happen as far as that is concerned in terms of development, in particular in the Highlands and Islands, then there are some real challenges in terms of some issues there, and research funding, as I am sure Sir Tim talked about earlier.

So, there are specific areas where we are disproportionately interested, obviously research funding being one, RSA and other things being big for Scotland as well, and how those impact on how the UK Government replicates that funding as was promised before the referendum. That will be really interesting, to see how that happens. So I think there are some different challenges.

Also, we would hate to see London get some sort of passporting system that Scotland did not get, in financial services, for example. So I want this to be on the table.

Finally, I am fiercely patriotic—not nationalist, but patriotic—and I think we should be waving the Scottish flag and saying whatever picture you may have from other parts of Europe, Scotland is very Europe-friendly and wants people from Europe working here and wants to do trade with Europe. I do think that good, friendly relationships are important. I always say that people do business with people, not just with organisations. Yes, the deal has to be right, but you do business with people. We, as Scots, need to say we really like Europe and Europeans; we voted that way and we believe that way. That, to me, gives us a competitive advantage, which I am quite happy to take.

Chair: Thank you all very much for that fascinating session. As always, if there is anything that you feel that you have missed or want to make further points on, we are still going to be open for taking further written evidence, so please keep in touch with the work of this Committee, but thank you for attending this afternoon.

Examination of witnesses

Witnesses: David Thomson, and David Williamson.

Q153 **Chair:** I think both of you have given evidence before to this Committee but, just for the record, please say who you are, and any introductory statement you wish to make. We will start with you, Mr Williamson.

David Williamson: Thank you, Chairman, and good afternoon everyone. Thank you for the invitation to participate today. My name is David Williamson. I am the Public Affairs Director at the Scotch Whisky Association. We are the trade association that represents the interests of the Scotch whisky industry around the world. When it comes to Brexit, we are looking at this in terms of challenge and uncertainty at the moment, both in relation to the single market and to trading with third countries, but we are also a long-term industry, as you will know, in terms of our product and looking to the future we are certainly now working hard with our members to scope out possible opportunities, both in terms of the EU environment but perhaps more importantly for today's discussion, looking at where future trade agreements might be struck to the benefit of our industry and the wider Scottish economy.

David Thomson: Good afternoon and thank you for the invitation to come to the Committee. My name is David Thomson. I am Chief Executive of the Scottish Food and Drink Federation. We are part of the UK Food and Drink Federation and in Scotland we are a trade association representing a wide range of food and drink companies.

The importance of food and drink manufacturing to Scotland is very big. It is the largest manufacturing sector, employing around 36,000 people in Scotland. That makes up about 19% of manufacturing jobs. So it is a fundamentally important sector to Scotland's economy; 891 businesses of which 97% are small or medium-sized enterprises. That shows the kind of range of challenges there for business, but it is a great contributor to the economy.

Like David, we have been talking about the impact of Brexit with our members. It will not be a surprise to you after today that our members have a range of concerns. We are also working with our members to scope out potential opportunities in changes of regulation, potential new markets, and in particular some of the key markets that we would want to export to in the future.

Q154 **Chair:** You are among the most successful export industries. I think Scotch whisky now is the biggest export industry in the UK. Would it be right to say that?

David Williamson: Yes. Our annual exports are £4 billion a year in customs value and that makes Scotch whisky roughly 25% of the UK's food and drink exports but, also, the No. 1 net contributor to the UK's balance of trade in goods, because so much of our supply chain is domestic here in Scotland and the UK.

Q155 **Chair:** Just incredible and I am glad that you have been able to state that for the record.

To both of you: because you are such a valuable export sector, you have obviously made some sort of assessment of how Brexit is going to impact. What have been the main conclusions that you have been able to draw so far? Could you start by telling this Committee the range of those, starting, maybe, with the anxieties and concerns and then what you see as the opportunities that might be presented by Brexit? We will start with you, Mr Williamson, given that you now have the largest export industry in the UK.

David Williamson: Clearly there is a range of uncertainty at the moment if we look at the potential challenges first of all.

In terms of the single market, clearly a wide range of legislation impacts on our sector. To put that in context, we are looking at legislation that regulates the bottle size in which the whisky is sold, the label that goes on that bottle, and the definition of the product itself that is packaged. So it is absolutely fundamental to what we do. The single market as it stands is one third of our global export. We are talking about £1.2 billion of Scotch whisky exported to the single market every year, and within that market, we are looking at countries like France, Germany and Spain, which are absolutely fundamental to our export success. So maintaining the best possible access to—if not influence within—the single market is going to be key to our members going forward. That is certainly a message that has come out loud and clear.

Looking more widely, there will be challenges on the international trade side, depending on how the UK approaches future trade agreements. Our current priority, before looking at some of the future opportunities, is to what extent it may be possible to maintain—or, in the jargon, grandfather—the current sort of trade benefits that we have secured through international trade deals in the past. For example, Scotch whisky has benefited from EU deals with the likes of Korea and Colombia, where tariffs have been eliminated. Markets accounting for about 10% of our exports as they currently stand would be impacted if we were not able to grandfather in those tariff concessions; that tariff liberalisation that we have secured so far. So, it is a complex picture. It will ultimately depend on a number of hypotheticals in terms of what model we adopt with the EU itself but, also, to what extent we are able to negotiate free trade agreements with third countries in the future.

David Thomson: Just for the record again, food and drink—not including whisky—exports have increased by more 50% in the last 10 years, so up to £850 million in 2014, and grew by 3.3% between the last quarter of 2015 and the first quarter of 2016. So our outlook continues to be good and these are the latest figures available to us.

When it comes to markets, access to the single market is an important thing, obviously. The vast majority of our exports go to the European Union. Something I should probably note here is that, while the tariff barrier that is often quoted through the World Trade Organisation and other things is around 3%, sometimes in agricultural products the average is around 22% and it can be as high as 40% for products such as milk. So while there is a generic figure that is quite often bandied around our exports, when you look into specific sub-sectors, there can be a huge change in these tariffs. In particular, as our industry relies on importing some things in order to add value in Scotland and the UK, that can have a significant impact on trade. So that access to the single market is important, not just for selling things but for access to the types of ingredient that we require to make our products and the types of ingredient that you can't have in Scotland but you can have in the UK. So that is part one.

Part two—and I am sure we will touch on this a bit later—is around workers' rights and the impact of the numbers of non-UK/European workers within the food and drink industry in Scotland and the UK. Those are substantial concerns.

A third thing around markets is to be clear that it is not just access to the single market but access to the free trade agreements with other parts of the world that are of equal importance. Sometimes those are quite niche for specific products and for specific companies. It is useful to reflect on that.

Q156 **John Stevenson:** For the record, I chair the All-Party Parliamentary Group on Food and Drink Manufacturing, so I am very aware that the industry is in many respects governed by EU regulation laws rather than domestic so obviously Brexit has some serious implications for the food and drink industry.

Just looking at this more from the positive side of things, what do you see as the opportunities for the food and drink industry?

David Thomson: There obviously are opportunities. One is in regulation. I would probably characterise us as the second most regulated industry after banking perhaps, in Europe, and there are opportunities in that regulation, in clarifying the legislation, in reducing some of the impact of that legislation, in developing more of a science-based approach to some of the regulations that are in place. I suppose the danger in changing and relaxing those pieces of legislation is how that then interacts with access to the European market for our food and drink. We are working with our members on a list of where these elements of regulation could be relaxed, changed or a different approach taken. So there are elements where we could do that. The key question, the unknown question, for us is how that interacts with markets in Europe, but as a follow-up to that, it could also mean that we can open up markets in different parts of the world if we are able to manufacture to a different set of standards.

Q157 **John Stevenson:** It is interesting to comment about exports and the success over the last 10 years in terms of exports, but we as a country are self-sufficient in food only to 60%, so clearly we import an awful lot of food. Is there not an opportunity with regards to import substitution as much as exporting?

David Thomson: I am sure the National Farmers Union of Scotland talked about that this morning. There may be that, but what one has to remember is that for a wide range of the products that we eat and consume, the raw materials have to come from outside this country. We do not make chocolate, for example, in the UK. Even in cases where we could make those products, in terms of meeting the specification or meeting the price, that doesn't seem to have happened so far. There might be opportunities in future, if that can be developed and consolidated.

Q158 **John Stevenson:** Mr Williamson, notwithstanding that you are involved with whisky, you must have quite a lot to do with the food and drink sector anyway. What do you see as the opportunities for the sector as much as the challenges?

David Williamson: I would focus, Mr Stevenson, on the potential for future free trade agreements being struck. It will depend on how ambitious the UK wants to be, clearly the skill of our negotiators in getting the right deal and to what extent we are able to make sure that industries like the Scottish whisky sector, and the wider food and drink industry has its voice heard as we develop those negotiations in future.

But we have done work over the summer scoping out where there is potential for future free trade agreements that would benefit our sector. They split into a number of different areas. I suppose the top priority for the whisky industry would remain being able to strike future deals with major markets with significant commercial potential for our members. Those are markets like India, China, Brazil and the wider Americas region, like Argentina. We pick on those three because, clearly, there is a resonance for Scottish whisky as a premium imported product in those markets, but we face significant barriers to trade in tariffs at the moment.

If you take India as an example, I think if you asked our members, small and large, what our top priority would be, India would be it. Currently Scotch whisky has a 1% market share of what is the world's biggest whisky market. That is because of a range of trade barriers at state level in India but, more importantly, a large 150% basic customs duty applied at federal level, which makes our product largely unaffordable and inaccessible to most ordinary Indian consumers.

The EU has been negotiating a trade deal with India over many years, without so far being able to move that forward to any significant degree in our sector. If a deal with India was able to reduce or—dare I say it—even eliminate the 150% tariff on Scotch, that would be highly significant for our industry. The consumer demand is there: the product is appreciated, there is a resonance in the market, but consumers simply cannot afford it. If you look at some of the figures that the industry has looked at in terms of the potential benefit from India, if the tariff were to be largely eliminated, you could see our market share grow from 1% in India to say 5% in India over a short to medium-term outlook. That is significant. It doesn’t sound much, 1% to 5%, but that would be highly significant for our members in terms of production going forward.

To give you a full sense of the whisky industry, we have looked more widely at target markets in the context of Brexit. We are looking at fast-growing emerging markets in sub-Saharan Africa, markets like Nigeria and Angola, where there is significant demand as well, but high tariffs, significant trade barriers. We are looking at markets where the industry may not have been delivering on its potential in the way it would like over recent years, markets like Thailand and Korea, which are well-established Scotch whisky markets, but where there are challenges and where lower tariffs, the removal of discrimination, could help our exports in the future.

Then there are certain mature markets that have already been talked about in terms of potential trade deals, markets like Australia and Canada, where there aren’t significant problems in terms of market access for our industry, but where there are nuisance tariffs, 5% in Australia, or behind the border issues like some of the practices of the provincial liquor boards in Canada, which, if they could be removed or improved over time, certainly would have a beneficial commercial impact on our sector.

Q159 **Chair:** I have always found this quite difficult to understand, why there are these huge tariffs, with the UK being part of the European Union, and that somehow this will magically disappear if we are free from the shackles of the European Union and negotiating our own deals. Maybe just briefly, for the assistance of maybe just the Chair in this Committee, and maybe for the rest of the Committee, can you explain just quite how that works like that?

David Williamson: Scottish whisky, Mr Chairman, is often the largest imported spirit drink in many of these markets. We face protectionism, where you have significant local spirits industries understandably looking to protect the position that they have in those markets. That is why we face around 450 trade barriers in our export markets around the world. It is a constant challenge. EU trade deals and negotiations have been the main way we have been able to target those barriers to trade in the past. If that is no longer available to us, we will be encouraging the UK

Government to be as ambitious as possible in tackling those very same trade barriers that the EU has been working on.

Q160 **Chair:** I do not think I am any clearer just about how all of us, if we are free of the shackles of the European Union—what you are trying to say and assert is that somehow we will be in a position where a zero tariff is imposed. Am I missing something here or is there some part of this process that I am not quite grasping?

David Williamson: I am not suggesting, Mr Chairman, that it is going to be any easier to remove those trade barriers. If you take India, for example, I have been working in the whisky industry nearly 20 years and when I joined the Scottish Whisky Association, the tariff we faced in India was 700%. We have made some progress, but it is still 150%. These are difficult issues to resolve. We are not suggesting that the change in who is negotiating on our behalf is going to make a material difference on some of those issues immediately, but what we are saying is, given the reality of the situation, we are arguing strongly that Scotch whisky should be one of the UK's top offensive trade priorities in these negotiations. We think that there is an opportunity, if we are able to strike those deals, to deliver significant commercial benefits for the Scottish economy.

Q161 **Chris Law:** Conversely, if you were saying it was 700% 20 years ago and we have been a member of the EU all that time, the EU has done quite a lot in terms of benefiting the Scottish whisky industry.

David Williamson: Yes. Let's be clear, Mr Law, the Scottish whisky industry campaigned for the United Kingdom to remain within the European Union and we did so for very clear reasons: first, that we benefit from access to and influence within the single market in terms of having a voice on issues that impact on us in terms of single market legislation. The Scottish whisky industry has benefited from EU trade deals in the past, whether it is the removal of tariffs in Korea or Colombia, for example, and the protection of Scottish whisky as a geographical indication is rooted in European law.

That has been of enormous benefit to us across the member states, where we have that protection in place, but also often through these trade agreements there is a range of geographical indications, such as Scottish whisky, that secure legal protection in export markets as a result of that. We have done well through these trade deals in the past. The point I am trying to make is that given the reality we face, we are working hard now to make sure the UK Government understands the importance of the Scottish whisky industry as an export interest and that we can continue to make progress on some of these challenging trade issues that take years to resolve.

Q162 **Ian Murray:** Just for the public record, our Chair has decided to assist in supporting the Scotch whisky industry by buying us all one when we get to the airport shortly. He didn't know that, but he does now.

Can you I just pick you up, David Williamson, if you do not mind, on this whole issue of the legality and definition of Scotch whisky? Because it is clear that the whisky industry benefits from free access to the single market in Europe and the bilateral trade deals that the European Union is able to do—and probably to answer some of the Chair’s question—and the reason that India is probably so protective of those tariffs is because they have a very good industry themselves, the Japanese have a good whisky industry, the Chinese are copying Scotch whisky rather badly, but they are still doing it with a huge market. Is there a danger without that weight of the European Union sitting behind the definition of Scotch whisky that there could be an international crisis over the definition and Scotland or the UK might just not be big enough in terms of its power to be able to stop that definition being undermined?

David Williamson: Thank you, Mr Murray, and thank you, Mr Chairman, for what you are doing for the Scottish whisky industry at the airport later.

In terms of the geographical indication, I wouldn’t overstate it, Mr Murray. I think Scotch whisky is protected in domestic legislation here in the UK, and because the industry has been active over many years, we have strong protection in a range of markets around the world through different mechanisms. For example, in the United States, US federal law already has a definition of Scotch whisky on the books that would be unaffected by what we are talking about today. There may be some markets where there is a challenge. Taking things in turn, the EU we have looked at very closely and maybe it will not be a problem, in that the registration of Scotch whisky as a geographic indication through an EU member state can be replicated. For example, tequila has the same sort of protection in Mexico. We are able to deal with that across the member states.

There are one or two trade agreements where we currently have protection in place, which unless we are able to maintain the benefits, the grandfathering I talked about earlier in terms of tariffs, we would have to explore different ways to secure the same protection we have now. For example, we have protection as a geographical indication through deals with South Africa and Korea. If those aren’t maintained going forward, we will need to find different ways of doing that. We are already exploring in both of those markets whether we ought to register Scotch whisky as a certification trademark, a different way to achieve the same end. We are confident we can maintain the protection we have, but we may have to explore different ways and be more creative in how we do it, depending on the market.

Q163 **Mr Christopher Chope:** To what extent are you being assisted by the Scottish Government in realising your vision for this bright future for the Scotch whisky?

David Williamson: Thank you, Mr Chope. I think we are receiving, as a large export industry, strong support both from the Scottish Government and the UK Government on this. We have had regular meetings with

Ministers in both Governments and with officials again in Edinburgh and London, so we feel we are getting a good hearing and that both Governments understand the importance of the issues for us. What I would stress, maybe looking ahead—and this goes for both Governments—is a plea for systematic consultation going forward. We are getting good opportunities at the moment, regular meetings, round tables, and the chance to talk about priorities. However, we are going to move quite quickly into a negotiation phase where we hope there will be the same sort of consultation with industry, understanding where priorities lie as things evolve.

I understand that may be difficult, but this is an area where we think there is a chance to be creative in this new environment. For example, in the United States, there is a different system as trade deals are discussed, where different sectors are seen as cleared advisers, where they have a chance to speak with Government about specific issues that impact on them and a chance to have that dialogue as negotiations develop. We think we are getting great support at the moment both in Edinburgh and in London, but we hope it will be systematic and ongoing, so that as things move quickly, industry still has a strong voice.

Q164 **Mr Christopher Chope:** Will you start negotiating with these non-EU countries immediately? Obviously you cannot legally conclude agreements before Brexit, but you are already starting these negotiations, are you?

David Williamson: We will leave the negotiation to Government, but where we are coming from at the moment is making sure that, where we identify problems, potential problems, where we can, we take action in those markets to try to resolve those at an early stage. Where the whisky industry is also active at the moment is talking to spirits industry representatives in other markets to see where there are common interests so that, as this moves forward, if there are trade negotiations with country X, we have the chance to work with our colleagues in industries in different markets to come forward with a unified spirits industry view for negotiators, which we hope that they will be able to include in any text at an early stage.

Q165 **Mr Christopher Chope:** You say that the share of the Scottish whisky market in India is 1%.

David Williamson: Yes.

Q166 **Mr Christopher Chope:** If that was to double to 2%, what would it be worth in cash terms?

David Williamson: I can give you a volume indication. At the moment, we are looking at a market for Scotch whisky of about 1.5 million to 2 million cases of whisky a year in the Indian market. Analysis has been done that suggests that it would be reasonable to see that moving to around 5 million cases, in relatively short order, if the tariffs were to be liberalised significantly. That is important because, if you look at Scotch whisky exports globally every year, total exports are around 95 million cases. We are talking about sums that would make a material difference to the industry in terms of its exports and its production.

Q167 **Margaret Ferrier:** Going back, you mentioned legal protection. There has always been concern around copycat products for the whisky industry. Is that something that would become worse or more of a concern with the UK leaving the EU?

David Williamson: Thank you, Mrs Ferrier. When it comes to legal protection, this is an ongoing challenge for Scotch whisky around the world. It is one of the challenges of export success. Scotch whisky is seen as being a desirable, premium product in markets and, as export markets grow, you find there are those who are trying to trade on Scotch whisky's international reputation. At any one time, the Scotch Whisky Association will be pursuing around 70 legal actions worldwide to protect Scotch whisky from unfair competition, those who put brown liquid in a bottle with a tartan label and a Scottish-sounding name and then sell it as Scotch whisky when it is not. It is an ongoing challenge. That has been the case for many years and will continue regardless of the situation we find ourselves in, in relation to Brexit.

The industry takes a zero-tolerance approach to this sort of activity because it undermines category integrity. It is a lost sale for the industry in terms of exports. When you have locally produced spirits that are not complying with the strict guidelines we have here in the UK and Scotland, there is a chance that we will see an inferior product with potential health risks being sold as whisky when it is not. Clearly, that has reputational implications for the sector. We have to work very hard to do that.

That is why we have always tried to make sure that geographical indication features in these trade deals. It is why we would certainly, as the UK develops that capacity, make sure that there is an understanding why geographical indications are so important, and it is why we are already exploring—in some of those markets I talked about—what alternative means there are to take action, whether criminal enforcement action or civil cases. We will look to find any mechanism to make sure those sorts of products that undermine Scotch whisky's reputation are taken off the market as soon as possible.

Margaret Ferrier: Thank you very much. I have to confess to you, Mr Williamson, I am not a whisky drinker but I may have been a victim of one of those products at a Burns supper last year. The whisky came from Taiwan and it was more like paint stripper than real Scotch whisky.

Q168 **Deidre Brock:** Further to Mr Williamson's comments, I want to ask Mr Thomson for his thoughts on what the UK and Scottish Governments need to do to make sure that the Brexit negotiations reflect the food and drink sector's interests.

David Thomson: That is an important question. Like the Whisky Association, we are heavily involved in discussions. We had a round table with the Secretary of State for Scotland a couple of weeks ago. We have met Fergus Ewing and we are involved in various round tables, discussions and so on. There is a real hunger from Government, both in Edinburgh and in London, to understand the key issues for the food sector, the key markets and the key regulations, so they have a clear understanding of it.

I would echo David's plea for as much of a structured approach as possible, because we are quite often being asked at very late notice or in ad hoc ways for input into a wide range of potentially far-reaching issues, which is why we are consulting members and making sure that we have a strong and coherent case to give back to Government on all these things. As things go forward, that ad hoc nature might undermine any attempts at moving things forward effectively for us. We are trying to ensure that we are providing as much clarity as possible for Government on that.

Q169 **Chair:** The Scottish Government have stated their intention to scale up support for trade. I don't know what you have observed about that. Do you think it is enough to give extra support and clout to the sector as we go through this process? Let us know what your thoughts about that are.

David Thomson: We do quite well in Scotland with support from the Scottish Government and from Scottish Development International, in terms of trade and a focus on food and drink, which has helped to deliver some of the figures that I was talking about earlier. There is a keen focus in the food and drink sector. We have export agents in a wide range of sectors in different parts of the world and that is working quite well.

We need to see more of that. We need to see more of the deal making and we need to see that more concerned with the UKTI efforts and the Great British Food Unit efforts that are being delivered by Defra. The new plan that was published last week by the Secretary of State for the Environment, Food and Rural Affairs, Andrea Leadsom, was an important part of that. We want to see that developed and go forward.

There is a corollary to that good activity, which is making sure that you have the expertise within Defra, the Animal and Plant Health Agency and various other parts of the superstructure of Government, who are there to make sure that the paperwork, the health certifications and all these other things are on time and delivered effectively. My members would be clear to me that they have some anxieties at the current time about the capability of Defra and others to handle the export certification and other elements. Yes, we are getting good support from SDI and from others around exports but that needs to be followed through.

Q170 **John Stevenson:** Just quickly on that point, you have talked about Defra. Do you not think there is a strong argument that the food and drink manufacturing sector should also be very much part of the new Department of—

David Thomson: Yes, I would of course agree with that.

John Stevenson: There is a danger with the Government's view that they should have an industrial strategy that food and drink, because it is under Defra Department, risks getting left behind a little bit.

David Thomson: From our perspective, absolutely. Across the UK, one of our key four calls is for a prioritisation of food and drink manufacturing in the UK Government's thinking and mainstreaming that within the industrial strategy and other elements would be an important part of that. In Scotland, we are one of the key sectors and have been for a long time heavily involved in working with Scottish Development International and Scottish Enterprise, as well as the Rural Affairs Department in Scotland. There has been positivity there. That is something the UK Government could learn from in terms of collaboration.

David Williamson: Picking up on a couple of those points, if I may, there is a challenge around capacity and expertise here in Government when it comes to trade policy and market access. Prior to 23 June, there was a relatively small team sitting in BIS that was focused on this sort of specialist area. Government needs to work quickly, and has been, to scope out what that looks like in the future because once you start getting into this, it is a very specialist area. Look at WTO activity, for example. The UK will have to re-establish an autonomous presence there quickly in Geneva, in terms of being able to use those different mechanisms once it has negotiated its schedule of commitments.

There is a challenge for the industry in this area often to join up Government for it when it comes to exports. David has mentioned Defra but, when you start looking at this in more detail, you have Defra, the Foreign Office, and the commercial diplomacy team in there, the embassy network, the Department for International Trade, DExEU, the Scotland Office and the Scottish Government. There is a wide range of different actors with strong interests in the export side of the Brexit debate, and often it is industry that is joining up Government in that respect. Looking at ways in which Government is consulting systematically with industry, but also among those different actors, is very important.

In a Scottish context, just picking up on the point, we have welcomed the engagement we have had on the trade side. There is a challenge in terms of moving from a trade promotion focus to trade policy, which are entirely different areas of expertise. The Scottish Government has done a lot of work on trade promotion in the past, working with industry. There is a very small team working on trade policy at the moment, reflecting what the reserved/devolved split has been. To be able to discuss this with the right level of expertise will be important going forward.

The fourth and final point I wanted to make on this, because it reflects what you are seeing in Scotland, is that the Scottish Government's Trade and Investment Strategy was announced back in February/March and it is important that that carries through. The context has changed quite significantly since then, but there are a lot of useful initiatives within the context of that strategy. The whisky industry is supportive of it.

We are pleased to see the SDI network being looked at again and perhaps expanded. It needs to focus on where some of these emerging markets of the future are. I used to deal with our exports to the Americas. Currently there is a significant SDI presence in North America but only one office south of Houston, in Sao Paolo, dealing with oil and gas. You have a range of important emerging markets there like Mexico, the Andean markets and the wider Brazilian region where SDI currently does not even have a presence. There is an area there for SDI to look again at where its footprint is, to look at where the markets of the future are and to collaborate with industry. What we are seeing within industry is good collaboration at the moment. The whisky industry and the food and drink sector are collaborating already. SDI needs to look at how it can work with us on that in the future.

Q171 **Chair:** Just an observation but it will be interesting to hear your views on this. Obviously something is working for Scottish food and drink and Scotch whisky, given the rise in your exports. I do not know how much SDI or the creation of the SDI can be credited for that or whether there has been collaboration, working together across Departments in Whitehall and in Scotland. These are obviously fantastic products because it is indigenous Scottish products that people enjoy most, but is there anything that you can detect about why this has become such an enormous success in the past 10 years?

David Thomson: From a food and drink manufacturing perspective it is that collaboration that has been in place for 10 years now, since 2007 if not before. That has given structure and focus to where SDI put their resources and has given structure and focus to where the broader public sector supports the food and drink industry. That has been helpful. As David said, it is probably time for a redoubling and a refocusing of that, given the opportunities and challenges that we have here.

David Williamson: If I could pick up on a couple of points there, Mr Chair, within the Scotch whisky industry and the wider food and drink industry there is an international mindset and a long-term view, particularly in Scotch whisky by the very nature of the product. You are predicting 10 years or 20 years out how markets are going to evolve. That has certainly helped the sectors to grow exports. Fundamental, of course, are good routes to market, a fantastic product and the people involved. Without that, you have no success. However, Government has played an important role in terms of helping to knock down trade barriers where we have found them and helping to make sure that the embassy network is active on our account. The Scottish Government has worked very hard on the trade promotion side of things through the likes of Scottish Development International, which has done a strong job working with a range of companies, particularly the smaller companies as they have got themselves established and growing.

Q172 **Chris Law:** I would like to ask this question of both of you but particularly the Scotch Whisky Association. I know that one of the key issues for you is what lies ahead in terms of the single market now that we are clearing out of it. Is the EEA the best possible outcome? If there was a pick'n'mix, what would you have for the Scotch Whisky Association in relation to the EU?

David Williamson: We have said already, Mr Law, that our focus is the best possible access to the single market. That implies the EEA-type solution. When it comes to whether it is an EEA-type solution or FTA, it would depend on the detail of the potential deal. Reflecting what was said on the earlier panel, what would not be a good outcome for the Scotch whisky industry is going back to WTO-only trading arrangements in terms of the potential impact of tariffs between the UK and the EU when we have companies with cross-European supply chains. It would not necessarily impact Scotch whisky highly significantly but across the economy you can see what that might mean.

When you look at single market rules, as I said earlier, there are some key areas here where we have had influence in the past, in the definition of our product, the bottle size and its labelling. As far as possible, we want to retain what we have there in terms of certainty and the environment in which we have been working because we have had a strong voice in shaping those rules in the past and that has helped us to grow in a range of European markets.

I will give you two quick examples when you look at countries that have come into the EU or its predecessor incarnations, Spain and Poland. Because of the reduction of European rules in that area and the removal of tariffs, Scotch whisky exports to Spain grew very quickly. It was one of our top three markets for a period. It is not at the moment because of some of the economic challenges in that market. In Poland, where we saw a tariff removed and those rules put in place, Scotch whisky exports grew very quickly. The challenge for us is, depending on how things evolve in the future, the extent of regulatory divergence within that European market when the Scotch whisky industry does not have a voice in shaping the rules that impact upon us.

David Thomson: I would reflect that. It depends on the model that is put forward as to whether it would be better or worse for food and drink manufacturing, but the lack of a voice around the regulations and the potential impact that has on exports is of critical interest to food and drink manufacturers as well.

Chair: Thank you. Margaret Ferrier?

Margaret Ferrier: My question has been answered, Chair, previously.

Chair: Such comprehensive responses have we had that the panel has answered questions in advance of them being asked. I do not think we have any. I am looking around at my colleagues to see if there are any further questions.

Ian Murray: Can I ask one very briefly?

Chair: Of course you can.

Q173 **Ian Murray:** You may have covered this one already and it is very difficult, obviously, for the Scottish whisky industry to do anything about this, but are there any hints from any of your members about relocation or trying to find ways into the European Union market that might not necessarily be operating out of Scotland? The Scottish whisky industry could do that to a certain extent by reclassifying themselves in some other country.

David Williamson: One of the beauties of the Scottish whisky industry is that you cannot outsource its production. The product has to be made in Scotland.

Ian Murray: You could outsource everything else.

David Williamson: When it comes to other spirits clearly there is that opportunity but it is not something we have been picking up at all so far.

Q174 **Chair:** It is not directly related but, given your importance to UK exports, are you getting the access that you require from Government Ministers in terms of what your requirements are with this process of Brexit?

David Williamson: So far, Mr Chairman, yes, with both Cabinet-level Ministers in the UK and in Scotland. We have welcomed the opportunities we have had so far to have those sorts of discussions. As I said earlier, the challenge going forward is that there are a lot of different sectoral interests wanting to get their voice heard on these sorts of issues at the moment. It is going to be a fast-moving scene as things begin to develop in negotiation. It is making sure Government's consultation is systematic and that we have the opportunity to maintain that level of two-way dialogue we have had so far.

Q175 **Chair:** Mr Thomson, are you feeling that your voice is being heard at both UK and Scottish level when it comes to your requirements?

David Thomson: Absolutely, yes. As I said, there is a real hunger from Cabinet Ministers, both in Scotland and the UK, for specific information. As I said, the key thing for us is how we then take that forward and use that to input.

Chair: Great. Thank you. Unless there is anything else that either of you gentlemen wants to add, we are very grateful for your attendance. It has really helped the Committee in terms of this inquiry. Again, if there anything that when you leave this building you think you should have said to the Scottish Affairs Committee, please get back in touch with any further written evidence. Thank you very much for your time today.