HOUSE OF COMMONS

Exiting the European Union Committee

Oral evidence: The UK's negotiating objectives for its withdrawal from the EU, HC 815

Monday 19 December 2016, Aberdeen

Ordered by the House of Commons to be published on 19 December 2016.

Watch the meeting

Members present: Hilary Benn (Chair); Mr Alistair Carmichael; Joanna Cherry; Michael Gove; Peter Grant; Jeremy Lefroy; Seema Malhotra; Stephen Timms; Sammy Wilson.

Questions 527-598

Witnesses

I: Professor Michael Keating, Chair in Scottish Politics, University of Aberdeen, Andrew Walker, Managing Partner, Johnston Carmichael, Deirdre Michie, Chief Executive, Oil and Gas UK, and Suzanne Burr, Business Manager, Thorpe Molloy Recruitment.

II: Michael Bates, Development Officer, Scottish Seafood Association, Bertie Armstrong, Chief Executive Officer, Scottish Fishermen's Federation, and Andrew Scott, Chief Executive Officer, Scotrenewables.

Examination of witnesses

Witnesses: Professor Michael Keating, Andrew Walker, Deirdre Michie, and Suzanne Burr.

Q527 **Chair:** Good morning. First of all, can I thank our witnesses? For the record, would you like to introduce yourselves? When you are speaking, press the button on the microphone and when you have finished speaking press it again so it goes off, so we don't talk over each other.

Andrew Walker: My name is Andrew Walker. I am the Managing Partner for Johnston Carmichael in Aberdeen. I am also head of Corporate Finance, which is the management accountants. Johnston Carmichael is the largest independent firm of accountants in Scotland and we have offices across Scotland. We have a fair cross-representation of the Scottish economy. The Aberdeen office is focused on oil and gas services and we have quite a few firms at Aberdeen.

Deirdre Michie: Good morning. My name is Deirdre Michie. I am the CEO of Oil and Gas UK. We are the trade association representing the offshore oil and gas industry. We have 430 members from Shetland down to Southampton and everywhere in between and our role is to represent this great industry. Thank you very much. It is very good to see you here today and you are very welcome.

Professor Keating: My name is Michael Keating. I am a professor of politics at this university and the University of Edinburgh. I am a director of the Centre on Constitutional Change, which is based in Edinburgh. We have been doing a lot of work in the Brexit referendum and the follow-through from that.

Suzanne Burr: Good morning. My name is Suzanne Burr. I am the Business Manager for Thorpe Molloy Recruitment. Thorpe Molloy is a local Aberdeen agency, a specialist recruitment agency, and we are working with companies across all different sectors.

Q528 **Chair:** Thank you all very much indeed for coming to give evidence. We have a lot of ground to cover in a relatively short time. I know my colleagues will keep their questions succinct, and if you could keep your answers reasonably succinct, then we have the best chance of hearing from as many of you as possible.

I wanted to kick off and ask you, Deirdre Michie, what does Brexit mean for the North Sea oil and gas industry?

Deirdre Michie: Thank you very much. Can I set a bit of context here in terms of the industry?

Chair: Yes.

Deirdre Michie: I think it is important to do so. We are an industrial success story for the UK. We have contributed billions of pounds in tax revenues over the years. We continue to support 330,000 jobs across the whole of the UK and we make a significant contribution to the UK in terms of its security of energy supply, which is a very important element that we need to make sure we continue to be thoughtful about.

As an industry, we are going through a downturn that is quite significant. We are two years into that downturn and we have seen significant job losses. The big issue that is facing us at the moment is the drop-off in investment. We have seen a significant drop-off in investment that has an impact on the activity levels and that impacts on the supply chain. As an industry, we are turning ourselves around in that we are much more competitive. Our costs are under control and we are a much more efficient business for which we want to continue to attract investment.

Our issues in a Brexit context are that Government need to ensure they do not get distracted by Brexit and that the actions they take today are as important as the actions they will take in a Brexit context going forward. We need to ensure that everything we do ensures that industry is competitive going forward and that we are seen as an attractive industry that people want to invest in going forward. We have a number of areas; that is the first one. We are a global industry, so we do need to see continued movement of goods and services and people. Limiting any tariff or non-tariff barriers is very important in that regard because again, as an industry under pressure, any additional burdens will be of significance to us.

In terms of a strong voice in Europe, at the moment there is legislation going through. We need to ensure that the UK continues to be leading in the negotiations that are happening on existing legislation and be thoughtful about how we will continue to influence legislation once we are out of Europe. That is very important.

The fourth point is energy trading in Europe. We trade gas across in pipelines into Europe. This is a significant security of energy supply, so again it is making sure that we have access and we have a level playing field with tariffs and commercial codes.

Finally, there is a lot of regulation. As an industry, we look for continuity and predictability. We have asked our members and they are content with the legislation in relation to safety and the environment, because we had significant input into development of that legislation as the UK. We will continue to ask our members, but from a safety and environment point of view we are quite content with that regulation as it stands.

Q529 **Chair:** You talked about energy trading. What is your view about the prospect of leaving the internal energy market?

Deirdre Michie: We want to stay part of the internal energy market, because if you think about the actual infrastructure, we are linked. We are a net importer of gas but we export in the summer when we have extra capacity. All our gas is being traded through into Europe, to Belgium and the Netherlands, so from a gas point of view it is very important that we are clear about how we are going to manage that going forward.

Q530 **Chair:** A question to you, but also to others. You mentioned staff. How important is being able to continue to do intra-company transfers to the oil and gas industry?

Deirdre Michie: Very important. We are a global industry and we thrive on the diversity of the people and skills. We have asked our members and this is something we are looking to get information on, but examples we are given are that in some of the specialised disciplines sourcing from Europe has been very important, in engineering and some of the subsea disciplines that we look to source for this industry. It is important.

Q531 **Chair:** Other members of the panel on flow of staff, continuing to be able to get the best staff?

Andrew Walker: We are seeing the same thing, that there is a desire to move staff about. Oil and gas is an international business anyway and we have built up a knowledge base in the north-east, and particularly the subsea sector, that is world-leading. That has been done because there has been involvement not just from the north-east corner; they are building up the best people that they can. Certainly if you look at the amount of influence that people from France are having in the subsea sector with Total coming over, Technip and so on, then it is a major part of it. It is a specialist area and you do need to have the best people for that.

Suzanne Burr: I would agree with both those comments. From what our clients have said to us, it is important that they are able to move their staff freely and also access talent from whichever location it might be. Moving employees to different offices from different countries is important.

Chair: Professor Keating, from the university point of view?

Professor Keating: I am here primarily to talk about constitutional questions, but on universities, freedom of movement is really important too. It is even more important in the research family, which could be replaced but freedom of movement could not. For example, in my centre we have seven postdoctoral fellows and only three of them are British.

Q532 **Peter Grant:** Good morning, everybody. Could I ask you a couple of questions, Professor Keating? I have read quite a bit recently about how the devolved nations could be involved in either the preparation for the negotiations or the negotiations themselves. What would you see as the best way the UK Government could involve Scotland, Wales and Northern Ireland in that process?

Professor Keating: We are all waiting to see what the UK Government's position is. The Scottish Government have said that they would want to stay in the single market and the customs union. If that is not on the agenda, then it is a little bit difficult to see what the Scottish Government's involvement might be.

If I go through the options that are facing Scotland, one is, "Let's just go along with Brexit". That is very difficult because there was a 62%

majority here to remain, which is quite a significant mandate. The second is, "Let's participate in the process and get as much as we can out of it", which would mean a so-called soft Brexit, which I would define as being in the single market and the customs union.

The third is we go for a differentiated settlement and the Scottish Government will bring proposals forward tomorrow and we will try to get that accepted. It seems to be something to do with remaining or getting access to the single market, to do with freedom of movement and possibly involvement in European matters. That is something quite difficult, but that is something upon which the devolveds would want to negotiate.

A further option is to say, "After Brexit, automatically some power will come back to the devolveds, because at the present they are Europeanised. Let's work on those". That raises all kinds of questions. Let's take agriculture and fisheries: the power would come back to Scotland, Wales and Northern Ireland but the money would not necessarily come back. It is a question of what would happen with the money there, what kind of mechanisms would be in place to get some kind of a UK single market in agriculture and fisheries if we did not have the European single market.

Finally, of course, in the case of Scotland, there is the independence option, which is still on the table. The arrangements that we put in place for representing the devolved Administrations to some extent echo the present mechanisms for dealing with European matters, but I think they are somewhat weaker. Normally when devolved matters are under discussion in the Council of Ministers, the devolved Governments are invited to the private meetings, they can sometimes attend and they can get the papers circulated. The devolveds are invited to the new Joint Ministerial Committee (EU Negotiations) but it doesn't seem to me that they have all the infrastructure to back that up—the circulation of papers, the presence in the Council of Ministers—so they are not involved in the negotiations in the way they normally would be. I think that is quite problematic because, as I said, there are a number of issues. I have mentioned the Scottish ones but there are obviously issues relating to Wales and Northern Ireland as well.

Q533 **Peter Grant:** Thank you very much. Can I come back to the possible option that you raised in your answer, which was trying to find a differentiated settlement either for the individual nations or in some cases the individual regions within the United Kingdom? It appears from what we have heard from Government Ministers that they don't think there is much scope for that to happen. Where are the significant legal, constitutional or technical barriers to creating a system where different parts of the UK have a slightly different relationship with the European Union?

Professor Keating: There are constitutional issues, legal issues, economic issues and political issues. In many ways, it is the political issues that are the most important because the EU has made it clear that the single market is a single thing and that it cannot separate off freedom of movement from the other things. Legally, technically you can do it, but they are not willing to do it because everybody else would want it done; everybody else would want a differentiated settlement just to suit their own needs.

We will know tomorrow—I will be blogging about this tomorrow—but the suggestion is that Scotland could stay in the single market if the rest of the UK came out. I find that extremely difficult to imagine because if you have the UK outside the single market and Scotland inside the single market fully, say on Norwegian lines, you would have a single market border between England and Scotland. That would cause problems for trade within the United Kingdom.

Maybe it is not being in the single market, maybe it is differentiating with regard to other things. For example, freedom of movement is another priority of the Scottish Government and I think there will be a certain amount of flexibility there. Other countries have differentiated migration relationships in different parts of the country. That could be dealt with. I could see Scotland continuing to participate in some European programmes on the basis of paying for them—research programmes for example. If the UK was outside that, Scotland could get back into it.

But I think that core issue about the single market is highly problematic. If Scotland were to stay in the single market, it would not only require some kind of barriers between Scotland and the rest of the UK but also require the devolution of all single market powers to the Scottish Parliament so that we could transpose the European directives. Again, technically that could be done. It looks to me very close to independence but I don’t see what the point of that would be. I can see the point of being independent and I can see the point of staying in the United Kingdom, but that particular settlement seems to me the most complicated of all. I can’t see either the UK Government or the European Union going for that. But we have to see what the detailed proposals are tomorrow, because if we get down to detailed proposals then we can say that some of it is realistic and some of it maybe is not.

Peter Grant: Thank you very much for that, Professor Keating. Deirdre, can I come on to you now? We have heard from a number of witnesses, and you mentioned in your previous answer, about the need for certainty and predictability in relation to whether that is their position. Have the UK Government done enough so far to give the certainty and assurances that the oil and gas industry in particular is looking for? If not, what more should they be providing us now?

Deirdre Michie: We have seen support for the industry from both Governments with the fiscal regime. We have now one of the most competitive fiscal regimes globally, so that has been very helpful. We have had intervention by the Government with support for the City Deal and the support from the Oil and Gas Technology Centre and we have also had the Scottish Government, Scottish Enterprise Energy Jobs Taskforce. I think both Governments recognise that this is a very important industry and have looked to support us as we have been going through this downturn, and at the same time industry has been looking to improve its competitiveness. It is about ensuring that as we go forward, people continue to keep our industry on their agenda, keep supporting us as we ensure that we are competitive and keep promoting us as an industry, that it is a good place to invest in.

Q534 **Peter Grant:** Thank you. Looking at after Brexit has completely happened, what discussions have you had with UK Government Departments about how the future trading arrangements for the oil and gas industry might look between yourselves and the European Union? Related to that, if it was entirely up to you, if you could create a set-up that was optimal for your organisation and for the businesses and the employees in your industry, what would that look like?

Deirdre Michie: We have been invited to round tables to give as much information and to share where we see the risks and opportunities, so we have had that opportunity. In terms of what would we ideally like, the energy trading one is obviously very important—that we would want to make sure that we can continue to trade with Europe. Also, as I said, for the free movement of people and investment and goods and services, the fewer barriers there are associated with that at a time when the industry is under a lot of pressure is key for us. The negotiating of current legislation that is going through the EU is also very important—that the UK has a strong voice now and influences later on.

Q535 **Stephen Timms:** In your earlier answer, Deirdre, you said that the main concern is there is not any investment happening. Presumably the low oil price is the main reason for that, but were you suggesting that there is a Brexit factor as well? Do you think the Brexit position is impeding investment and, if so, why?

Deirdre Michie: Our issues were pre-Brexit. The lack of investment has been part of the global downturn that has been going on for two years. Brexit adds an additional risk to our industry because it is an additional element of uncertainty. That is why anything that Governments do now in being predictable and supporting the industry helps the industry think that as they go forward in the Brexit context they understand what industry needs and that will influence the Brexit thinking. The lack of investment is a pre-Brexit issue.

Q536 **Stephen Timms:** Now the oil price is going up a little bit, are we starting to see prospects of new investment or is there still not really any sign?

Deirdre Michie: We think that the challenges that we have seen in 2016 will continue into 2017. Our big issue is the lack of fresh investment. Last year we had five projects and there was £4.3 billion associated with that. This year it is down to one project and £100 million. It is that lack of fresh investment that feeds through or doesn't feed through, because then you have a lack of activity, a lack of drilling and the consequences for the industry for production going forward could be quite significant.

Q537 **Stephen Timms:** You said that a bit of certainty about the future would help. The Prime Minister has said that before triggering Article 50 the Government will publish its plan for Brexit. What information do you think should be in that? What information would you like to have to support the industry?

Deirdre Michie: We need to be clear at that point on how it is going to be delivered. What industry looks for is business continuity and predictability, so understanding the path enables businesses to plan and that is very key.

Q538 **Stephen Timms:** Can you give us some examples of the kind of specific questions that you would like answered in that plan?

Deirdre Michie: In how we go forward? I suppose it will be understanding which regulations will apply and when, just the general path of how we intend to go forward. I am sorry I can't be more specific but that is a big question.

Q539 **Stephen Timms:** Presumably questions like the one that we were talking about earlier, whether we will stay in the energy market, those kind of things?

Deirdre Michie: Yes, thank you for that. Indeed, things like are we in there; what kind of tariff barriers will be imposed; whether they are monetary ones or whether they are like customs unions and so on. Being clear about the specifics—the more specific people can be, the more helpful that will be in terms of our planning.

Q540 **Stephen Timms:** Can I ask the other members of the panel whether you have any comments about things that you think ought to be in this plan when it is published ahead of triggering Article 50 by the end of March?

Professor Keating: If I can return to my earlier comments about Scotland and link it to that, we really do need to know about the customs union and about the relationship to the single market. There is a great deal of confusion about access to the single market and members of the single market and so on. That needs to be clarified. When I was talking about Scotland, I was hesitant about what the opportunities are because the more access the UK has to the single market the easier it will be for Scotland to remain within both markets.

But if we are heading for a position where we are outside the single market and outside the customs union, then it becomes more difficult for Scotland to have this slightly differentiated relationship. I know that business and many people are looking for clarity on that. We know that the UK Government are not going to give away their detailed bargaining position, but at least we should have some idea of where we are heading. It is not just the devolveds but also industry sectors are looking for that: what are the priorities that are being set within these negotiations? Then they can provide an input into that.

Andrew Walker: About the point you had before, the projects that are being commissioned are on a worldwide basis, so if you are looking at things, you are going to look at the risk around it, and there is an added level of risk just now because of uncertainties being caused. That turns the returns you need up, competing against other projects. That is bound to have a detrimental impact.

Then back to this point of even if you do sanction a new project, these projects are not something that happens in two years. It is a long-term project and it gets back to what is the regime for your investment and trying to make a return for shareholders. The industry has had a challenge because they were not getting returns on investments they were making before and it’s probably under more scrutiny. Of course the last bit is that even if you do sanction a project, the next question is, “Who do I need to deliver it? What equipment do I need? What people do I need?” The next question is, “Do I have an issue with duties or am I going to be able to get the people I want to deliver this project?”

Again, it is back to the level of uncertainty. This is not going to be unusual for oil and gas; it is for all industries. We keep talking about the fact that there has been a lack of investment from British industry. I would say since 2007, if you look at the amount of uncertainty that has been caused with things that we did not foresee, I can understand why you don’t make an investment because, by definition, it is very unusual for an investment to make a very quick return. If you make an investment and you have so much change compared to other countries, then it is going to be putting people off—“I am better sitting on my hands, because if I invest it and then make the wrong investment, what happens next?”

If I go back to particularly the oil and gas service community, they have gone through it. Deirdre mentioned about the lack of new projects and so on. We have a skills base here that has been developed over the years, but if there are not any more projects—that skill base has already been lost to some extent because there has just not been work—we are going to lose that capability again. More sadly, we are going to be in a much weaker position than we were before, because we did have a leading position in subsea in particular. Because of the time lag between when projects are commissioned and come to fruition, the subsea sector is going to be badly hit again next year because of this lack of decisions made. That is one of the key exporting capabilities that we have in this corner in the world.

There are a lot of things that people need to think about and then try to encourage. I am not sure what else the Government can do, other than there is this big question mark that nobody can answer just now.

Q541 **Stephen Timms:** The Prime Minister has also said she does not want there to be a cliff edge at the end of the negotiations. In the areas that you are all working in, are you aware of particular dangers of a cliff-edge variety? If so, what do you think the Government should do? Do you think there should be some sort of transitional arrangement to avoid the dangers of a cliff edge?

Deirdre Michie: Can I take that? Businesses don't like cliff edges; they like predictability and business continuity. Anything that can enable us to have business continuity, whether it is transitional arrangements, will be appreciated and needed.

Professor Keating: I think there has got to be a transitional arrangement because I don't think this can be done within the 15 months they are talking about—that Barnier talked about—which is going to be the real time. The concern is whether those transitional arrangements will remain permanent. It could create continuing uncertainty. But if you look at the task—day by day it becomes apparent how complicated this is going to be, particularly if we are talking about dealing with individual sectors and individual parts of the country—there has to be some kind of transitional plan.

Andrew Walker: I will add one final thing. On this period of uncertainty, one other aspect that we have in the North Sea is with fields that people are not sure what to do with, fields that are already past their expected working life. The question is: do you go and invest money to prolong their life or do you hold off, hold off, and then by the time you have clarity to make a decision it is maybe too late—that is, the amount of money you need to invest in infrastructure is too much to get a return. I think that is one of the big issues, particularly in the position that the North Sea industry is in relative to its production base.

Q542 **Sammy Wilson:** If I can follow up that last question. Given that all of you have said that there needs to be certainty, is there not a danger if we have protracted negotiations on transitional arrangements on leaving the EU and then on the relationship afterwards, that by looking for transitional arrangements we prolong the uncertainty?

Professor Keating: Yes, but I think that has now become inevitable. You are absolutely right, but then if we cannot get this all done with that very short period of time, there has to be some kind of transitional arrangement. That is why I think it is important for the UK Government to declare as soon as possible what they are looking for, what the basic outline of its plan would be and therefore we know where we are likely to end up in that scenario, but we don't even have that at the moment.

Deirdre Michie: I think these things can be done in parallel. I don't think that is an unreasonable expectation: you can be working towards something, but you can also be working towards putting transitional arrangements in place. It is back to predictability, and the understanding of where we are heading would be helpful.

Andrew Walker: The only other comment I would have is—and this is a daft statement to make—because so much uncertainty, we have reached the point where people are saying, "Well, nobody knows what they are doing, so we need to do something" so they are making investments. If there is a time window—say it is a two year-period—all you will have is a lot of people doing nothing for two years. That is the worst thing that can happen—everything stops. We saw that back in 2007 and 2008 when we had the financial crisis. People just stopped doing anything and that had a huge impact on a lot of industries.

Q543 **Sammy Wilson:** The logic of that might be that we negotiate the transitional arrangements before we do the rest of the stuff, but anyhow, I just want to ask some questions about EU funding. To what extent has EU funding, either special measures or whatever, contributed to the economic prosperity of the north-east?

Deirdre Michie: From an oil and gas point of view, we don't get funding from the EU. We have access through some funding arrangements for some science projects if there is an energy theme, but specifically from an oil and gas point of view we don't. I think I will defer to my colleagues, particularly in your area.

Professor Keating: Yes, indeed. There has been very little structural fund money or regional development money coming to this part of the country because it is a very prosperous area. There is a lot of agricultural funding coming here and the loss of that could be quite serious. We don't know what is going to happen to that. Agricultural policy will automatically be devolved if nothing else happens because it is not reserved, but we do not know what happens to the money. The concern for the farmers would be would that money continue if it comes down to the Scottish Government? How would they stand up in competition with other fields who will be looking for funding, because at the moment they are protected? That will be a big concern for the farmers in this part of the country. The universities also get quite a lot of research money through European funding.

Q544 **Sammy Wilson:** Those would be the two main sources of EU funding at present, agriculture and universities. The Government have given an assurance that until 2020 the agricultural subsidies will remain as they are and any spending that is committed before we leave will be seen through by the existing Government. Beyond that, are there any particular arrangements that the panel would say the Government should be putting in place for the two sectors that you mentioned, agriculture and universities?

Professor Keating: As far as universities are concerned, the Government could replace those. They could simply give that money to the research councils. I would not be too worried about that because I think that could be handled. I think the bigger difficulty with universities is all the networks that go around that, the collaborations that we have with other European partners. Even if we bring our own money, we don't have the common programmes and the mobility of researchers, which is really important. The European universities have done extremely well out of Europe. They have been involved in these international sectors.

As far as the farmers are concerned, I think it is a political matter. If the money comes back to London, it could be kept in London and we could repatriate agricultural policy back to London. I think that would be politically very difficult to do. It could come back to Scotland and

Northern Ireland and Wales, in which case would it be part of the block grants; would it be earmarked for agricultural funding? We don't know. If it is devolved, would the Scottish Government and the Northern Ireland Executive and Welsh Government then continue to give the same priority to farmers? We don't know. I suspect that it would be pretty difficult to get the degree of spending that they have had so far because they got it through European funding and we know there is a powerful European agricultural lobby. I suspect that the UK or Scottish agricultural lobbies might be rather weaker. They certainly would have to organise themselves to make a convincing claim for that funding, in competition with health and education and all the other priorities that the UK or the Scottish Governments might have.

Q545 **Sammy Wilson:** As far as university funding is concerned, Professor Keating, you have said that collaboration is important. We have heard from other witnesses that for a lot of university projects, not just the personnel but the funding depends on co-operation with other universities across Europe. We heard earlier on this morning that co-operation with universities outside Europe could become increasingly important in the future. How would you see the funding arrangements across international boundaries being facilitated by the Government post-Brexit?

Professor Keating: It would be possible post-Brexit for the UK to remain within the European Research Area. That would have to be negotiated, but there are other countries, not just Norway—which is, of course, in the European Economic Area—but Turkey and Israel are also part of that so you can join them. Unless that were traded away in some compromise, I would expect them to do that. It is not the money that I would be particularly concerned about, because we can look after ourselves and make sure the money comes, but we would no longer have the same policies that are made, the priorities. So far we have had and we have done pretty well out of it. There is also the collaboration that goes along with the networks that go with it, because we have common sources of funding. You are absolutely right to say it is not just European money; there is international collaboration as well. I don't see that Brexit would make any difference to that—it would become neither more nor less easy to do that—but the universities are concerned that they would lose one aspect of that international relationship, so that is the concern.

Then the key point mentioned, the freedom of movement is really important. We have a lot of researchers, the pick of European researchers here. The British system is pretty open to international scholars coming in, unlike some other systems in Europe, so we have been able to get the really good scholars coming here for part of their career or even to stay here, graduate students doing their PhDs here and staying on. The Americans are really brilliant at that too; they recruit the best people from around the world. It would be important to maintain that, not just from Europe but from the rest of the world as well.

Q546 **Sammy Wilson:** Is it likely, given our excellence in the universities in the United Kingdom that you have referred to, that we would be without influence anyway, whether we are in the EU or not?

Professor Keating: I am sure that is right. I am not saying it would be in all respects a catastrophe, but what is important is the ability for scientific researchers to come and study here, to continue after their studies and to spend part of their time or even their whole career here. In the United States they have a visa regime that encourages people to do that, so whatever visa regime we have after Brexit it will be important to have that in. But then we have to remember that every sector is making that case—"Reduce migration, but not for the scientists, not for the nurses, not for the fruit pickers" and so on. If the migration numbers are coming down, then where is that going to fall? Universities will be concerned about that—that whatever regime there is does enable us to recruit the best scientific researchers to come to this country.

Q547 **Sammy Wilson:** Finally, in addition to the unique aspects, one of the features of agriculture in Scotland is that it is bigger in Scotland than it would be, say, in England as part of the economy; that is true in Northern Ireland, too. There are specific issues with agriculture in Scotland that would not apply in other parts of the United Kingdom. Would you see post-Brexit the best way of financing or replacing EU finance for agriculture as having greater devolution of those powers to either the Scottish Administration or other regional administrations across the United Kingdom, or is there a value in having this decided centrally?

Professor Keating: There is a problem here because agricultural support would be devolved but agricultural trade would not be devolved. Since agricultural trade in most countries is linked to agricultural support, under the WTO there is no almost no regulation about agriculture; it is done through quotas and managed trade. That would have to balance the support. Say if Scotland or Northern Ireland were given a different support regime for their farmers, that could fall foul of trade rules, so they will have to be linked very closely together. Similarly, within the UK we assume there is going to have to be some regime to prevent unfair competition in agricultural products. For example, Wales subsidising its sheep farmers might be a problem in other parts of the United Kingdom. Something would have to be put in place. Whether that would be vertical with London setting down the rules or horizontal by negotiation is another question.

Then there is the question of what would happen to the funding. Brexit would give the UK and its devolved Administrations the possibilities of pursuing different agricultural policies. There are many problems with the common agricultural policy so they might choose to do that, but that would then have implications for farmers. The big political issue here is whether we would continue the present generous regime of support for farmers—it is no longer support for production anymore because that has been changed to support for farmers—that we had in the past in competition with other fields. That is a political decision but it is a political decision that would have to be taken.

You pointed out the devolved nations have more agriculture. This is less true of Scotland but it is really true of Northern Ireland and of England, but because Scotland has a lot of less favoured areas, all three devolved nations have a higher proportion of agricultural support spending than would be the case if it was simply per capita. Would the Treasury be saying, "Okay, keep what you already have. Roll it into the Barnett formula," or, "We will give you all the same per capita level of support"? All of that would have to be sorted out, so it is going to be very conflicted. There is a lot of money involved here and that would have to be worked out.

This is the sort of concern that the devolved Administrations have, quite apart from trying to stay in the single market. Once you come down to individual sectors, that would all have to be worked out.

Q548 **Jeremy Lefroy:** Good morning. I would like to first ask about supply chains, and perhaps to Deirdre to start with. We have taken quite a lot of evidence on tariff and, more important perhaps, non-tariff barriers that might or might not exist. Could you give us some examples of where there are significant non-tariff barriers in your industry in other parts of the world that do not apply within the European Union and that are a problem for your members?

Deirdre Michie: That don't apply to the European Union but are—

Jeremy Lefroy: A problem in other parts of the world, for instance, somewhere like Tanzania, where there is significant oil and gas, and Mozambique. Are there significant non-tariff barriers that we don't find if we are doing business with the European Union?

Deirdre Michie: Off the top of my head, I can't answer that but I will do some research on that and get back to you.

Q549 **Jeremy Lefroy:** It would be very good to know, because clearly non-tariff barriers, given the level of tariffs, are not that significant, say compared with currency devaluation risks. It would seem to me the risk of non-tariff barriers is more significant so we need to understand what those are likely to be compared with what we might or might not face in Europe.

Deirdre Michie: Sure. I would agree with that, that we always assume that it is a monetary thing but, no, it is not. For example, we have just been dealing with revised customs requirements that have been rolled out throughout Europe and we have responded to that and we have adapted to it. We are now going to go back to our members and ask them if it is something that is now working for them. It has been painful to bring in but now that we have brought it in, we are working with it. But the issue would be the consequences for the non-tariff barriers: if something gets stuck at a particular port or whatever, the implications for production offshore, for example, could be disproportionate. Those are of concern, but we can get you some specific examples later.

Jeremy Lefroy: Thank you. I don't know if anybody else has any comment on that before I move on to the next subject.

Andrew Walker: Yes, I could maybe pick up on a point there. I will come back to the barriers that some of the clients see, but on the point about going through a change in the Union customs code and how it all operates, I have to say that it has been a real barrier for clients in the implementation because the guidance has not been as clear as they would have liked. That is evidenced by the fact that guidance comes out and they can't get clarity on it, and trying to get a response from HMRC that helps them with it is causing real problems.

I have an example here. I have a client who thought they had authorisation for the way they were working and they have been told that actually, no, they are not going to get it. They asked us what they can do and they just can't get a response from anybody. That could have severe implications for this business. If we have gone through this for harmonising what we are doing in the EU, the big question will be what happens when we come out. But I will be honest with you, people aren't thinking about that just now because they are thinking about the lack of work and the changes they need to make to their business. That is the priority just now rather than the implications of it. But I have to say that in my experience of how we have gone about things, it has not been helpful. With HMRC there is this whole idea that you can't speak to anybody now; it is all being done by e-mail, which makes it very difficult.

Q550 **Jeremy Lefroy:** Mr Walker, what you are saying is that whether we are in a single market or not, there are quite a lot of barriers within our own bureaucracy—whether HMRC or elsewhere—that we need to sort out and we would need to sort out whether we were in the EU or not?

Andrew Walker: Absolutely. I would say in this particular case, this is a business that has been paying all its taxes, doing all the right things, creating jobs, yet they are just coming up with, "The computer says no" and they are finding it difficult to escalate it to speak to somebody about it.

Q551 **Jeremy Lefroy:** Thank you, that is very helpful. Could I move on briefly to financial services, Chair? From the reading I have done as a non-expert, although declared as a chartered accountant, it seems to me that for financial services there is quite a lot of variation in terms of the potential impact, with the highest impact potentially being around banking, investment services being in the middle, and insurance probably the least, given that most UK insurance businesses tend to operate in Europe through subsidiaries. Mr Walker, would you agree with that characterisation or is it an awful lot more complex than that?

Andrew Walker: I would agree with that, but again it is back to financial services. There are all the ancillary services that come from that with IT, tax advisory and all those different bits as well. It is going to have an impact on things like that. People are quite good at reacting to change and they are looking at how they can change their business model to react to it. The problem just now is they do not know what it is that they are going to have to change their model to. I would agree with the comment.

Q552 **Jeremy Lefroy:** Would anyone else like to comment on that, specifically around financial services? No.

Professor Keating, I am very glad to see that you were in North Staffordshire at one part of your career at North Staffordshire Poly, now Staffordshire University—a great institution. Could I ask about predictability? It seems to me that looking at some of the various electoral events coming up in Europe, there are quite a lot of unpredictable events all around, not just in the case of the UK. I do not know whether this is accurate or not—but given that it was *The Times,* one hopes that it was—the Dutch Deputy Prime Minister was quoted two weeks ago as saying he wanted to see a system of work permits introduced for people from eastern and central Europe, which seems to be a lot more discriminatory than anything that the UK has ever looked for.

You refer to very different forms of so-called free movement of labour throughout Europe, with the UK being one of the most open regimes at the moment. Do you see an opportunity to adopt a regime that is possibly in use in a place like Belgium currently, in terms of free movement of labour, that might be perhaps a lot more akin to the argument about taking control than our current model is?

Professor Keating: Yes, this is not the only country where there is concern about free movement of labour. It is an issue in the Netherlands and in Germany. There are many things that you can do. It is a very complex issue; it is not just have freedom of movement or not. But it is an issue that the EU has made a matter of principle, largely for political reasons. The existing members have said the four freedoms go together. Logically you can unpick them, but they are very worried that if they gave the UK what the UK might think was a more favourable regime than people who stayed in then everybody would want that. That is a political objection.

Once you go down into the detail—I do not know what your reference to Belgium is, but in many European countries there are obstacles to the free movement that are not legal; it is just very difficult in practice to get into some places. We do not have that. We have a very open and deregulated labour market. I know this in the case of universities. We do not have those systems of patronage and clientelism and closed systems, and I think it is very good for universities that we do not have that. If we were to say we want to introduce restriction, I am sure it is not those kinds of restrictions we want to introduce. The objective of the European policy is to try to get rid of those hidden obstacles as far as possible. I know that myself because when I was working at the European University half of our graduates came from the UK because it was open, and a lot of them came to the Netherlands.

I think we are going to get in Europe generally a trend towards less free movement. It may well be that in 10 years' time the EU will end up having a regime that British voters would have accepted had they been offered it, but the obstacle here at the moment is the principle. The EU may look as though they are being incredibly stubborn about this, but their view is that you can't get better terms by leaving than a member state can have by staying. That is why they are making such an important political principle out of this one.

Q553 **Jeremy Lefroy:** May I come back very quickly just to clarify that the same would probably apply to freedom of trade and services, where the UK has a much more liberal regime than many other parts of the EU?

Professor Keating: Absolutely. The single market in services is largely a UK creation. We were the ones who were pushing that and we have liberalised our markets much more than most other countries.

Q554 **Chair:** Ms Burr, on this theme it would be helpful if you could tell the Committee where there are skill shortages locally and how that impacts on ability to recruit. What views do you have about the impact of what we have just been discussing—controls on free movement, although we do not yet know what form they are going to take—on the ability of industries and services here in Aberdeen to get the right people to do the jobs that they want done?

Suzanne Burr: The big thing is that businesses can still employ the people that they need to do the jobs. From our perspective, a lot of businesses we work with are able to fill their positions locally, and it is probably areas that we cover as an agency. I see some shortages where clients are looking for yard operatives, warehousers that tend to be lower paid, low-skilled jobs. We are finding a lot of EU nationals are filling these positions, and it might be a struggle to be able to fill them more locally. Particularly at the moment with the way that the oil and gas industry is—in Aberdeen obviously we have experienced a downturn—there have been a lot of people made redundant. There is a bigger labour market out there. However, we are still employing people in these types of positions, and once the oil and gas market does pick up—at some point it will—I think the big scare for a lot of our clients is that we are going to see skill shortages again. The other key issue for them is that they do not want to have to jump through hoops to be able to employ people to fill the positions where they have gaps and they can't recruit for locally.

Chair: That is very helpful. I am sorry we have run out of time, because we have a second evidence session now. Can I say on behalf of the Committee that we are very grateful to all of you for giving up your valuable time to give your testimony today, which has been extremely useful? Thank you very much indeed. Colleagues, our witnesses will go out and our next panel will come in, and then we will carry on.

Examination of witnesses

Witnesses: Michael Bates, Bertie Armstrong and Andrew Scott.

Q555 **Chair:** Good day. First of all, can I thank our witnesses very much for giving up your time to come and give evidence to the Committee this morning? For the record, it would be helpful if you could introduce yourselves, and if you could, when you are speaking, press the button so that the microphone can pick up what you are saying. Shall we start with you, Mr Armstrong?

Bertie Armstrong: Thank you very much, Mr Chairman. Bertie Armstrong, Chief Executive of the Scottish Fisherman's Federation, which is the trade association that looks after the catching sector of the fishing industry here. Thank you very much this opportunity. It is not a question of giving up time; this is the most important thing that is happening to us today by a long chalk.

Michael Bates: Good morning. My name is Michael Bates. I am the Business Development Officer for the Scottish Seafood Association, the trade association for the processing sector in Scotland. We have approximately 70 members throughout Scotland and, similar to Bertie, this is an exceptionally important arena for us today. Thank you.

Andrew Scott: Good morning. My name is Andrew Scott. I am the Chief Executive Officer for Scotrenewables, which is a Scottish-based technology developer in tidal energy.

Q556 **Mr Carmichael:** Good morning, gentlemen. Bertie, can I come to you first of all? I can see you can barely contain your excitement, your enthusiasm for this as an opportunity. Given the history of the common fisheries policy, you can see why the catching sector thinks that this is their big moment. Can you first of all talk the Committee through where you see the opportunities coming for the catching sector?

Bertie Armstrong: Certainly. Thank you very much, Alistair, for the question. Perhaps uniquely, certainly unusually, the fishing industry of the UK is seeing a fundamental change in Brexit. For us, there is a change of governance of the waters, a radical, revolutionary change of governance in the waters from a common access space, which is most unusual, to the international law normality of a coastal state entirely responsible for the sustainable harvesting, and all the rights and responsibilities that that gives, of the natural resource. That is the big thing for us. The most important part about Brexit is perhaps the following figure. Out of the UK EEZ, 58% of the fish and shellfish removed is removed in the beneficial hands of other EU countries. More than half of our natural resource, 58%, goes elsewhere. That is unthinkable for other coastal states and that needs to change. Taking that resource back is not an act of aggression; it is an act of return to normality. That is the bit that we are most concerned about.

Q557 **Mr Carmichael:** That is in the slides that you have helpfully provided for the Committee. At pages 5 and 6 you have the resource there with the pie chart and then on the following page, "Average total weight, fish and shellfish, caught annually". Presumably these are the figures that came from the report of NAFC Marine College at Scalloway just a few weeks ago?

Bertie Armstrong: Exactly. The figures have been accessed from the European databases.

Q558 **Mr Carmichael:** Can I ask you, Bertie, for the purposes of EU boats in the UK EEZ, what constitutes an EU boat? There are a number of boats that fish in UK waters from other EU member states that have that entitlement essentially by purchasing it, haven't they? Do they count in that middle circle of the chart?

Bertie Armstrong: No, they don't. What we are referring to as EU boats are Belgians, Dutch, Danes, typically, French, Irish, those flagged in those EU nations and fishing here. Anything that has a brass plate in Humberside or elsewhere and a UK side number but is beneficially owned by Iceland or Spain is not counted in that.

Q559 **Mr Carmichael:** That is very helpful, thank you. Mr Bates, then, looking at things from the point of view of the processing sector, the shore side of things, what is your view of the opportunities and possible threats that might come from Brexit?

Michael Bates: We see a lot of opportunities coming from Brexit, especially going back a step where the fish comes from, which is the catching sector. If our boats are able to access more fish and land that fish at Peterhead or Fraserburgh or wherever in the UK, that gives us processors more access to the raw material. That in turn allows us to be able to continue supplying markets, to offer regular, increased supplies to markets. From that, of course, you then have more job security. Hopefully again, from that it can led to possible expansion of the factory, investment in the factory, and predominantly looking for more labour.

Q560 **Mr Carmichael:** Your ultimate market for these fish is where?

Michael Bates: Basically our ultimate market is global. At the moment we are trading everywhere. Our members are trading within the UK to the traditional markets at Liverpool, Birmingham and Billingsgate, but also to food service industries, to a lot of the major multiple retailers, and we are exporting—

Q561 **Mr Carmichael:** How much of the product that your 70 members have would be destined for the EU at present?

Michael Bates: It would be hard to say exactly, but if I just take the membership that we have, knowing who exports predominantly as against selling within the UK, at least 60% to 70% of that product is going abroad.

Q562 **Mr Carmichael:** So the importance of tariff-free access is going to be high?

Michael Bates: Yes, without doubt. We need to continue to be able to supply that product at a competitive price. At the moment we are competing with those foreign vessels that are accessing our fish, landing it back in their home ports and selling that. We are competing, in a sense, against our own product. If we had access to that, it would certainly help because those markets can't access that fish anywhere else but from the UK.

Q563 **Mr Carmichael:** We heard earlier on before we started the evidence session that the labour your members is employing are predominantly EU nationals. Is that a fair comment?

Michael Bates: Yes, that is fair. We have a lot of migrant workers employed in our sector all over Scotland, not just in the north-east where the predominant processing hub is. There are local people employed as well but, like a lot of industries in Scotland, we do have a lot of migrant workers.

Q564 **Mr Carmichael:** It is a mix of opportunities and some challenges. Is that fair comment?

Michael Bates: Definitely, yes, but all positive ones.

Q565 **Mr Carmichael:** Bertie, you wanted to come back in there.

Bertie Armstrong: Thank you very much. Michael is right in every respect, of course. The interesting thing about the market is on the export figures that Michael mentioned, not all of that by any means goes to the EU. For instance, the whole of the pelagic catch goes elsewhere: Japan, typically; Africa; it used to go to Russia. With regard to looking forward to other markets, we were able to reset, in fairly short order, the slamming shut of the Russian market on the application of sanctions and we regard that as an exemplar of the possibility of selling into this global market. A couple of figures are useful. Everyone around the table knows—

Q566 **Mr Carmichael:** What do you mean "reset"?

Bertie Armstrong: We lost the Russian market and we had a lot of fish—250,000 tonnes of pelagic fish. We did not fail to sell any of it and the prices held up and that fish is now going elsewhere. I use that as an example of the fact that it is entirely possible to reset your fish output.

On the matter of tariffs for fish, the WTO average is 5% to 10%. Since the day after the referendum, currency has fluctuated just shy of 20% , and always does anyway in reaction to circumstance. The point we would make is let us not be frightened to death by tariffs at all. They may be consumed in the noise of currency fluctuations but some small tariffs would not necessarily be a disaster, particularly as the other side of that coin is that you may access new markets, for instance India, that are currently shut for you because of the present circumstance.

I would look forward rather than backwards with the market and I would like to see very much a change in the rhetoric of, "We must be in the single market, we must be in the single market, we must be in the single market." We are not going to be in the single market. We do not need the single market; we need an adequate market in order to press our products abroad. I am clinging to this thought: if you have a desirable product in some volume, you will find a market for that. That is the way the world works. A prawn fisherman said to me—you know the story, Alistair—"My Spanish compadres don't buy my prawns because they think I have just read the terms and conditions of the single market and think it is very nice, I'm going to buy his prawns. They want the prawns, and if they are at a sensible price, they will have them."

Q567 **Mr Carmichael:** Indeed, but at that point you have the same uncertain conditions as you have in other markets. To come back for one second to the question of what you would perhaps call repatriation, we will still have foreign vessels fishing in UK waters. There are historic rights that have to be taken account of. There are also advantages for the Scottish fishing fleet in other areas in which reciprocal deals will want to be cut. The EU-Norway negotiations, as they are currently constituted, are probably the most important negotiations for the North Sea and the north North Sea in particular. How do you see that working in the future?

Bertie Armstrong: Thankfully, with regard to the upcoming status of the UK as a coastal state, there is already a tried and tested method of that working, and you have just described it. The EU-Norway talks are one circumstance of that, and the EU-Faroes talks, the EU-Iceland talks and coastal states talks are all part of that. The co-operation with other nations is the norm and is entirely possible under the new arrangements.

There are a couple more figures to bottom out this argument. It is often said, "You need access to other people's waters, don't you?" Actually, we don't; 17% of our fish are caught outside our own waters. If we were to have any repatriation, it would monstrously overwhelm that. We would still wish to do that, but it is by no means essential. The central part of this, the repatriation of that fish—a terrible word, which means the return to normality of the accessing of our natural resource—is the engine for all the rest of this process. The balance of advantage and disadvantage crashes on to the table on the advantage side when we take back or resume our normal position as a marketing nation. What we want out of Brexit is that that will not be negotiated away. It is not ephemeral; it is not a matter of administration. It is a natural resource of this country and it will be here in 500 years if it is sustainably harvested, unlike oil, fossil fuels, gold and diamonds.

Q568 **Mr Carmichael:** Doesn't that bring us back to the nub of this politically—it is a matter of negotiation? We all know that infamous memo from the 1970s when the fisheries industry was described as being expendable. It is a question of whether Government or Governments in this country are prepared to give the political importance to the fishing industry. That is what will really determine whether you get what you see as being the opportunities out of this situation, isn't it?

Bertie Armstrong: It is, absolutely right. The argument we would like to press forward is the one of a fundamental resource. It is a fundamental resource for all time and must be preserved for us. It must not be frittered away.

One last really important point: where are the fish? You will often hear the phrase, "Fish know no boundaries". They know no geopolitical boundaries but they sure as hell know the biological boundaries and those biological boundaries keep them, by and large inside our waters—that is why almost 60% of it is caught in our waters. That is the point. We will have to talk to Norway, and we would be delighted to do so, but you do not have to give away large quantities of fish. If fish were everywhere and uniformly distributed, we wouldn't be having this conversation because nobody would spend the fuel. They do not come here for the scenery. Nobody would spend the fuel to go and fish in UK waters when they could just as easily do it in Belgian, Irish, Dutch or German waters. They come here because that is where the fish are.

Q569 **Seema Malhotra:** I wanted to ask a question to Mr Scott initially. Could you talk us through what you see as the threats and opportunities of Brexit for your sector?

Andrew Scott: I am involved in marine renewables, which is a subset of the renewable industry. It is a specific subset because we are involved in leading-edge innovation in engineering to develop a new product line of low-carbon technologies here. It plays well into the indigenous renewable resources that the UK is blessed with. It is a capital-intensive innovation process, as with most marine engineering technologies. It is something that the UK and Scottish Governments have been at the forefront for the past decade and longer, but in recent times we have seen the pan-European support for the sector. We have specific policy initiatives and grant calls under the Horizon 2020 initiative in the EU. That is an €80 billion initiative to support low-carbon innovation and the sector is benefiting from those large grants now to support the innovation that is going on. There are other initiatives such as the NER 300, which is an initiative to support early commercial arrays to address disparities in the cost of energies. That was done through the energy trading scheme. I think there is something in excess of €120 million already designated towards ocean energy schemes.

These are now central pillars for supporting the innovation investments that are taking place in the sector as we move towards commercialisation. For sure, this sector would see the threats of Brexit as being distanced from these large-scale initiatives to support supply chain work and investment across the European Union or access to them being put at risk.

Q570 **Seema Malhotra:** Is your concern that you will be cut out of the way the industry is growing in the future, with supply chains and how the industry has been working over the future?

Andrew Scott: Innovation at this stage in this field is a supply chain initiative and we are working with supply chain across Europe. The UK is well placed from its industrial heritage, from the oil and gas and the offshore sector, to capitalise well on this space. We do feel that there is a risk of being cut out going forward. Sorry, could you repeat the question?

Q571 **Seema Malhotra:** That is fine. I just wanted to know if you feared being cut out, because you talked about programmes and other initiatives. Is it a risk in terms of access to resources and skills as well as to capital?

Andrew Scott: Yes, absolutely. I should say that the company that I manage has been the recipient of a significant R&D award from Horizon 2020 that is leveraging more inward investment from the private sector. That is something that we have been given confidence will be upheld, although the project runs through until 2019. Beyond that, within Horizon 2020, we have no guarantees as to whether or not we will be participating as we are in the current scheme of things. Obviously, European projects are pan-European by their nature, so 50% of the project partners that we are working with are European and about 15% of our workforce is European. We would have concerns across those areas that we may suffer a degree of cut-out.

Q572 **Seema Malhotra:** Can I pick up on the issue of workforce and access to employees? Perhaps I can put this question to Mr Armstrong and Mr Bates as well. In the scenario that you are outlining where the UK may gain control of the exclusive economic zone and have greater access to the capacity to grow the industry, is it your view that we would be able to scale up and have the resources here for both the catching and the processing of fish?

Bertie Armstrong: First of all with the catching, the answer is yes. The fishing industry of the UK works at about half throttle because you have to have the capacity to have a big enough boat to cope with the weather, and there have been downturns in the past. Yes, is the unequivocal answer to that. The critical path—the economic engine—is the access to the resource. All else will follow that; it will. There will be economic activity. It is a very first-world problem to have a surfeit of raw material that is desired elsewhere. We will sort this out, and with some ease, I think.

Q573 **Seema Malhotra:** Mr Bates, we have heard that there is a lot of migrant labour employed in the fish processing sector. Do you have any concerns about that sustainability of labour after we leave the European Union?

Michael Bates: Certainly. I would agree with Bertie. The sector is reliant on a wide migrant population but it is able to adapt to the increases in landings that we have recently experienced at Peterhead, and that has been taken up by processors being able to work longer hours, either normal longer hours or by additional overtime hours. That gives the industry a lot more selling points to attract people to it, by becoming a worthwhile industry to end up in, both in monetary terms and as a career.

There are opportunities there. Businesses are looking to take on staff and the more that our industry can be seen as being confident about the long term, in that it is not going to go up and down so much, the more that will help to attract people. A lot of companies are investing in their existing workforce by giving them formal qualifications to show that their skills are recognised. That attracts people who see that the industry can benefit them as individuals by investing in their skills, and again that can attract customers to them as those companies are seen to realise their staff's potential.

Q574 **Seema Malhotra:** What do you believe the UK Government need to do in their opening negotiating priorities to support your sectors?

Bertie Armstrong: It is perfectly clear to us, and Alistair teased the question out, really. It is for the UK to decide that this is our natural resource, our heritage, and if sustainably harvested it will be there for ever. As is normal under international law, the UK should say at the outset that we will use that resource for the benefit of the United Kingdom. Other vessels in our waters will have the access that they currently enjoy, which is unfettered, up until the moment of Brexit and thereafter we can negotiate for those countries who have something to offer in exchange for that access. That is normal under international law; that is what other people do.

What we look for is a clear statement that this is special; this is a natural resource and will not be part of the 30 pieces of silver deal. We will not trade this permanence for ephemeral things. Access to our waters will be negotiated after Brexit with those who wish to continue to have such access and offer some reason as to why they should be granted it.

Michael Bates: Our views on what is happening are complemented or mirrored by the recent report from Lord Teverson, which was published on the BBC News website. He said that our industry—and that is both the catching sector and the processing sector—was at risk of being marginalised in the wider Brexit negotiations and that this was a real opportunity to review fisheries management to ensure fair access, quota, sustainable stocks and a healthy marine environment. In his report, he drew attention to the number of jobs supported in our industry, which is about 12,000. The importance there is that roughly 3,800 of those jobs are in the Grampian area alone and approximately 5,000 in total throughout Scotland, with the rest in England.

A lot of what we are fighting for has been mirrored by what Lord Teverson has reported. This really is an opportunity to grasp something for the benefit of our country and I can only reiterate what Bertie said: it is a positive thing.

Q575 **Seema Malhotra:** As part of that, would you want to see any relationship with other countries or other fishing fleets and what would that mean for you?

Bertie Armstrong: With regard to fishing fleets, the most important would be the other coastal states—Norway primarily, Iceland, and the Faroes. We have what everybody else wants. There would be no particular need one way or another for a relationship individually with Belgium or France or the Netherlands. The interaction with those nations would be sorted out at a coastal states meeting that instead of EU-Norway, would be EU-UK-Norway, and we could deal globally with the EU.

Andrew Scott: My suggestion of action that we want to see, certainly at a high level, is a continuation of and commitment to policy to increase and expand the supply of renewable energy, low-carbon generation on to the UK network. There are directives under which the EU stipulates governance and guidance on access to transmission and distribution systems. Renewable energy is disadvantaged through its distributed nature such that it does not particularly conform very well to the transmission system that we have in the UK whereby it was built to take power from centralised power generation. We now have a renewable sector that needs essentially good capacity at the peripherals to get the resource to the load centres. That is a specific problem in Scotland, and it is a very sharp, acute problem on the islands where there are a lot of marine renewables, as well. Specifically for the industry and the business I work in, I would like some level of clarity and commitment that we will still be able to partake in these large-scale innovation schemes such as Horizon 2020.

Q576 **Chair:** Mr Bates, roughly what proportion of people working in the fish processing sector have come from other EU member states?

Michael Bates: I would say 50%.

Q577 **Chair:** Can I just put this to you? The Government have an aim of reducing net migration to the tens of thousands. It has controlled migration from outside the EU for a very long period of time. Some might argue the only way you are going to achieve that is by significantly squeezing the number of workers who come from the EU. If that were to be the case, who is going to be working in your processing factories if you find you can't rely on EU workers in the way that you have thus far to account for half your workforce?

Michael Bates: If we can assume that those migrant workers who are already here are allowed to stay here, the current situation would be that the processors would manage. Extra staff could only come from people who are already in the area and are willing to join that company. That could only happen by that company offering some attraction, whether it is the only employer in the area or by offering higher wages because it is becoming a bit more successful and can afford to pay more to attract more staff. If the current migrants have to go back to where they came from, that is an issue for the whole country not just for our sector.

Q578 **Joanna Cherry:** Good morning, gentlemen. Mr Armstrong, as I understand it, in the north-east, many fishermen voted to leave the European Union in the hope that they could put right some of the injustices of the past and exploit some of the opportunities that you describe. When you read reports in the newspapers that the UK Government are in private discussions with the financial services sector, which is obviously huge in terms of revenue compared with the fishing sector, are you at all concerned that fishing interests might be sold out, as they were in 1973?

Bertie Armstrong: Very much, and that is why we are trying to make the point about a natural resource. It is most unusual to give away a natural resource. That was an entry ticket job and we must not see that again. You are right about the north-east. Looking for balance after the referendum, one of our journalist friends said, "Can you find me somebody who voted to stay so that we can get some balance in this?" and I could not find one because of the injustices of the CFP. Five seconds of explanation: it is not because Europeans are stupid or unable to administer; it is that the process of co-decision simply does not work for something like the CFP. It is distant, remote, can't keep up, you can't change it quick enough, and then that chucks all the responsibility at the Commission who have to make it up as they go along. The whole thing is characterised by groping and fumbling towards compromise. That is unacceptable for running a natural resource.

Q579 **Joanna Cherry:** What do you think is the best way of ensuring that Scottish fishing interests are best represented during negotiations to leave the European Union?

Bertie Armstrong: The first thing we need to sort out, by the time we get to the declaration of Article 50, is this headline of, "We will not negotiate away this natural resource that is going to be here for 500 years". Once that is sorted out, we can sort out the downstream details. I am unwilling to focus on who is going to occupy the bedrooms before we have bought the flat. Let's get sorted out the big principle of, "We will assume the responsibilities of a coastal state". It is not whether we would assume that; that will be assumed. It is whether we trade it away, and we are looking for a commitment that it will not be traded away. The matter of access, which is absolutely critical, can be done after the day after Brexit when people can come along as the demandeur.

Q580 **Joanna Cherry:** You will have seen the report of the House of Lords Committee that Mr Bates referred to a moment ago, which came out at the weekend. It has concluded that the Brexit vote has resulted in expectations that may be hard to deliver in respect of fisheries. What assessment have you made of that report's conclusions?

Bertie Armstrong: We did our best on the embargoed report to catch up with that. The reporting has made some assumptions that are not in the report. The management of expectations for us is important, otherwise I will be face down in the sea of opportunity after my members have finished with me. But we would not necessarily expect absolutely everything at the first shot. The fundamentals need to be there. We are a coastal state and we will take charge of this resource. We will take charge of access and those who are allowed in will be allowed in if they bring some benefit to the UK.

Once those principles are accepted, then of course we can talk about other things. It is inconceivable that no UK boats will fish outside UK waters and that no foreign vessels will fish inside our waters. That is a fact. But the present situation of common access is a complete distortion, absolutely unacceptable.

Q581 **Joanna Cherry:** Can I turn now, Mr Armstrong, to ask you some questions about trading arrangements as opposed to access arrangements? In July of this year you gave evidence to the Scottish Parliament's Europe Committee on the implications for Brexit in Scotland and you were asked about your organisation's preferred trading arrangements with the rest of Europe after Brexit. I see you said you wanted to await some analysis on the trading options. Can I ask you if you have concluded that analysis and if you now have a preference on the specific trading arrangements that would most benefit your sector after Brexit?

Bertie Armstrong: One of the observations I made to another Commons Select Committee on that matter was that whereas we may state what is best for us in the fishing industry, the honest truth is we have no GDP heft and that those decisions will be made by other people rather than us. We can easily produce a general principle that we would wish to be able to trade freely. If we can still do that with Europe roughly in the way that it looks now, that would be wonderful. But with our Russian experience and with the mouth-watering markets that exist elsewhere which are currently closed to us, we do not feel that we have a problem. Therefore, our concentrating on the minutiae of what may come out is probably wasted effort by us. We are much better concentrating on the big picture of getting the whole natural resource returned to us.

Q582 **Joanna Cherry:** The House of Lords Committee that reported at the weekend pointed out that the vast majority of UK fish is exported mainly to the European Union. Do you accept that conclusion as correct?

Bertie Armstrong: Yes, the majority of fish certainly is exported and Europe is a very important market, but not exclusively; that is the point. The pelagic fish, for instance, go to Japan, carefully handled. We accept that figure completely, but we demand that we do not always look backwards, wistfully wondering what is going to happen to us when things change but that we look forward to how we are going to change it. It is a globalised market.

Interestingly, the EU produced some figures yesterday, to my great surprise—and I tweeted it last night—that the UK is the second, very narrowly behind Spain, exporter of seafood to third countries, not inside the EU but to third countries. We already access world markets and we are looking forward to doing so in the future.

Q583 **Joanna Cherry:** But you do accept the House of Lords' conclusion that the majority of UK fish is exported to the European Union. I would like to press you on this. You told the convener of the Scottish Parliament Committee back in July that your organisation was going to conduct analysis and that work was ongoing on what preference you would have for a specific trading arrangement. Can you tell us what stage that work is at?

Bertie Armstrong: Yes. The present arrangements are governed by something called the CMO; it is part of the common fisheries policy and it is the Organisation of the Common Market in French. We have reviewed that already and we have looked at what bits of it would be retained and what bits of it automatically ought to fall. We are continually looking at that, but I must emphasise that for us to focus on the details of what might be the market is at this stage not the focus. We need to get past Article 50 with a declaration that fishing will stay with us, or there will be nothing to market.

Q584 **Joanna Cherry:** Are you able to tell this Committee when that ongoing work will be completed and when your organisation will have come to a view on what trading arrangement would be most beneficial for you?

Bertie Armstrong: I can certainly send you our analysis of the CMO. I understand why you are pressing me on a detail and that detail is relevant but not central. The central part is to get hold of the economic engine of the resource. Believe me, marketing thereafter will follow in train; there will be "slaps, and styles" on the way—an expression you will understand- but we will get there.

Q585 **Joanna Cherry:** Perhaps if I put it this way: I notice in paragraph 183 of the House of Lords' report that you agreed that the EU-Norway model might be the best way for Scotland or the UK going forward, in relation to catching arrangements at least. Do you have any view on whether the EU-Norway model would be attractive to Scotland or the UK in terms of trading arrangements?

Bertie Armstrong: I am looking at that article. It is one of the potential models. The difference between us and Norway is that we are the second largest economy in Europe and the fifth in the world. Norway does not have that overall heft, therefore the market arrangements that finally arrive after Brexit may well look different. It would be unwise of me to say that that is the answer, the whole answer and nothing but the answer, because it may well not be.

Q586 **Joanna Cherry:** Of course Norway is in the single market by virtue of its membership of the European Economic Area. The House of Lords' report concluded with a view to trading arrangements for the fishing industry that a successful industry would need continued market access to the European Union single market. Do you agree with that conclusion?

Bertie Armstrong: Yes, and I think it is entirely achievable. I point out this, that of our resources, as I have already said—the figures are in front of you with the amount of resource that is under our sovereignty post-Brexit that leaves in the hands of European vessels. Let me tell you that Norway pays fish for its access to the single market to the tune of 1% of one stock. The best part of 60% of our entire resource goes, so this whole thing needs adjusting.

Q587 **Joanna Cherry:** You would be happy to pass to us your organisation's conclusions on what would be your most preferential trading arrangements when you reach those?

Bertie Armstrong: I would be more than happy, and I think it would be more balanced, if I may, to pass on to you our entire analysis of the whole subject: what ought to happen about—I hate the term "repatriation"—normalisation of the resource; how management might work in the newly formed coastal state; how the markets might work. It is very difficult for us to prescribe exactly how the markets will work afterwards. What we cling to is falling back to recent experience and having to reset a market and being successful in doing so.

Q588 **Joanna Cherry:** Mr Scott, perhaps I can ask you a couple of questions? You spoke earlier in response to one of my colleagues about the importance of European funding to the Scottish renewable projects and you mentioned Horizon 2020. I believe that schemes such as Fast Track to Innovation and the European Investment Bank have also been important to your sector. Is that correct?

Andrew Scott: Yes, that is correct, but I guess the majority of funding at this stage has come through Horizon 2020 and NER 300. Certainly there is ongoing work in the industry with the likes of the EIB to look at some financial mechanisms to handle risk and so forth in early commercial projects.

Q589 **Joanna Cherry:** What would be the effect for your sector of no longer having access to these funding resources?

Andrew Scott: If they were not coming from somewhere else, we have a serious problem. Technology never comes out of the box and is cost-competitive. It has taken 30 years and 300 gigawatts of onshore wind to get wind generation down to the cost we see it now and in that process it has reduced its cost by over 90%.

We do genuinely believe that we have got a new technology opportunity here that has long-term, sustainable, socioeconomic benefits for the UK because it will be a global market, but if we cannot raise inward investment into R&D to help bridge that commercialisation gap at this stage, the sector may well just fail.

Q590 **Joanna Cherry:** Mr Scott, to what extent does the growth of the Scottish renewables sector rely on the export of manufactured goods and the export of knowledge and expertise? Do you foresee any constraints in the growth of the sector if there was limited access or no access at all to the single market?

Andrew Scott: In terms of where it is at the moment, commercial renewables is predominantly onshore and offshore wind, solar PV and so forth. I think if you look at the supply chain breakdown there, offshore wind is somewhere in the order of 80% import in terms of technology on a CAPEX spend, which is one of the attractions for generating new technology innovations, where with marine renewables we could have 80% of that CAPEX being retained within the UK economy.

Through establishing commitment on the supply chain to entrench it here in the UK, we have the opportunity to export. Europe has wide-scale policy mechanisms to support renewables. Certainly we would see the rest of Europe as a prime market but, as I said, it is a global market as well, with the likes of the Far East, Philippines and Canada and so forth being potential markets. The examples cited often point to the industrial benefit that the likes of Denmark and Germany have achieved through supporting onshore wind, where there are over 100,000 people involved in manufacturing and assembling wind turbines. We could replicate that success story here, but I think the important message as well is that that success came through supply chain investment into Denmark and Germany because they led on policy and creating markets. That is something we need to ensure is retained.

Q591 **Michael Gove:** Earlier this month, Fergus Ewing, the Minister for the Rural Economy and Connectivity in the Scottish Government, said that the common fisheries policy has not been a success for Scottish fisheries and he suggested that an arrangement for the future would involve European countries negotiating for access to the UK EEZ in the same way as Norway, the Faroes and Iceland allow. A question for both Mr Bates and Mr Armstrong: do you think Mr Ewing was right?

Bertie Armstrong: Yes, the observation that we will have to negotiate with those named countries of course is correct, for sure. It is just the basis of the negotiation: we are very keen that no one is confused about how that will have revolutionised itself, absolutely revolutionised itself. You do not get into Norwegian waters unless you are bringing something with you and there is some reason for you to be there. We think the negotiations will continue, there still will be access, but the whole circumstance of that will change radically if this is properly handled, what we would regard as properly handled.

Michael Bates: I agree with Bertie. I think one of the other things we have to recognise is that it is the UK Government that are involved in negotiations but when it comes to fishing, we would like to see our Fisheries Minister heavily involved with the UK Minister because the predominant effect is in Scotland. That is probably the only thing I would add to the comments.

Q592 **Michael Gove:** That is very helpful, thank you. My understanding is that in terms of the number of hundreds of thousands of tonnes of fish landed in UK ports, the figure is between 600,000 and 700,000 most recently. Am I right in thinking that in the last comparable year that the figure in the tiny Faroe Islands was just under that and the figure in Norway was more than three times that?

Bertie Armstrong: That is absolutely correct. It reflects the evolution of fisheries management. In the beginning, everybody fished everywhere, in the late 1960s, early 1970s. Everybody thought the sea was a bottomless pit of resource and we had at it with some vigour, to our later concern, because we were overfishing; everyone was overfishing. But there was a point when there were no quotas; this was when we joined the EEC, as it was. There were no quotas or TACs and everybody fished everywhere, other than inside 12-mile limits; that was it. When the Government of the day made fishing expendable and that famous memo surfaced, that was exactly what they did. I do not think they realised the scale of generosity of what they had just done because common access fell away under international law for everywhere else. The cod wars saw to that, and we were summarily turned out, in the fullness of time after several goes—I was there, one of them—of Icelandic waters, never to return. Just on the passing matter of historical access, if historical access was worth the paper it was written on, we would still be fishing in Iceland and we are not.

The great distortion that occurred inside our waters, because all the fish are here—to very greatly generalise and specify—evolved with everybody having a common resource, and everybody else, like Norway, took stewardship of their own resource. That is why the figures you quoted have been the end point of evolution, which we now need to see righted.

Q593 **Michael Gove:** Given how effectively the Faroese and the Norwegians have managed sustainability and given that the Norwegians have three times as many fish landed as we do in the UK, presumably there is the potential for at least a doubling of the number of fish landed at UK harbours by UK boats if we negotiate a smart deal?

Bertie Armstrong: If you look at the figures, that is entirely possible. That is entirely possible. Better still, we would look forward to, as Fergus Ewing described the CFP, a more rational, sensible and regionalised management system to allow that to greatly increase. There is potential there for carefully handled fish stocks, the stocks themselves, to produce much more opportunity and that will overwhelm the more sensible splitting of resource. I have stated that very badly indeed. Do you see what I am getting at?

Q594 **Michael Gove:** Absolutely. A question for Mr Bates: my understanding is that overall there are about 12,000 people employed in the UK in fish processing: 5,000 in Scotland and 3,800 in what used to be called the Grampian region, Aberdeen, Aberdeenshire and thereabouts. According to labour market statistics, there are 12,200 economically inactive people in Aberdeenshire who expressed a desire to have a job and 6,700 within Aberdeen city. Do you believe that there is the potential, if fishing is on a more sustainable footing, of hiring folk not just from the north-east of Scotland but more widespread across Scotland in order to work in what would be a growth industry?

Michael Bates: Yes, I do. The challenge we have is to change the perception of our industry. It is naturally a cold environment to work in. It is one of those environments where heating only operates in offices and changing rooms because of the very nature of the product. We have a challenge in educating people on what they are coming into. As part of that challenge, as an association we have been engaging with various unemployment bodies, educational bodies, to give them an idea of the industry by taking them to the fish market, taking them around various processors so that they can see at first hand how a factory operates, what the conditions are like and the various job opportunities that exist within different types of processors. I agree with you that there is a huge opportunity there but we do have a challenge in making that an attractive opportunity.

Q595 **Michael Gove:** I quite understand. My understanding is that something like 95% of Faroese exports are fisheries. Have the Faroe Islands experienced any problems with market access to the European Union in the last couple of years? My understanding is that something like DKK639,000 worth of fish was bought by Germany from the Faroe Islands, and similar numbers were bought by Denmark, the Netherlands, France and other EU countries. The Faroese are outside the European Union, not just outside the single market, but they haven't had any problems with market access for their fine fish products, have they?

Bertie Armstrong: Perversely enough, when the Russian sanctions hit, Faroe, not being in the EU, was cheerfully happy to fill the void and grab that market and has now probably captured it for all time, because the market is being supplied.

Q596 **Michael Gove:** As well as the capacity to exploit new markets by being outside the European Union, there does not seem to have been any problem in continuing to provide high-quality seafood to EU markets?

Bertie Armstrong: No, I think not. Michael put his finger on it, if I may say. Fish from our EEZ end up beautifully handled, displayed and sold in Spain, France and Italy. If we are catching that fish, we might repeat the trick that the Icelanders played upon us, which was to dispose of our long-distance fleets but catch the same fish in the same waters and return them happily to Humberside for processing. Of course, over the years, they are doing more of the processing themselves.

The fish will still exist; the fish will still be sustainably caught; the people here will still want it. The trick will be to get access for us to do it. You have a bit of a whip hand if you have got all the fish.

Q597 **Chair:** A question to you, Mr Armstrong. Britain leaves and say the outcome you have hoped for today comes to pass. Where is that going to leave the common fisheries policy of the 27 member states? I know that is not your principal concern but I am just interested in your view. In what form do you think it will survive? Will it survive?

Bertie Armstrong: The most significant thing is the competency. If you look at the diagram in that little shot that I gave, most of the common fisheries policy area will disappear. Belgium has an EEZ the size of two football pitches and the fish are not there. That is the point. So there will be radical changes.

Where the CFP will go, it is hard to imagine, but some of which we would retain. However, the very basis of the CFP is common access to European waters, and that is ours. When that goes, there will be something of a hollowed-out set of regulations there. Some of it will be retained; everything that applies to sustainability, the quest for maximum sustainable yield, all that can be retained with pleasure. It is just the common access bit and the thousand pieces of legislation, including "How to mend a net", just have to go.

Q598 **Jeremy Lefroy:** Mr Scott, you understandably raised the question of the

European Investment Bank, which I imagine has made significant investments in renewables in the UK. Currently, the European Investment Bank is open only to members of the European Union. Would you consider that continued membership of the European Investment Bank would be in the UK's interests or that its replacement by, for instance, a UK investment bank would be adequate?

Andrew Scott: I think either that fills the void of being able to take a strategic view on risk where the private sector is prohibited to do so. The UK did, of course, have Green Investment Bank but that has been rather scaled back and sold off now. We would need access to the EIB or something with a similar function, as I said, which is able to take that strategic view and potentially take some risk which the private sector is unable to do in early stage development.

Chair: Thank you very much indeed, Mr Scott, Mr Bates, and Mr Armstrong, for coming along here today and giving up your valuable time and giving us such valuable evidence. That concludes the session.