

# Scottish Affairs Committee

## Oral evidence: [Scotland and Brexit: trade and foreign investment](#), HC 925

Monday 10 September 2018, Glasgow

Ordered by the House of Commons to be published on 10 September 2018.

[Watch the meeting](#)

Members present: Pete Wishart (Chair); Deidre Brock; David Duguid; Christine Jardine; Paul Masterton; Danielle Rowley.

Questions 148 – 268

### Witnesses

I: Jonnie Hall, Director of Policy and Member Services, NFU Scotland, Sarah Baker, Strategic Insight Manager, Agriculture and Horticulture Development Board, Cat Hay, Policy Manager, Food and Drink Federation Scotland, and James Withers, Chief Executive, Scotland Food & Drink.

II: Georgina Wright, Head of Sales, Scottish Salmon Producers, Andrew Charles, Chairman, Scottish Seafood Association, and John Anderson, Chief Executive, Scottish Fishermen's Organisation.

Written evidence from witnesses:

- [NFU Scotland](#)
- [Agriculture and Horticulture Development Board](#)
- [Food and Drink Federation Scotland](#)
- [Scottish Salmon Producers](#)

## Examination of witnesses

Witnesses: Jonnie Hall, Sarah Baker, Cat Hay and James Withers.

Q148 **Chair:** I welcome you all this morning to help us with the Scottish Affairs Committee's inquiry into Scotland, Brexit and trade. For the record, please say who you are, who you represent and anything by way of a short introductory statement. We will start with you, Mr Hall.

**Jonnie Hall:** My name is Jonnie Hall and I am Director of Policy with NFU Scotland. By way of an introductory statement, I will restate the position we have had for more than two years now. Trade was a fundamental issue on learning that we would be leaving the EU. Since that point we have argued very strongly that we want to be as close as possible to the single market and the customs union. Throughout that period, we have argued for frictionless or unfettered access to the European market but at the same time looking at opportunities elsewhere for new markets in third countries.

I think our biggest fear—and no doubt this will come up in our discussion—is something that looks like the WTO default and the so-called no-deal scenario. Throughout the piece, as we continue to go forward, we will argue very strongly that having access to the European market is absolutely vital to the agricultural and food and drink sectors of Scotland, but that access has to be unfettered and as friction-free as possible. We are dealing with food products. By definition they are usually perishable and, therefore, things like customs delays and non-tariff barriers and so on that slow processes down would be highly damaging. Being exposed to significant tariffs, particularly for the red meat sector, would be hugely damaging for our sheep and beef producers in particular but also other sectors would suffer as a consequence.

**Sarah Baker:** My name is Sarah Baker and I am from the Agriculture and Horticulture Development Board. In Scotland we represent the cereal and the oil seed sector, potatoes, horticulture and dairy. We are a levy-funded board, so we are not a lobbying organisation but we provide the evidence base for others to make the decision. We have been exploring what we feel are the major issues around Brexit for the UK and they are trade, labour, policy and regulations.

**Cat Hay:** My name is Cat Hay. I am the Policy Manager at Food and Drink Federation Scotland. We represent food and drink manufacturers from the major global brands right through to small and medium enterprises in Scotland. The food and drink manufacturing industry is in fact the largest manufacturing sector in Europe, the UK and Scotland, accounting for 30% of our manufacturing sector by turnover, and we employ 45,000 people. I would just echo what Jonnie and Sarah have said about what we are asking for.



## HOUSE OF COMMONS

**James Withers:** Good morning everyone. I am James Withers, Chief Executive of Scotland Food & Drink. We are a membership organisation as well. We have about 440 companies and organisations that are members of ours. Most of them are food and drink manufacturers and they range from multinational to very small artisan. We are also in a collaborative partnership with the industry in Scotland and the Scottish Government and their agencies, united behind a single, very ambitious strategy to grow the farming, fishing, food and drink industry out to 2030. We are looking to double the size of the sector to £30 billion by 2030, so long term we are very optimistic and ambitious for the industry here.

In the short term, Brexit has a number of concerns that Jonnie has articulated very well. We are very ambitious for exports too but 70% of our export sales of Scottish food go to the European Union at the moment so no deal is not just a bad deal; it is a real nightmare scenario for us.

Q149 **Chair:** I am beginning already to sense a consensus about the feeling of what is required in leaving the European Union. Perhaps I could characterise it as, "A no deal is one thing that is to be avoided and averted, whereas unfettered access to the European single market is something that is desirable." Could you help the Committee by explaining why you feel that it is the case that you require this frictionless access to the single market? If you don't get that, what are the difficulties and issues that we may face down the line?

**Cat Hay:** Could I pick up on rules of origin? We recently produced a report—which I am happy to submit to the Committee after this—on the impact of a no-deal Brexit on the rules of origin. Effectively, a product of export has an economic footprint, an economic origin, depending on where its ingredients come from, and that in turn affects the final tariffs that that product pays. In the event of a no deal, this could cause significant price increases for the consumer and for the manufacturer as well.

Q150 **Chair:** I am trying to get a sense of the benefit of the single market. Could you help us with that, Mr Withers?

**James Withers:** Yes. Last year we sold roughly £2 billion of Scottish food and drink into the European market. It was about a third of all food and drink exports. Once you take whisky numbers out of the figures—and the whisky sector is a much more mature export sector than any other sector in food and drink, so they have a good spread of global markets—you see that Scottish food is hugely reliant on the export market. As I say, about 70% or about £1.1 billion out of £1.5 billion of food exports are going to the European Union and the single market has been central to making that happen with free flow of goods, tariff-free access and understanding of common rules. WTO tariffs are at their most punitive on agrifood products and there is a very real fear that not just would it be a barrier to trade, it may well end trade of some products.



## HOUSE OF COMMONS

I find it really difficult to see any future for exporting products like Scottish lamb and Scottish beef if we default to WTO tariffs. We have seen the scenario before where European markets have closed to lamb exports—for example during foot and mouth—and it had a catastrophic impact on the sheep industry in Scotland.

It is a hugely important market. We are ambitious for markets beyond Europe. We have seen about a 600% increase in food exports to Asia since 2007, about a 200% increase to the Middle East and about a 300% increase in North America but at the moment Europe is the ball game. It will take a generation for us to get the kind of spread of markets that the whisky industry has had. The single market allows for that free flow of trade, not only to hold on to the trade we are doing at the moment but also to build on that over time. We know there is a rising demand for Scottish food products in countries like France, Germany and right across the European Union.

**Sarah Baker:** From the AHDB point of view, access to the single market has allowed the free flow of trade either way. For cereals, for instance, Scotland is a net importer and because of its climatic conditions has difficulty growing some of the bread-based and baking wheat, so it is imperative that they have tariff-free access. Otherwise, as my colleagues have alluded to, that could lead to price rises.

If you take a couple of very important products in isolation, say lamb, Scottish lamb would face a tariff of 46% going into Europe. That would make our cost of production completely uncompetitive. Seed potatoes are absolutely key in Scotland. To be able to grow them disease free—and again that is due to the climate—they are highly priced and highly valued in world markets. They would face high tariffs going outside, so those key access markets would be lost.

In addition to that, the single market allows the free flow of labour, and I think it is well understood that access to affordable labour in an economy that is approaching full employment now—these jobs are hard to fill because they are not near the major conurbations. They are hard work, in out-of-town locations and with unsociable hours. Without access to that labour a lot of the soft fruit, the horticultural sector particularly, would suffer but also the processing sector, which I think is often overlooked. The use of migrant labour, both as veterinarians in meat processing but also the processing itself, and across the food and drink industry is absolutely crucial. The single market provides the free flow of goods, which is very important, and labour.

Q151 **Chair:** Thank you. I expect you would agree with most of that, Mr Hall.

**Jonnie Hall:** I agree with almost the entire commentary from my colleagues, particularly from James. The internal UK market is significantly important to Scottish agriculture, but having the outlet of the single market and the customs union that surrounds that on our near doorstep has been vital to Scottish agriculture.



## HOUSE OF COMMONS

If I bring it right down to the farm gate, the consequences of not having these outlets for our production could be extremely significant for the agricultural economy—not necessarily the food economy although obviously the two things are related—in the sense that Scotland has an agricultural industry and a food producing industry that requires it to sell beyond Scotland. With a population of 5.5 million to 6 million we cannot consume everything that we want to produce and can produce, so we are always going to have to look beyond Scotland for our markets. If we don't have those markets, if they are not available, the consequential of that coming back to the farm gate and the impact on farm businesses and the structure of agriculture in Scotland could be highly significant, highly damaging.

**Q152 Chair:** I am grateful. I want to come on to the Government's plans, which we believe are still active and live and we are told are the only game in town, the Chequers arrangement, the White Paper. On this one, I just want your views on what has been proposed in the White Paper. The facilitated customs arrangement, for example, is one strand of this and the common rulebook on goods and agri-products. Do you feel that whatever you are hearing about the Government's White Paper would meet and accommodate your views for what is required?

**James Withers:** In the hierarchy of good outcomes, remaining in the EU clearly is not one of them, so the next step would be the single market. That appears to be off the table. The customs union is next, which appears to be off the table, so you end up in fourth place, which is probably the Chequers deal. That idea of tariff-free trade with the European Union is one that is welcome, and broadly that package looks like the best of the options that are out there at the moment. I think probably the concern from industry is whether that Chequers plan will survive as being the UK Government's negotiating position, let alone whether it will survive the first real contact with the European Union.

I suppose, having lost two years of our lives without having a negotiating position, we now have one but it remains, from an industry point of view, really unclear whether that will survive in its current form. But in terms of the hierarchy of needs or the hierarchy of options, it is the next best option down from the single market and the customs union.

On the idea of a common rulebook, I think it has always been accepted that, while it was suggested that freeing ourselves from some of the EU regulation might be a great prize of Brexit, industry has felt that the reality would be that if we wanted to trade with Europe we would have to accept common standards with the European Union. I think that is either an entirely reasonable request from the European Union or an entirely reasonable approach for the UK Government.

**Q153 Chair:** Ms Hay, what do you think?

**Cat Hay:** I agree with that. There is not a lot to add. We feel that it is encouraging that the Government are making the no-friction trade the



## HOUSE OF COMMONS

most important thing. It does begin to address some of the most concerning issues, but our members say at the moment there is no clarity and it doesn't go far enough. There is more that needs to be done.

**Jonnie Hall:** I am in 100% agreement with the comments of James and Cat. We made it very clear in July, when the Chequers agreement emerged, that it was the closest thing that we had seen to date to our preferred position.

James raised this thing about the fourth position. I often refer to a spectrum: if you have the current single market and customs union at one end, you have the WTO default at the other. We are pretty close to that and that is where we have always argued we need to be. Our concern is where will we end up in the longer term, somewhere on that spectrum or right at this end in the WTO? That of course, as I said earlier, would be an absolute disaster as far as Scottish agriculture is concerned.

James makes a very important point about European regulation—the perception that existed through the referendum process that removing ourselves from Europe would allow us to have a bonfire of regulation. That would be shooting ourselves in both feet. We need to conform to the highest possible standards as an agricultural sector, animal health and welfare, environmental and so on, so that there is a story behind the food we produce that has confidence and the consumer can have confidence in what we do. Getting rid of so-called regulation in that sense would not help our case at all. We will never be an agricultural economy that can stack it high and sell it low and compete on world markets. Our beef sector, in particular, would be blown away in comparison with production from South America, North America and Australasia.

Therefore, we need to protect what we do and how we do it. I think that is an element to this whole process that we need to guard against, so the likes of the common rulebook are going to be key in securing the future as we see it.

**Sarah Baker:** As you know, at AHDB we don't take a political viewpoint on the options on the table. We have modelled the Chequers deal, the deep and comprehensive free trade agreement with the EU as opposed to the WTO, the so-called hard Brexit, and in the middle a trade liberalisation, which is the hard Brexit, no deal and then unilaterally lowering agricultural tariffs. I would echo what my colleagues say: that the free trade agreement with the EU is the least impactful, the least damaging to farm business incomes, so that allows the sector to carry on operating at present.

With regard to a common rulebook, I agree that is not a negative thing. I think it is very important those standards are upheld and they are clearly understood. Far from preventing us from striking other trade deals, they recognise that the WTO levels are a positive in the negotiating stance.



On frictionless trade, as soon as we leave the single market there will be trade friction. With a free trade agreement and free trade area that is reduced, so it is as frictionless as possible but there is still trade friction. In our supply chains, where we have worked for many years to develop just-in-time supply chains, that needs to be noted and that adds costs to producers when you are talking about highly perishable goods.

**Q154 Chair:** We know that there are issues and difficulties in the EU27 with the acceptance of the Chequers arrangement and the White Paper. They have raised a number of concerns about the impact this will have on the integrity of the single market. If the Chequers arrangement—the White Paper—fails the series of tests of the European Union, is there any other arrangement that you can see that could take its place to save us from your concerns about a no deal? We will start with you, Mr Withers, with that big question.

**James Withers:** Without an easy answer, I think it is really difficult to see. I suppose the one hope that we are drawing on is that the views of individual member states are different to the views of European institutions. Ireland is an example where 42% of its food exports just come over the channel into the UK and which has already been badly hit by the weakened pound in terms of its export performance. I imagine—I suppose we know—that they are pushing as hard for a deal as anyone.

In the split between the ideologies of the institutions, I cannot see anything undermining the principles of the single market versus the practicalities and economic logic of member states. I am a little bit more hopeful for the Chequers deal than perhaps some others but, in all honesty, if Chequers is the least worst option, by definition anything that comes that is not embracing the same principles of free trade and common approaches is going to be worse. It is very difficult to see any other scenario that would do anything other than increase the negative impact on the country.

**Q155 Chair:** Looking at some of the comments from Mr Barnier, he said that he has interpreted the common rulebook as an attempt by the UK to diverge from EU standards on GM foods and pesticides if they are not checked at the border. Would that be a concern, Mr Hall?

**Jonnie Hall:** I think it would be but I also think there is an awful lot of political posturing still going on in all this. James referred to the European institutions. We are firm believers that member states will still have a significant say in the final outcome, and again some of those member states are posturing. I would agree with James that the position of the Irish will be paramount in all of this. Equally, the position of the Irish border will be paramount in all of this. We will be getting all sorts of complicated hypotheses about where we might end up.

At the end of the day, trade is a two-way street, especially in agricultural and food products, and the UK remains a hugely important market for other member states and not least the Irish. Both the Irish Farmers



## HOUSE OF COMMONS

Association, the IFA, and the Irish Government are as one to say that they want direct and unfettered access to the UK market, just as we are saying we want direct and unfettered access to the European market, so I think that at the end of the day some pragmatism will win out.

From our point of view, trying to strip out the politics—and clearly there is an awful lot of politics surrounding this—we would urge everybody and anyone to put their shoulder to the wheel on this and try to get the Chequers agreement as it is or as close to the Chequers agreement as it is currently written over the finish line because it is in nobody's interests—we are in a negotiation position here where, when you look at it, nobody is going to be better off and that has to be a major concern. To use James's expression, if we at least try to find the least worst then let's focus on that because anything stepping away from that has to be detrimental, not only to the UK and Scotland but to other member states as well.

**Q156 Chair:** I know none of you guys want to be drawn into the politics of all this, but it is not just the European Union that is raising massive concerns about Chequers. We are hearing this morning that there are possibly up to 80 Members of Parliament from the ruling Conservative party who might have difficulty passing this. If it falls, what do we do? Are we left without any arrangement—the dreaded no deal? What we are trying to explore with you guys is: is there anything else that we could propose in order to try to salvage this? I know that is a big question. We have skirted around it a little bit but I will ask it to you again, Ms Baker, to see if we can get some sort of answer to that.

**Sarah Baker:** As my colleagues have said, that is a hard one. If there was a simple solution basically somebody would have come up with it by now.

If you look at the extremes, so if you look at WTO and the coming out, and you assume that we apply the common external tariff to agricultural products coming into the UK, but equally we face those tariffs going out, you can see that there is some opportunity, in theory, for import displacement in certain areas of agriculture. But if you look more closely, those areas are pigs, dairy and potatoes. If you look more closely in Scotland specifically, the import displacement in potatoes is 4%, processing quality potatoes, which are not grown in Scotland. They are mainly a seed producer. Dairy depends on consumer trends and so on. The modelling treats the pig as one entity, whereas in actual fact the way it is traded is by cut and, therefore, we would have to find a market for that fifth quarter, and the same with the other livestock, in order for that to balance it.

If you said the WTO is incredibly challenging for the industry, the status quo is working fairly well at the moment. The key sticking points are the full and comprehensive access to the EU market and the full and comprehensive access to labour, so some arrangement that allows those would be the least impactful on Scottish agriculture.



## HOUSE OF COMMONS

You then have to look at the wider context and recognise that the deal will be struck, not just on our agricultural priorities but across the UK as a whole. For me this full and comprehensive trade agreement that has been proposed looks a positive for agriculture, and I cannot think of another arrangement that would tick all those boxes at the moment.

Q157 **Chair:** Thank you. The only game in town, Ms Hay, do you think?

**Cat Hay:** Yes. Again, I would agree with what my colleagues have said. It is a very difficult question. We are looking at these no-deal notices that are coming out of the Government at the moment. If I take the example of the organic notice that was published, just reading my notes here it says that it “makes clear that UK organic exporters may face a ban on their exports to the EU for at least nine months after a no-deal exit, while new approvals for certification are sought.” That gives you an idea of the kind of uncertainty—

**Chair:** We have seen that note, but thank you for reminding us of it.

**Cat Hay:** Of course, the notes have not all yet been published, so it just adds another layer of uncertainty for our manufacturers.

**Chair:** We will explore some of the notes that you have been provided with that cover the event of a no deal. There are questions about those. We will leave that there for now and I will pass over to Deidre Brock.

Q158 **Deidre Brock:** It has been suggested that if the UK commits to maintaining most other EU agrifood standards, the UK’s ability to strike trade deals with non-EU countries might be compromised and I wondered what the views of the various industries are on that particular suggestion. Perhaps that would be the thinking of some of those 80 rebels in the Conservative party behind their objections to the Chequers deal. I presume all of your industries have particular points of view on that suggestion.

**Sarah Baker:** My understanding of the free trade agreement arrangement that has been proposed says that we would not have to impose a common external tariff, so we would be free to go to strike trade deals elsewhere in the world in time as we chose.

There are a couple of things to note there. First, do we inherit the current free trade agreements the EU has with the rest of the world? That is really important for Scotland because at the moment we have seed potatoes going to Morocco under an FTA. They would face a tariff of 40% if we didn’t get those grandfathered right, if you see what I mean. That is really important.

Therefore, first of all, do we inherit those FTAs? It is not a done deal. There has been a suggestion that third parties might take the opportunity to renegotiate the terms of those arrangements. Hopefully, they would not be as long as starting from scratch but we all know trade agreements



## HOUSE OF COMMONS

take an awfully long time to implement. That would be the first point in trading with the rest of the world.

The second point for me that is important is that if you are going to agree the common rulebook with the EU, in terms of animal welfare standards and sanitary and phytosanitary standards, they will imply an additional cost of production and in competing with the rest of the world on a level playing field that needs to be taken into account. If UK farmers are going to have to adhere to those standards it needs to be a level playing field, otherwise what you end up with is two streams of production.

For instance, if you look at the argument about hormone-treated beef coming into the EU, the EU does not like hormone-treated beef and has decided it is going to block it. There is no scientific evidence to back that up. We lost that case at WTO level. The WTO says that if hormone-treated beef cannot be found in the end product, there is no evidence that it will be damaging to the consumer. It said that Americans have been eating it for years—I will leave you to draw your own conclusions from that.

The appellate committee has said that, in compensation, we have to take a proportion of beef from the US and from other beef-producing nations that is non-hormone treated, so you have a two-tier production system. You have beef being produced for their domestic market and beef being produced for export. You could potentially see that in the UK. If we are dealing with the EU we have to adhere to their standards but if we are producing for another market they may differ. That is a possibility.

The cost of production and the implications of those standards need to be borne in mind. Those standards are very high for a good reason. They protect consumers. They are proven to be safe, but if they are going to be applied across the board then our competitiveness needs to be taken into account.

**James Withers:** I have a couple of points but one brief point I would add to Mr Wishart's previous question: if not Chequers then what? I think the only safety net we see is buying time—in other words transition, and trying to secure a transition period to buy some more time.

On the point about whether adhering to EU standards would limit our ability to strike free trades elsewhere, I understand where the thinking comes from. I think in all honesty to some extent being part of that EU common rulebook would be seen by food and drink producers—and indeed farmers and fishermen to some extent here, less so fishermen but certainly for farmers and food and drink producers—as providing an element of protection.

I think that the real fear of the industry would be that the food and drink industry is unlikely to be top of the priority list for new free trade agreements. It feels like automotive, aviation and financial services are higher up the trade deals. When we look at the kind of countries where



## HOUSE OF COMMONS

free trade deals might be struck, a lot of them are looking for access to the UK market for two particular things: their people and their food. People will be very difficult, I think, given what drove the whole Brexit debate and fears of immigration. That leaves you with food and a very real concern without the protection that the EU provides for high standards. I agree entirely with Jonnie that on standards of production we should be in a race to the top. I know that industry complains about regulation a lot but we should be aiming for world-class standards. The EU provides some protection from that being negotiated away for prizes that the other industries may see.

**Jonnie Hall:** I would simply reiterate what I have already said and James has just referred to. We should be in a race to the top, absolutely. Any race to the bottom, as I think Michael Gove has said, would be a disaster that gives away our USP, if that is the right expression. We have worked hard at those standards for a long time, and farmers in Scotland—I think maybe begrudgingly initially—have now embraced those and have said that the standards by which we operate give us access, credibility and the provenance behind what we do. I think if we throw those away now in pursuit of a potential new free trade agreement with anybody outside the EU that would simply be a disaster.

We should be negotiating new free trade agreements from a position of strength. That position of strength is based on what we do and how we do it. It is not simply about volumes; it is about the quality of what we do.

**Cat Hay:** I would add to that in terms of the markets, for example. We know China is looking for an authentic, safe product and I think there is a real opportunity with those standards to capture that market.

Q159 **David Duguid:** From your evidence so far, nobody on the panel is in favour of a no-deal situation but it is still on the table as a potential. What preparations has the industry taken to prepare for a no-deal scenario or outcome in the Brexit negotiations?

**Cat Hay:** There is a mixed bag depending on which companies you talk to. In the food and drink manufacturing sector, our larger businesses have been thinking about the impact of Brexit for a considerable length of time and we have seen an uptake in the number of businesses that are talking about the practical issues, how products move and so on. As an organisation, we have been offering a wide variety of support for our businesses on the practicalities aspect and they continue to talk to us and other trade associations. I would come back to the point that there are no definitive answers and that proves frustrating for businesses that are trying to plan for continuity or future planning.

**James Withers:** Being completely honest, in the industry in things like food and drink manufacturers—Jonnie and Sarah can cover primary production—very little preparation had been done around no deal. I think that was driven because few people realistically believed a no-deal



scenario would be allowed to happen. It became very real probably in the last two to three months. As a result of that, there has been a lot more thinking done in businesses, a lot more understanding of what the current vulnerabilities are in terms of markets and what the tariffs would be. A number of Brexit planning tools have been developed. Scottish Enterprise has developed some that we have been sharing out with the membership and FDF has been sharing a lot of information as well.

Ultimately, as we see it, the best possible risk management tool for a no deal is to have a broader spread of markets so that we are less reliant on the European market, but that takes a generation to do. Ten years ago 80% of our food exports from the UK were sold to the European Union. It is now down to 70%, so that spread of markets is working but it has taken the whisky industry a century to develop that spread of markets. To try to implement that risk management approach, even if we had started back in June 2016, would not have been possible but to start it now is very difficult.

**Jonnie Hall:** From the primary producer point of view, the no-deal situation on this side of the farm gate is that it is really about battenning down the hatches and it is agricultural support. We are at a point where we want to move away from this over-reliance on agricultural support and invest more in what we do and how we do it; in other words, driving productivity and innovation so that we can take advantage of new opportunities. I think that would be completely put into reverse. The reliance on agricultural support would increase significantly and, in a sense, it would no longer be the safety net that the industry requires. It would have permanence but, of course, in the notes that were issued by Dominic Raab about a fortnight or so ago, that said nothing more than the UK Government would continue to commit to find the same level of farm support until 2022, or the lifetime of the Parliament. That was a reiteration of the existing position, so there was nothing new in that sense about longevity of support payments and so on.

If there are moves afoot to actually change the dynamic of what that support is for, which we would agree is the right thing to do, that should be about driving productivity and innovation, being more market focused and so on, but with the prospect of no deal then we are going to say, "Hang on a minute, going in that direction soon would be a real challenge, a real cliff edge for many agricultural businesses", so we would be back to the status quo arguments.

That is not where we would want to be at all, simply because that would be a safe haven for the many farms and crofts in Scotland because otherwise they are going off a cliff edge. Instead of gearing up to take advantage of a new opportunity, we would be gearing up for something of—and I guess this is emotive language—a meltdown and certainly our more marginal areas are reliant on beef and sheep production but are incredibly reliant on agricultural support as we know it. I can only see



## HOUSE OF COMMONS

that reliance increasing if there is no proper, positive outcome to this process.

**Sarah Baker:** AHDB has worked with QMS, Quality Meat Scotland, in order that we cover all the sectors in Scotland and we have worked very hard on our “fit for the future” stream of work. Our analysis of the top 25% of producers across all sectors shows that at least the top 25% could remain viable under any of the post-Brexit scenarios, so agriculture has a huge variation in terms of performance. It is not your normal distribution curve. There is a long tail of products you produce.

You have a proportion of farmers who will survive Brexit with or without us. Then you have a chunk of businesses that really do need some help and support in order to get fit for the future, so we have delved into the farm business survey data, which is the best source of evidence base that we have here in the UK. We have tried to identify, if that top 25% remain viable, what is unique and special about them. We have drawn out in our report that in actual fact it is nothing earth shattering. It is nothing that requires a massive amount of investment. It is a bit like the marginal accumulation of gains, where the British cycling team took 100 points, increased them by 1% and then wiped the floor with the medal wins in Beijing of course—the same appears for farming. Across a wide range of parameters, they can make incremental gains, particularly with their understanding of the market, their staff management, their relentless cost management, their attention to detail, and that accumulation of marginal gains can make a huge difference.

However, the timeframe is crucial. You cannot make changes overnight. A lot of people point to the New Zealand example where subsidies were stripped away overnight and say, “Look at how well they coped”. Well, there was huge hardship in New Zealand and an awful lot of businesses went under, but at the same time as those subsidies being taken away they had 50% devaluation in their currency so they could comfortably export. Their exports became very competitive. They have a much lower input, lower output type system than we do in the UK, so it is very difficult to draw comparisons.

The transition into what we all aspire to, which is this highly productive, innovative, profitable industry that does not have to rely on subsidies, will take time to make and the danger of crashing out of talks is that you lose businesses that would be viable in the long term because of short-term hardship.

Q160 **Chair:** Mr Withers, do you want to come in here?

**James Withers:** I want to add one point on the preparation. While there has been a lot of focus on what the big trade arrangement might be and the trade deal, I think businesses are increasingly thinking and concerned about the nitty-gritty of exporting, particularly the paperwork bureaucracy that sits around exporting. What paperwork does that haulier need in his cab when he reaches a port or a checkpoint? How are



## HOUSE OF COMMONS

we going to certify our manufacturing sites? Is that going to be done by Food Standards Scotland and local authorities? Do EU auditors need to come over here and have a secondary inspection and can that be done before March?

I think Imperial College London worked recently on checking paperwork. The impact of just a small increase of checking time on individual lorries could lead to 10 mile to 20 mile tailbacks. Sarah is absolutely right as to the impact on perishable products. We saw with the Channel Tunnel disruption two to three years ago with the migrant crisis that product was dying on the M25. But it is not just perishables. Even for the whisky industry—and I think you have whisky representatives coming later—their product isn't going to burn through shelf life but they have very tight delivery windows.

There is something around both that big trade deal and actually the real nitty-gritty—what happens come March-April next year and what will those paperwork requirements be to avoid some chaos that happens straight after?

**Q161 David Duguid:** On the back of those answers—thanks for those by the way—what further steps would you like to see the UK Government take to help prepare for a no-deal scenario specifically for your industries?

**Jonnie Hall:** The biggest issue among the farming community in Scotland is the uncertainty. I guess that would be reflected in other sectors of the economy as well. The uncertainty is compounding the significantly low level of confidence that already exists within Scottish agriculture. We have to remember that the last 12 months have been extremely challenging, simply from a weather point of view. This time last year we had already started winter and that went right through to April and then, all of a sudden, it was one of the driest spells we have ever seen. At the moment, we are concerned about what the next few months will hold in terms of fodder, supplies and so on, and how challenging the next winter will be.

Cash flow remains a big and significant issue and the uncertainty around some of these things. While you might think this is micromanagement stuff and this is individual business stuff, nevertheless that lack of confidence and lack of certainty is starting to really undermine proper planning and business decision-making to the point where—it is anecdotal at the moment—many people are considering what they are going to do. One of the easy options is to get out right now because of the lack of certainty.

It is a very challenging thing to be a farmer and crofter in this day and age in Scotland, as I am sure you appreciate. The one thing the industry needs more than anything else is clear signals, which are obviously in very short supply, as to what the future might hold in the next two years, four years, six years. Greater commitments from the UK Government about future funding would be a significant help—the Treasury has been



## HOUSE OF COMMONS

pretty silent other than the 2022 commitment—as would a greater commitment about how devolved delivery will manifest itself in terms of future agricultural policy.

We are probably straying into the territory of agriculture bills and common rulebooks within the UK and also into devolved delivery of future agricultural support, but until we can get greater certainty about what might replace the CAP, let alone what trading arrangements we might find ourselves in, I think many businesses are looking at their options and for some it will be an exit strategy, for others, as Sarah says, it might be, “We can pursue this. We can win out of this”.

But the political question for us is that if we currently have about 18,000 agricultural businesses in Scotland, do we want to end up with 10,000 or 12,000 or even less than that, 1,000 agricultural businesses, that can stand on their own two feet, or do we want to preserve more of the family farm type businesses in more remote areas that also sustain communities and all the other things, the social, economic, environmental dimensions to a lot of this? It is not as black and white as business success or failure.

**Sarah Baker:** If I could answer this as an economist rather than as a levy board, I would echo what Jonnie says. Uncertainty is the enemy of investment. We all know that investment drives income. If we had a productivity issue before Brexit within the industry, this has not helped in any shape or form.

There is the unique nature of our industry, as Jonnie has alluded to, and there are many reasons why people are in farming—not just for profit but also for a lifestyle—and that needs to be recognised. We are narrowing the timeframe that farmers have to adapt. Consider that a beef industry takes four, five or six years to grow or, if it disappeared, to come back. There are planting decisions for your spring barley and ewes being put in lamb for the spring market. Those are decisions that are having to be made in the dark at the moment.

We were told that we should have a decision by October. Now we know that will probably be pushed into November. I am hearing whispers that the actual final, final date is in December. That does not leave a reasonable timeframe, if an agreement is not reached, for any business to prepare but farming is unique and we need much longer time lags for that and I think that needs to be recognised.

Q162 **Chair:** Thank you. We are expecting possibly further technical notes from the Government on the event of a no-deal Brexit later this month. On the value you have managed to secure from these technical notices, has there been anything in them that has given you any sort of comfort and assisted you with scenario planning for a no deal? I don’t need all of you to answer that but just in the briefest possible, is there—I am looking at heads being shaken here.



## HOUSE OF COMMONS

**Sarah Baker:** There is nothing new in them that we did not already know.

**Jonnie Hall:** No. As we stated earlier, it is a simple no really. There is nothing new. There is nothing that adds extra comfort or certainty at all. Certainly the agriculture support payments commitment was a restatement of what we already knew, so it doesn't tell us anything further.

**Chair:** Just for you, Mr Hall, I don't know whether it will be good news or whatever but we will be looking to have an inquiry into Scottish agriculture and future funding arrangements for farms as we go forward. That will be duly announced, although it probably already has now, but we are looking at that as we go forward.

Looking at the timing, I know we have a big panel and what you have been saying is really valuable to this Committee but if you feel that one of your colleagues has already covered the ground you were expecting to make don't feel you have to give us a response. We will try to get through as many of our questions as possible because we want to maximise the time that we have with you today.

Q163 **Christine Jardine:** If you do not mind me saying so, the picture you are painting is quite worrying for the food and drink sector. I am particularly concerned about the no-deal scenario you have talked about and the impact of the EU's WTO tariffs. Is there some way you can quantify exactly what it might mean for the industry, to add some detail to what you have told us already?

**James Withers:** Yes. I am looking towards Sarah. AHDB has done a huge amount of work as part of its horizon work, and you referred to 47% to 48% on Scottish lamb and 50% on Scottish beef. For me that is then game over for those exports into Europe. If you look at the UK's biggest food export, salmon, it is a less bleak picture. Fresh salmon will probably have a 3% tariff on it, smoked salmon and processed fish will probably have 13% to 14%, and both those percentages are below the percentage devaluation of the pound that we have seen. Even in that scenario, they will be more competitive than they were pre-2016 but clearly it is still not welcome. Certainly on agricultural products it is a pretty, pretty grim scenario.

**Sarah Baker:** Yes, they are pretty steep, as James said. You hear a lot of general talk about Brexit, that WTO tariffs are not that high because WTO has been working for a number of years to lower tariffs. Its reason for existence is to lower tariffs and encourage free trade, but agriculture, because it is a unique case and you have so many issues to take into account, is probably the most heavily protected. Therefore, tariffs of above 50% are not unusual.

If you take lamb with 46% and seed potatoes, as I previously alluded to, with 40%, they just become uncompetitive overnight. Scotland has a lot of niche products. It has the Scotch beef, Scotch lamb and the seed



## HOUSE OF COMMONS

potatoes, which are high value products. There are not many products that could take a 40% tariff and still remain competitive, so at the stroke of a pen a lot of those industries will really struggle.

**Jonnie Hall:** As well as being exposed in the tariff sense, the beef and lamb sectors are also the most exposed with dependency on current support payments. If you then look at the agricultural profile of Scotland, given our landscape, our terrain, beef and sheep production are dominant in terms of land use and all the rest of it. Therefore, as sectors they are the most exposed without question, and yet they are the backbone of the Scottish agricultural industry, given the nature of our landscape and climate.

Q164 **Christine Jardine:** Without wishing to be over dramatic or a scaremonger, you have just said that at the stroke of a pen much of the agricultural industry in Scotland could become non-competitive overnight.

**Sarah Baker:** Yes, if you took that as the worst case scenario, the WTO scenario and no agricultural support. As Jonnie says, that is incredibly important. If you then delve into "Health and harmony" and start examining the public money for public goods argument and the desire to preserve what was described by Michael Gove as the wild and beautiful places in the UK, clearly Scotland qualifies and falls into that box with its landscape.

If you model the distribution of current Pillar 2 payments, so you take the overall level of support here in the UK and you cut it by half, but then you redistribute that on the pattern that Pillar 2 is currently distributed on, those upland dairies will have a level of protection. But what the industry needs to know is: what does that support look like, where will it go and how do the levy payers get themselves in a position where they can take up those schemes from day one?

We know that the overall level of support is guaranteed until 2020 but it has not said anything about how that will be distributed. It said that any money generated from cuts in CAP will be redistributed into these pilot schemes. Again, a pilot scheme for an agricultural business probably needs more than a year to see if it is going to work or not and we are running out of time. Therefore, we need to know what those new schemes look like, who will be eligible, what they need to do to be in line for those payments, and we need that information for the industry as soon as possible to help them prepare.

**James Withers:** There will be some whole market opportunities. If we are locked out of Europe and the European Union is locked out of the UK in effect because of tariffs, if you are in the dairy sector in Scotland, in the UK there will be greater opportunity to fill the gap. It will be created by the Irish not importing into the UK.

But I couldn't stress enough the strategic imperative for the Scottish food and drink industry, and I would say the UK food and drink industry, is to



export more. We need to export more. I meet many food manufacturers in Scotland who will tell you, "I get volume from the UK but I get value from abroad because of the strength of the Scottish brand. Because we are aiming for premium markets, that is where we can really attract some value overseas". While I believe there will be opportunities to fill shelf space in the UK, that access to the European market is not a game that is worth losing, in my view.

**Q165 Christine Jardine:** What you are saying is that we could potentially lose from the European market but we cannot make up what we will gain from, say, Irish dairy products and French lamb and so on?

**James Withers:** In terms of value, no, I don't believe so. I think it is different in different sectors. Dairy may have an opportunity; beef will struggle; lamb will be catastrophic.

**Sarah Baker:** Could I correct something I said before, sorry?

**Christine Jardine:** Sure.

**Sarah Baker:** I referred to "Health and harmony". That is obviously just the English support paper, which we think will be what the other devolved nations will hang their policies on, but clearly agriculture is a devolved responsibility and, therefore, it will be the Scottish Government that decide your policy. My comments regarding timeliness still stand. We do need to know the detail of that as soon as possible.

**Q166 Paul Masterton:** I think Christine has exposed quite nicely the serious effects of there being no deal. Is that primarily the reason why you said, Mr Hall, that the importance of people putting their shoulders to the wheel, which is the phrase I think you used, behind Chequers is because if the Prime Minister—and I appreciate it is a hypothetical—is able to land a deal on those terms with the European Union, if that deal is then rejected domestically, the consequences are basically a deliberate decision of people in the House of Commons to push industries like yours into situations that you have just described?

**Jonnie Hall:** That is absolutely right. Our view of this is—and it may be entirely wishful thinking—we would love to see all the party politics getting stripped out of this and some pragmatism coming to the fore and just saying we need the right outcome for British and Scottish agriculture and the food and drink sectors, and arguably the rest of the economy as well. That requires recognition that Chequers isn't perfect probably for anybody but it is something that certainly the agricultural and food and drink sectors can work with.

But it requires a political will from elected folk from all sorts of Parliaments and Assemblies to get behind this. There is always the process of internal party politics and also cross-party politics that are going to have a say in this but in the interests of Scottish agriculture, we will talk to every MP of every political colour until we are blue in the face



## HOUSE OF COMMONS

essentially to say, just as I said, "Get your shoulder to the wheel and get this over the line".

**Cat Hay:** If I can quickly add to that that not only is it a matter of the conviction of businesses but we are talking about food being a matter of national security, and that is why party politics has to—

**Chair:** We have seen a little bit of that in some of the other scenarios with a no deal.

Q167 **Christine Jardine:** Can I just say, Mr Hall, that there are a lot of us who feel exactly the same way that you do? There has been far too much political positioning over this rather than putting what is best for the country and for our industries first. We would not be in this mess perhaps if people had done that earlier.

One last thing I am going to ask is: are there any non-tariff barriers you are particularly concerned about?

**Sarah Baker:** I think non-tariff barriers will be equally as important as the tariffs once we leave the EU. The sanitary and phytosanitary standards, for instance, on how goods are produced and the WTO rules around that need to be very clearly understood, otherwise we could potentially lose markets. I think that we have never had to fully comprehend the technical barriers to trade within the industry with access to the single market, if that makes sense, because we are all operating under the same standards. Once we are a standalone country, understanding, first, the rules and, secondly, how the WTO operates is going to be really important. That is just one of the skillsets that we need to develop within the industry, along with negotiating trade negotiations and development of policy and analysis, that is going to be absolutely key. Those non-tariff barriers are a whole area of study in themselves and the can-do's and the can't-do's within the WTO framework.

Q168 **Christine Jardine:** From what you are saying there—and I confess I had not thought about this myself—learning how the WTO operates and different standards and a different way of operating, different implications and the different qualities that our food and drinks industry would be competing with, is going to be quite difficult.

**Sarah Baker:** It is going to be very difficult. You get the headlines in the news; we have all heard of the chlorine-washed chicken. It is a bit of a red herring or a red chicken or however you want to look at it. It is not about the fact that it is washed with chlorine because a lot of salads and a lot of foodstuffs are sprayed with antibacterial. It is about the welfare standards to which the chickens have been produced that they have to be washed for this to be fit for human consumption and not have campylobacter and so on. It is those sorts of things that need to be fully understood—why we lost the hormone-treated beef. The question is, can welfare be used as a barrier to trade? No, it can't because welfare cannot be detected in the end product, but you have differing case law. I think it was the asbestos case where it said that you could not discriminate



against a product that was like, if you see what I mean, if you could not differentiate the end use.

Then you had the public moral argument with the Greenland seal where they tried to ban all the seal products. People said you can't because if you import seal products from anywhere else that are killed humanely you can't distinguish them from the ones who were killed in the way that the EU did not like so you can't keep them out. That won at appeal because they said there was a public moral argument.

The law really is very complex and it is still evolving. What we can and cannot use as barriers to trade or we will face as barriers to trade when trading out in the wider world needs to be fully understood. It comes down to time to come up to speed with the complexity of those rules and regulations and to have a voice at the table. That has all been done for us for 40 years. We need to come up to speed with that pretty quickly.

**Q169 Danielle Rowley:** Keeping on that theme, and also picking up that I heard you use the word "opportunity" earlier, Mr Withers, even if it meant creating barriers to trade, do any of you see areas where the UK taking a different approach in regulatory issues to the EU would be a benefit to the UK?

**Cat Hay:** At the moment the key thing for us is the trade deal with the EU. Looking towards the future, we may have opportunities to look at how Britain does things differently, but until we have a clear idea of the rules for future trade deals, then we cannot really say where that opportunity would lie.

**Sarah Baker:** I would agree with that. If you look at plant protection, you have the risk versus the hazard-based approaches. At the moment we work on the principle that if it is a dangerous chemical, provided it is used in the right way and sensibly and with the right protective equipment and so on, it does not mean that it is automatically banned.

Any movement away is always going to have a trade-off. Countries that do not have identical rulebooks trade with the EU but there has to be agreement within that FTA. The further you diverge, the more you run the risk of having your products disallowed or blocked. There is always going to be a trade-off and it is going to be a difficult route to tread. Understanding is the first step to that path.

**Jonnie Hall:** I would probably agree with Cat. It is a perfectly valid question, but I think that it is probably premature because we need to have certainty as to what our new operating environment or relationship with the EU will be first and then look at opportunities beyond that. We need that certainty, as I referred to earlier on. It might be two, three, four, five years down the line before we can really start to explore those other opportunities.

**Q170 Danielle Rowley:** How is not being able to say at this point if there are



opportunities and if there will be benefits—not having that certainty—affecting even marketing for the sector?

**Jonnie Hall:** I think that Sarah used the very useful phrase “uncertainty is the enemy of investment”, and probably the enemy of lots of other things as well. From the agricultural business point of view but beyond that through the processing sector into the distribution aspects and the investment required, again I think that everyone will be sitting on their hands for a wee while yet. Of course, as people sit on their hands, other things happen and others take advantage of the inertia. That is the nature of any economy in many ways.

**Cat Hay:** Our board was talking about how people keep talking about weathering the storm of Brexit. Well, Brexit has not happened yet and we are already weathering a storm with currency fluctuations and things like that. It is certainly hindering longer-term capital investment from our sector.

Q171 **David Duguid:** Which new markets do you think the UK Government should prioritise securing free trade agreements with outside the EU and which sectors of the food and drink industry would this provide opportunities for?

**James Withers:** You will hear from whisky later, and in many ways with the tariff barriers they face in countries like India there will be a huge opportunity in that particular market if we can reduce those tariff barriers. That might be one where the UK’s ability to act unilaterally may give it greater speed and flexibility than were it with the European Union.

In most cases on the food side, it is not new trade deals that will be a game changer. Maybe if we go into markets like Canada, increased cheese quotas would be quite attractive, but the kinds of barriers we face at the moment into markets—for example, red meat into China and Japan—are not a consequence of being in the European Union. That is a legacy from BSE and all the regulations that come in there. Those markets could be open now if we put sufficient effort into it.

In all honesty, for me the key issue is adopting a New Zealand-type approach to new free trade agreements with us being crystal clear what our red lines are around food, drink and agriculture and avoiding it being deprioritised and negotiated away in the sense of it being a real prize for whoever we are negotiating a free trade deal with to gain greater access to the UK market as opposed to us gaining greater access there. I think that the opportunities of FTAs for the food industry with third countries are relatively limited. For the drinks industry, the whisky industry, I think they are significant, but the key priority is ensuring we are crystal clear what our red lines are for agrifood in the free trade agreement and ensuring it is prioritised.

Q172 **David Duguid:** The IMF predicts that 90% of growth in the next 10 years is going to be outside the EU. This is a question for other members of the



## HOUSE OF COMMONS

panel if they want to interject. Does that represent an opportunity for the higher quality products that we specialise in in food and drink in Scotland?

**James Withers:** Yes, it is a game-changing opportunity for international exports. We have an export strategy in place. We have invested in food and drink specialist staff in 15 cities around the world—a combination of industry investment alongside Scottish Government investment—because we see that major opportunity.

I suppose the point I would make, though, is that it will take a generation for us to build up those markets. What we have to avoid in the meantime is any shock to that system, because £7 in every £10 is still going to the European Union and we need to avoid that shock. There is absolutely no doubt that the international opportunity in Europe and beyond for Scottish food and drink is huge and that is borne of an increasing middle-class desire for world-class food and Scotland's growing brand.

**Cat Hay:** We do have a challenge with the makeup of the food and drink sector. This is the same in both Scotland and the UK, although the figures are slightly different, but 95% of our food and drink manufacturers are SMEs and a lot of them, we understand, do not have that exporting mindset. The export strategy that you are talking about is hopefully going to help to change that mindset, but it is almost like a business cultural change: we need to understand that our small businesses can play on a world stage.

**Sarah Baker:** To add to that and to back up what Cat says, it needs to be understood that you do not need a free trade agreement in order to trade with another country. Businesses do not need to sit back and wait until Government negotiates these. For instance, China is the glittering prize with their burgeoning middle class and the ability to pay, as well as the demand for the high standard of produce that Scotland can produce.

Q173 **Chair:** Ms Baker, it has always struck me as something that I have never fully understood, this idea that somehow being a member of the EU restricts our ability to trade with these developing nations. When I am looking at the success of Scottish food and drink, I am not seeing any restraints or inabilities to grow markets. What could possibly be the reasons of being a member of the EU that would restrict us from trading with these?

**Sarah Baker:** That is a really good point because I think that is misunderstood. Being part of the EU, we have a common external tariff, and within the EU wherever we sell it to it is the same as it going within the UK or anywhere else—no barriers, the four freedoms and so on. You can still trade with other countries. We can trade with whoever we want, but under the most favoured nation rules of the WTO we cannot unilaterally lower a tariff trading with other countries. Say the common external tariff was 40% or something that they would face sending goods to us, then whatever their tariff is they cannot lower it for us, but for



## HOUSE OF COMMONS

these high-value products that are in demand the tariffs are not the issue.

If you look at the Chinese market and what I alluded to before, it is going to be the SPSs that are going to be more important than the tariffs in many markets. The Chinese will come over and inspect our production plants and if they come up to standard in the relationship, you can start trading. You cannot just lower your tariffs overnight, you have to agree to them, but if you can agree those SPSs you can start trading. That does happen to some extent. The markets are gradually opening up.

The benefits of being part of the EU were that those big either unilateral or multilateral agreements were negotiated on our behalf, so we probably got preferential terms rather than negotiating as just one country because you have the collective bargaining power of being in a large organisation. The EU is obviously a very prized market so you have the extra bargaining power, but it does not prevent us from going and striking those others, so long as we stick to WTO—

**Chair:** I think that explains it for me. Thank you for that.

**Sarah Baker:** I am rambling. Sorry, I will stop now.

Q174 **David Duguid:** A very quick question, Ms Hay. I just want to clarify in case I got it wrong. You said 95% of food and drink manufacturers in Scotland are SMEs that do not have a significant export market or any?

**Cat Hay:** I was making more the point that 95% of our businesses are SMEs. That is not to say they are not all exporting. It is not 95% of the SMEs are—

**David Duguid:** You said 95% of food and drink businesses in Scotland?

**Cat Hay:** Food and drink manufacturers are SMEs, yes.

**David Duguid:** Okay, thank you.

Q175 **Christine Jardine:** Can I ask for a clarification of one point? You said that if we wanted to, say, make a deal with China with the EU they would come over and inspect our plants and so on. Is being in the EU a guarantor because we have to meet certain standards already? Is that a guarantor for other countries that we are trading with or do they do the inspections anyway?

**Sarah Baker:** They do the inspections anyway and my understanding is that China does not take much regard of that. It is who they are trading with. Obviously they know that we are part of the EU, but it is that initial—we send fifth-quarter pork, which is all the bits of the animal that are not in high demand here within the EU market. There is very high demand, so that really balances out the carcass balance issue and is a very lucrative market in spite of whatever tariffs exist. China will make these agreements on a unilateral basis and they are more comfortable doing that, is my understanding, than trading with the bloc as a whole.



## HOUSE OF COMMONS

**Q176 Paul Masterton:** Ms Baker, we touched a little bit earlier on the rolling over of the existing EU trade agreements with various countries around the world. The UK Government have stated that their intention is to basically roll those over exactly as they are. How important is it for your industries that that does happen and it happens cleanly and successfully?

**Sarah Baker:** Just taking the example of seed potatoes here in Scotland, as I have said before it is a niche market but it is an incredibly valuable market. With the free trade agreement with Morocco—we send them to Egypt as well, but Egypt only has a 10% tariff and that could be affected by changes in the exchange rate—a 40% tariff would lose that incredibly important market overnight, and there are lots and lots of examples like that.

**Q177 Paul Masterton:** Are you aware or have you been putting thought into how that process is going in reaching agreement with these third party countries? Are you satisfied with how that process is going? Do you have concerns?

**Sarah Baker:** The concern is that during the transition period there seems to be general agreement that those countries will treat us as if we are still a member so we will be able to trade as if, but if we are facing a hard Brexit then nobody knows. You would assume that if it is in the third party's interest they would be keen for that to continue, but they may also take that opportunity to renegotiate the terms. It is really unknown as to how each country is going to react.

**Q178 Paul Masterton:** The current intention for a roughly two-year transition period is vital for all of you in extending out that timeline of continuity to get prepared for the next phase. Is that correct?

**Sarah Baker:** Absolutely, yes.

**Q179 Paul Masterton:** Outside of these existing free trade agreements, are there any other trade-related agreements or trade partnerships that the UK is a member of, either in its own right or through its membership of the EU, that are important to the food and drink industry?

**Jonnie Hall:** I am not particularly aware of any. Sarah, do you know?

**Sarah Baker:** The main ones are the TRQs, I suppose.

**Jonnie Hall:** TRQs in terms of lamb from New Zealand and things like that.

**Sarah Baker:** Yes.

**Q180 Paul Masterton:** Could you maybe just expand on TRQs?

**Sarah Baker:** The TRQs are used in WTO—

**Chair:** Maybe tell us what a TRQ is.



**Sarah Baker:** Sorry, a tariff rate quota is used in negotiations in trade deals quite a lot as a way of opening up new markets. You are allowed to send a certain amount of product tariff free into a country and it is seen as an opening up. It has gone beyond that now. The Doha round stalled at WTO and we are not getting much further in lowering tariffs, so it is often used unilaterally. Our TRQ with New Zealand, for instance, came in as part of when we joined the EU, funnily enough, because they would have significantly lost out on trade with us. The WTO rules say that any new trade agreement cannot significantly disadvantage a country that you are already trading with, so we inherited that TRQ. We have a TRQ, I think from memory, of around 200,000 tonnes.

**Jonnie Hall:** 230,000 tonnes to the EU, of which the UK takes about 50%-plus of that.

**Sarah Baker:** Yes, it takes up to half of it.

**Jonnie Hall:** We are under an existing obligation to take over 100,000 tonnes of New Zealand lamb but it is for historical reasons.

**Sarah Baker:** Yes, New Zealand do not want to be tied to sending X amount to us and the rest to the UK. They want complete flexibility.

**Jonnie Hall:** Yes, a bit of a sideshow to this is the renegotiation of who will accept what element of that existing TRQ. All of a sudden that is not about the UK and the EU negotiating; this is about the UK, New Zealand and the EU negotiating how you redistribute that. New Zealand will still want to be able to send 230,000 tonnes of lamb into Europe, but where will its destination be in terms of who takes what? There still are these significant unanswered questions.

**Sarah Baker:** You answered it exactly how I was going to say it. Multiply that by all the additional free trade agreements and all the rest of it and you can see that this is going to get complex. The EU and the UK thought that they had come to an arrangement on TRQs but they had forgotten to mention it to New Zealand, and those sorts of things will come out of the negotiation process, there is no doubt.

Q181 **Danielle Rowley:** I wanted to ask a bit about geographic indicators. It is an area that we heard a lot about when we spoke to farmers. How effective have they been in protecting and promoting Scottish agricultural products? Is there anything that you see can be done other than that to protect them?

**James Withers:** They have been very effective. If anything, the UK has not embraced that system as we could have done. If you look at France and Italy, thousands of products will have PGI or some kind of PDO GI indicator alongside them. I think that Scotland is sitting at about 14 products. They happen to be some of the most iconic, so it is Scottish salmon, Scottish beef, Scottish lamb, and then even on a small scale pretty iconic products like Arbroath smokies and so on.



**Danielle Rowley:** Stornoway black pudding.

**James Withers:** Exactly, Stornoway black pudding, and I have now started a list so I am going to offend all the others I have forgotten to mention. They have been important. It strikes me as one of the more fixable elements of Brexit, I would have thought: let's create that GI register in the UK. It is certainly one where it is of huge importance to our European partners. If I was producing champagne in that region of France looking across at English sparkling wine, which is getting some pretty rave reviews, I would want to make sure that that GI was protected.

They have been a useful tool and we have underused that tool, but we have a number that are in application at the moment, from Dundee cake to all sorts of other products. They are useful. PGIs are only as valuable as the funding you have to promote them. Crucially, that funding has come from Europe as well as domestic funds. Quality Meat Scotland's funding for the investment in Scottish beef and Scottish lamb promotion is coming in part from the European Union, so we want that. Losing that is a concern.

Q182 **Danielle Rowley:** How do you think that the Government should go about approaching GIs in trade deals with countries that might not want to accept them, such as the US and Australia?

**Jonnie Hall:** I certainly do not think they should be traded away at all for all the reasons that James has outlined. Yes, they protect but they do promote internal markets as well as in terms of exports. We have not made as much of them as we could have, as James has said, and I think that it would be a naive and backward step for us to water down or dilute or even remove our GIs in any way, shape or form.

**James Withers:** I referenced the red lines for a negotiating stance with third countries. GIs should be in there. There has been a lot of coverage of the Canadian deal and their omission within that. For me that fuels concerns that food and drink hitherto has not been a priority in these international trade deals.

Q183 **Deidre Brock:** Under the UK Government's current proposals, there is a suggestion that there would be some sort of domestic GI-style register set up. You mentioned the fact that funding comes from Europe to help promote the GIs. Could you tell me what in your view are the essentials that should be included in any domestic GI register?

**James Withers:** I suppose there is the rigour of application, so making sure that we are identifying genuine GIs. That has been an issue with some that have gone through an application process with Europe that they cannot demonstrate uniqueness and, therefore, have not fit with GI. It is about having the clarity, having them listed—Scotch whisky has its own regulations, I understand, which has it as a recognised GI, so again it is ahead of other sectors in this—and then ensuring that a GI register is



## HOUSE OF COMMONS

part of any future trade deal with Europe, common recognition of EU GIs, and what would be the UK GIs and free trades elsewhere.

**Jonnie Hall:** I think that we are still struggling. Speaking as a consumer as much as anything else, we still struggle to fully identify and appreciate what labelling is all about. I think that there is an awful lot of work to be done on that. Twenty years ago we had a big debate in Scotland over beef and whether it was Scottish, Scots or Scotch. They all had different definitions, and that was at a time when an animal could come from southern Ireland and as long as it spent 90 days, I think, in Scotland, it basically became Scottish or Scotch. See, I am confusing myself about what the definitions were.

There needs to be rigour. There absolutely needs to be rigour, otherwise these things become valueless, and a degree of transparency. I think that we still have work to do. As well as putting in place the proper labelling and the proper structures and governance behind GIs, there needs to be an education process, not only with domestic customers and consumers but also where we might export these things to.

Q184 **Deidre Brock:** Who would be responsible for monitoring? Who would be best placed to monitor that those standards are rigorously held to? I am not quite sure what the UK Government's proposals are at this point. They are a bit sketchy. Do you see an external body being set up and funded by the Government?

**Jonnie Hall:** That probably opens the whole question about governance of all sorts of regulatory standards once we are outside the EU, which is another extremely complicated situation. Where does that responsibility lie?

**Deidre Brock:** You have the devolved—

**Jonnie Hall:** Then there are the devolved aspects of that. I think we probably will get into that when we consider the future agricultural policy and regulatory frameworks within the UK, so maybe we won't delve too deeply into that. Clearly, you do have to have governance. You have to have audit and accountability, otherwise the credibility of what you are trying to pursue is pretty quickly diminished. Everybody has to be comfortable with where that rests in this, so I am not sure on that.

Q185 **Chair:** My understanding is that when we do leave the European Union, if there is no UK policy in place we fall back on the TRIPS arrangement with the WTO and that would be where our GIs would be placed and understood and recognised internationally. I am wondering if that would be the sufficient protection that we require. One of the things that has surprised this Committee in the course of taking evidence on this is that every sector has said to us about geographic indicators and how much they feel this is of real value to the products and commodities that they are seeking to support. Are we right to pursue this idea of GIs? Is it valuable and important to the sectors that you represent?



**Sarah Baker:** You have to look at consumers' willingness and ability to pay for whatever that differentiation is to fully understand that. They might be incredibly valuable in export markets to gain access into those export markets and so on, but the market research needs to be there. You do not have to have a GI in order to protect your own trade negotiations. You can have your sensitive products—they do not have to have a PGI label—that are your no-go areas. I think that developing them and understanding them would be the first step in this.

**James Withers:** Just to add to Sarah's point, PGIs are only as good as your ability to promote them but also your ability to police them. That is where the Scotch Whisky Association and their work on Scotch whisky is ahead of anyone else. The potential fraudulent ripping off of the Scottish brand was not an issue for us 10 years ago in any products other than whisky, but now it is because the brand is built up. It has increasing traction overseas. You will hear stories of Norwegian salmon allegedly being passed off as Scottish in the Chinese market to get a higher premium. The real debate on the policing side will fall to some extent with industry as to how we approach that in the same way that the whisky industry has been doing it for 10 or 20 years.

Q186 **Deidre Brock:** There is just one other thing. You mentioned there were many more GIs in Europe than there are in the UK. From some quarters has come the suggestion that that will mean they have a greater need for mutual recognition than the UK does and that the UK might use that for some sort of leverage during trade discussions. I wonder what your thoughts are on that.

**James Withers:** The logic of that makes sense to me. Maybe if you are a Parma ham producer or a champagne producer you have more to lose from a no-deal scenario. I suppose I might question where the GI negotiating power sits alongside fishing rights and other things and whether it is really of sufficient weight to make a significant difference in the no-deal scenario. I am a little unconvinced that it is. On the GI piece alone, Europe collectively has a significant amount to lose by the UK not having that recognition but for us, given we only have a few but they are on the iconic products and our single biggest exports, we have a lot to lose and they know that.

Q187 **Chair:** How effective do you think the UK has been in supporting exporters and supporting export activities? I am thinking about the GREAT Britain campaign that we are seeing everywhere just now. Has this been a useful development? We then have "Scotland is Now" by the Scottish Government and the grassroots movement to keep Scotland the brand. All of a sudden there is a real interest in the promotion of Scottish goods and agricultural products. Do any of you have any particular views of the effectiveness of each or any of these initiatives?

**Sarah Baker:** I think that if you just judge on end results it is a little bit harsh because opening up these markets is a hugely complex and time-consuming activity. At AHDB we have an entire export division focused on



exactly this and it is incredibly complex. You hear in the news the big wins, but you do not often see the work that has gone on for the months and years ahead of that. As James mentioned earlier, there was a lot of work to do after the legacy of BSE and foot-and-mouth and everything to regain confidence in those markets and build them back up. That shows how one sudden event can have a huge impact on you and it takes years to work back up. Inevitably, there is going to be a huge focus in this area in the coming years, so the more resources and the more focus we can put into that—

Q188 **Chair:** We only have a few minutes left and I am interested in the views particularly of you, Mr Hall, about what you are observing.

**Jonnie Hall:** I guess this is where we sell out any sort of notion of having principles in the sense that whether it has a saltire or a union flag or a red tractor or anything, if it is lamb, soft fruits, if it is increasing demand for those products, that creates opportunity for Scottish farmers. We will not get too hung up about who is driving and obviously you could make judgment calls about which campaigns are better and more successful and all the rest of it, but we are not wedded to the fact that everything that comes out of Scotland must be and only badged with a saltire or anything like that. If it increases the overall demand for agricultural products domestically and beyond these shores, that has to be a good thing.

**James Withers:** I am probably a bit more blunt than Jonnie on that. Looking back over the last 10 years where the food and drink sector in Scotland has gone from static to being the fastest growing export and best performing domestic sector, there have been two game changers: the ability of industry to work collaboratively alongside the public sector in Scotland and the development of a national identity for food and drink in Scotland. Consumer research we do across the UK emphasises that and discussions we have with international buyers recognise that as well. The land of food and drink identity that was built for Scotland over the last 10 years happened at a time when food and drink was not a priority at UK level. Food from Britain had had its funding pooled and the GREAT campaign then emerged. It was not about food and drink at that point but food and drink came into it.

At best, I think that the GREAT campaign is a missed opportunity. At worst I think that it runs roughshod over the efforts of devolved Administrations—and I would include Wales in that and the potential of Northern Ireland but particularly Scotland—in developing a national identity for themselves. I think that the GREAT campaign has an opportunity to celebrate food from these islands. Unfortunately, it was developed in isolation of any meaningful engagement with either the industry and certainly the devolved Administrations, so I do not see it as an asset at the moment for the Scottish food and drink industry.

**Chair:** Thank you for that. Thank you for being so blunt with us.



## HOUSE OF COMMONS

Q189 **David Duguid:** Could I follow that up with a question? Are you saying that the British brand, whether it is a union flag or just being from these islands, does not have a value? I think that I prefer your missed opportunity analogy.

**James Withers:** Scotland does not have much to sell. We are a small niche producer; we are going for very targeted markets. The British brand carries far more weight in mainland China than the Scottish brand ever will, but for the markets that we have been going for, the top-end food service in some of the Chinese cities, in Japan, that Scottish brand is what is making the difference. Some companies sell under the British flag and that is fantastic, but the opportunity is for Scotland to do what other small countries do, and I would take New Zealand as a classic example of building that identity. The British proposition absolutely has some value, but it needs to be done in a way that emphasises the strength that sits within the UK as opposed to riding over the top of the efforts that have been going on for a long time.

Q190 **David Duguid:** There is British beef but then there is Scotch beef, to steal M&S's—

**James Withers:** Yes, Scottish is premium, British—

Q191 **Chair:** I think we will just draw a line under that there before we get into conversations about flags and we tend to get into some strange territory, so we will leave that.

I want to take this opportunity, because you are all here today, to talk about a couple of items that have appeared in the news in the last couple of days. First, there was a piece this morning about the transport of calves. I wanted to see if you had a response to that, Mr Hall. The announcement was also made by the UK Government last week about a pilot seasonal workers agricultural scheme. We understand that this pilot will involve 2,500 seasonal workers. I have a response from a written question when I asked how many were required, and it was 64,200. Maybe it is unfair to pick you out, Mr Hall.

**Jonnie Hall:** I will start with the announcement on the seasonal agricultural workers. It is clearly a bit of a pilot exercise. There is no detail from the Home Office as to how it will operate. We are still waiting for that detail to emerge. What we do understand is, yes, it is 2,500 and it is non-EU. Reading the headlines, the biggest issue that the Home Office has is ascertaining where these individuals will return to. There is a significant demand for seasonal labour within Scottish agriculture, both on farm and in the processing sector, but as things stand an awful lot of those are EU citizens rather than non-EU and throughout this whole piece we have talked about non-UK as what we want. It does not matter whether it is EU or non-EU; it is non-UK.

We think this is a step in the right direction but it falls far, far short of what we require. As you know, we have had lots of discussion and MPs across the board from Scotland have tried to make inroads with the



## HOUSE OF COMMONS

Home Office in getting a seasonal agricultural workers scheme up and running and operating properly from day one. As we all know, this is an issue around immigration rather than something that is important for the agricultural economy, and that is where we have hit the buffers in many respects with the Home Office. It is a very cautious welcome from us, which I think we put out last week.

**Chair:** We saw that and we are grateful for that.

**Jonnie Hall:** In terms of live animal exports and calves, there is going to be a programme on BBC Scotland tonight. We contributed to that programme and our livestock chairman, Charlie Adam, is interviewed as part of it. There is a significant ongoing debate about that. It was kicked off by DEFRA's call for evidence on animal exports in general, particularly the issue of crossing over the Channel. Clearly, we are concerned that for any animal at any time undergoing any journey or through any part of its life while in our responsibility we have to maintain the highest possible standards of animal welfare.

Going forward, we have to be very careful about what changes might or might not happen with animal transportation, particularly across water. The unintended consequence of saying you cannot have live exports from Dover to Calais is where does that place Orkney to Aberdeen? We have to be very careful in how we deal with that internally within the UK, maybe not as an export issue, but we need to tread very carefully. We have to be very clear that animal health and welfare has to be top of the list of our priorities. As we said in the discussion earlier, we base our whole food story around how we do things.

**Chair:** I am grateful. Thank you ever so much for all of that. We thought we would take advantage of you being here today, given these issues are so newsworthy. If there is anything else that you feel you could usefully contribute to this inquiry, please give us any further evidence. Thank you for your attendance today.

### Examination of witnesses

Witnesses: Georgina Wright, Andrew Charles and John Anderson.

Q192 **Chair:** Thank you for joining us today and helping us out in our Scotland and Brexit trade inquiry. For the record, could you say who you are, who you represent and anything by way of a short introductory statement? We will start with you, Ms Wright.

**Georgina Wright:** Good morning. I am Georgina Wright. I am here today representing the Scottish Salmon Producers' Organisation. I work for Marine Harvest Scotland and I am in charge of sales there. As you are likely aware, Scottish salmon is both Scotland and the UK's single largest



food export. Our priority going forward is to maximise sales, free trade within the UK, free trade between the EU and the UK, and free trade between the UK and other countries around the world.

We have two key Brexit issues. One is regarding minimal border delays—our product has a short shelf life of up to 14 days maximum farm to fork—and also security of workforce. Up to 65% of our workforce are EU nationals and we need our workforce to grow further. Thank you for inviting us to the session today.

Q193 **Chair:** Thank you for that introductory statement. Mr Anderson?

**John Anderson:** Good morning. My name is John Anderson. I am the Chief Executive of the Scottish Fishermen's Organisation, or SFO as we are known. Our primary focus is quota management and marketing. We have around one-third of the Scottish fishing fleet in our membership, making us the biggest producer organisation in the UK and one of the biggest fisheries managers in Europe. We hold around one-third of the Scottish quotas for pelagic and whitefish species and around half the nephrops quota, or prawns as they are known. We have two processing factories focusing primarily on the production of langoustine and scampi for both the UK market and export, primarily to the EU but also to the Far East. The SFO is a shareholder of Seafood Scotland, which is an organisation that aims to raise awareness of Scottish seafood, educate buyers and maximise opportunities for Scottish seafood in emerging markets. I am currently acting chairman of that organisation for a couple of weeks.

Q194 **Chair:** Thank you for that. Mr Charles?

**Andrew Charles:** Andrew Charles. I am a fish processor in Aberdeen. I am also the Chairman of the SSA, which represents about 70 fish processors in Scotland. There is a total of about 144 processors in Scotland, so that gives you an idea of our reach. All my members process not only whitefish; we have crosses between the salmon and the shellfish and the whitefish, so we all have much in common. I would like to support all the comments that have been said there: the importance of free trade, the custom borders, no tariffs. We are working with a resource that needs to be delivered with speed. The longer you take to deliver it, the less value it has, so it is very important to us to see that we have a seamless trading situation as we roll into Brexit.

Q195 **Chair:** I am grateful and it is good to see another range of consensus in this panel this morning. To get things started, could you tell us a little bit about how the Scottish fishing industry has performed in the past few years? What are the current main products and where do you see the potential for growth in the future?

**John Anderson:** In terms of current export activity, I will focus on wild capture seafood exports. They can be split into three subsectors. We have the pelagic sector: herring, mackerel, blue whiting, species like that. You have whitefish: haddock, cod, saithe, whiting, monkfish,



## HOUSE OF COMMONS

megrim, hake, and so on. And you have shellfish: nephrops, lobsters, crabs and scallops. Each subsector has different markets. The pelagic sector land a lot of their catch directly abroad in places like Norway, Denmark, Ireland, and so on. We also have pelagic processing businesses within Scotland that export to Japan, China, Africa and some EU. We lost the Russian market a few years ago. A lot of the whitefish goes to the Humber for secondary processing; a lot of it goes direct to the continent as well and some further afield. The majority of shellfish I would say goes to the EU, and some to the Far East, and other places as well.

The total volume of UK seafood exports, including salmon, last year, according to the statistics I have, was around 440,000 tonnes, to the value of £1.9 billion. Of that, approximately £950 million was Scottish exports, over £700 million going the EU. That is 77% of Scottish seafood exports by value going to the EU. Salmon exports, based on my information, were about £600 million, so approximately two-thirds of the total Scottish seafood exports. France is the single biggest export market with £380 million roughly. There is Spain, £100 million; USA, £80 million; Italy, £61 million; China, £50 million. The volumes exported in recent years have been relatively steady. Prices achieved in total value increased by 15% in 2017 compared to the previous year, so you can conclude that our seafood is in demand the world over and that that demand is growing.

Seafood Scotland aims to compete on the global stage against our competitor nations. It is also carrying out similar initiatives. Countries such as Ireland, Iceland and Norway have all significantly increased their presence in their in-market activities in recent times. Specifically, the objectives of Seafood Scotland include reinforcing Scotland's position as one the main seafood-producing nations, encouraging exporters to enter new, emerging markets, raising global awareness of the capabilities of the Scottish seafood sector, taking demand for Scottish seafood to that changing global marketplace, and creating awareness among buyers about the recent quality infrastructure and sustainability improvements that have taken place throughout the Scottish industry.

**Q196 Chair:** One of the things that surprises me—and you could maybe help me with this, Mr Charles—is that we are a net importer of seafood, once non-EU countries are taken into account, and that there is a trade deficit of £1.6 billion.

**Andrew Charles:** The total seafood market in the UK would be £6.1 billion so that gives you an idea of the prize and the value of what we could create in Brexit proceeds if those quotas come back into the market. You will see a disparity of values and the explanation for that is quite simple. GVA is the gross value added. Very often you will see amounts being quoted and they can vary but roughly if you take £6 billion as the total market in the UK, we are contributing only £1.6 billion of that into the UK. We could supply the entire UK market. The extra



## HOUSE OF COMMONS

Brexit contribution has been valued roughly at about £300 million so it could quite easily be absorbed into the UK.

Q197 **Chair:** I think why this surprises me a little bit—this is for you, Ms Wright—is that we keep on hearing about the overwhelming success of Scottish salmon, the export reach that it now has and its value to the total export output, and it is a quite surprising figure when you look at it. I am looking at another thing from the industry body Seafish, which says this is down to UK consumer tastes.

**Georgina Wright:** Scottish farmed salmon represents about 80% of global production—there is a level of seasonal availability throughout the year—and part of that is then represented by the total volume produced by Scotland. One could go into quite specific detail about the size of fish for different consumer products and the export demand for different sizes of fish because of different eating formats, particularly in Asia.

**Chair:** Maybe we will come on to the current arrangements. Did you want to come in, David?

Q198 **David Duguid:** The import/export question is a very good one. When I first found out about it, I thought it was surprising. What I also found surprising—and Mr Anderson or Mr Charles, you might be able to comment on this—is that I heard that the Dutch fishing industry catch about 80% of their small pelagic fish in UK waters, or what would become UK waters after Brexit, and that 80% of that catch is sent, with minimal processing if any, straight to west Africa. Post Brexit, is there any reason why we could not satisfy that market without that secondary processing to the Netherlands?

**John Anderson:** I think you are talking about herring. There is a lot of herring caught and maybe blue whiting as well. A significant amount of fish is caught in UK waters by non-UK but EU vessels, and the Dutch and the Danes are certainly examples of that. What we are looking to achieve through Brexit is fairer shares of the fish within our own exclusive economic zone. We would like to envisage a situation where, over a reasonable timeframe, we would look to negotiate back additional quota for our own Scottish pelagic fishing fleet and they would have greater raw material to supply these markets directly.

**Andrew Charles:** We have the wonderful situation where we have this massive value. How do we make the most of it? You are absolutely right; we don't see an awful lot of our fish. It is caught by foreign vessels, ending up in their own countries and the processing is adding to their GVA. What we have to do is take this opportunity, reignite our coastal communities with far more processing jobs and put real value on this opportunity. We have seen a growth of whitefish prosperity in the catching sector—we have seen massive investment and it really is fantastic to see how well our catching sector is doing—but then you turn the page and look at the processing sector and in a 10-year period of



## HOUSE OF COMMONS

growth in the catching sector, you have seen a 30% decline in the processing sector.

We have been banging a drum for 10 years to say Government must sit down and make it attractive and attract investment into that processing sector. We have been doing that for the last 10 years and it has fallen on deaf ears. We are now facing this massive opportunity and we don't have the processing sector to take advantage of that opportunity. In Aberdeen, for example, you have this centre of excellence of whitefish-specialist people and this year medium to large factories have been smashed with 40% business rates increases. That is ultimately going to destroy those businesses because they are not going to be able to compete. The companies that need the haddock will buy it in from China because it can be processed more cheaply there.

We have to sit down and say, "How much do we want this and are we serious about it?", and get our heads around making it as efficient as possible. That could be power, it could be water, it could be creating an environment so a banker will say, "Let's invest in British processing". At the moment, they are running for the hills and it is a real concern that we are going to miss this opportunity and that opportunity is just going to run through our hands like water.

**Q199 Chair:** I am hearing again this plea for barrier-free trade, non-tariff arrangements, frictionless trade with the rest of the European Union, but at the same time we are hearing how leaving the European Union, and presumably the associated single market and the customs union, is going to be a huge opportunity for Scottish fishing. When you look at the Government's plans, particularly the Chequers arrangements that are on the table, do they achieve what you are looking for as a solution on leaving the European Union?

**John Anderson:** The Scottish seafood sector undoubtedly wants to maintain free and frictionless trade, the trading relationship that it currently enjoys with the EU. I don't think you are going to get any more free and frictionless than that. It is particularly important for those exporting live and fresh, perishable product such as live langoustine, lobster, crab, other finfish species and so on. Just-in-time delivery requirements are extremely important. Our understanding of the UK Government's proposal as it applies to seafood, however, is in effect a continuation of the status quo, albeit under the name of a joint customs territory, because obviously we cannot call it a single market or a customs union.

**Q200 Chair:** Does that not diminish all these great opportunities we keep on hearing about for the seafood sector? You are not going to be able to operate independently as a coastal state, as we hear, and you are going to be part of another customs relationship.

**John Anderson:** I don't think that is true.



Q201 **Chair:** You don't think it is true? Tell us why you don't think it is true.

**John Anderson:** Trade in seafood products and access to fishing opportunities are two completely separate things to my mind. You are talking about trade on the one hand—that is one set of negotiations. When it comes to fisheries and access to individual countries' natural seafood resources, seafood capital, that is something else entirely.

Q202 **Chair:** What if the European Union 27 turn round and say that for any arrangement to secure this barrier-free trade that is absolutely essential, as you say, the price will be an arrangement that would allow them to exploit some of the fisheries resources in our coastal waters?

**John Anderson:** All I can is that there is no rationale for linking the two and that is certainly the EU position. They have come out and clearly said that one must link—obviously the two come hand in hand—access to waters with access to markets. We would say there is no other example of that happening anywhere else in the world. What we have right now is a very inequitable situation where we send roughly £1 billion-worth of seafood that way over the Channel, and they send roughly £1 billion-worth of seafood in our direction. Okay, it is different species. You do have this supply paradox in terms of what we consume versus what we export. The inequitable issue, however, is not the trade. That is roughly balanced. What we have is at certain times more fish taken by EU fishing fleet, non-UK vessels, from our waters than we take from theirs.

That is what we are looking to address from Brexit. That is why we are pushing to depart from the common fisheries policy, establish ourselves as a coastal state, and leave all the negotiations about access to waters and access to fishing opportunities to the existing coastal-state negotiations that happen on an annual basis.

**Chair:** I see we have irked the attention of Christine Jardine.

Q203 **Christine Jardine:** From what you say there—and I am sorry if this is ground you have covered many times in the past—that seems really more like an issue with the common fisheries policy than with the EU and that what you really are saying is that you would like a change to the common fisheries policy but for everything else to remain the same.

**John Anderson:** I am not asking for a change to the EU. I am just reflecting what it is—

**Christine Jardine:** You are suggesting.

**John Anderson:** I am not suggesting. What I am saying is that the issue that the fishermen have is the inequitable allocation of fishing opportunities that arise from the common fisheries policy. It is not to do with free and frictionless trade. Why would we want to push for a situation that is going to result in barriers to trade? That does not make any sense. What we want, what the fishermen want to address, is the inequitable allocation of fishing opportunities that currently exists as a result of our participation in the common fisheries policy, which is one of



## HOUSE OF COMMONS

the four freedoms. That is what this entails in being a member of the European Union, I suppose, so if you take it to that level, then yes.

Q204 **Christine Jardine:** The root of the issue is the common fisheries policy rather than the European Union itself.

**John Anderson:** I don't know about every single individual fisherman's political ideology, but just from the business side of things, what we want to achieve, from my own point of view as a responsible producer organisation, is to maximise fishing opportunities, maximise the output of the sector and it is the CFP that is hindering that.

Q205 **Chair:** Maybe we could hear from Mr Charles on this issue. I am keen to get back to the Chequers plan but what is your particular view on this? You want the barrier-free access, you want frictionless trade, but you want to set aside fishing rights.

**Andrew Charles:** There are two things here. One is that whether we like it or not, we are in for a divorce and when that divorce comes down, those fish stocks will be British fish stocks and how they are distributed will obviously be open to negotiation by the British Government so they will be in control. Yes, we want frictionless trade. That is vitally important. I think it is up to the Government to then set the tone of how that frictionless trade is managed and that is going to be vitally important. I don't think there has been enough said about this, that when you are going to put a lorry on to Boulogne, for example, and it has £200,000-worth of product on it, it cannot be stopped, it cannot be delayed, it cannot be blocked, it cannot be burned. We, the Scottish Government, the British Government, have to make it clear to Europe that if they do prevent trade after the divorce, there will be financial consequences.

We are in for a massive divorce bill, that is where you get your money from, but you have to lay these compensation situations down now and say to the processors who are risking their money and their business in exporting that you, as a British Government, will fully support the exporters and if there are any problems, the consequence will come out of the European pocket. You have to get the catch back to the processors very quickly because if we have a hindrance over two or three weeks, those processors could be ruined.

Q206 **Chair:** I am not entirely sure that that is the way it works, or will work. We will leave that aside. I understand that that is what you are asking, but the securing of the barrier-free trade, frictionless access, will be dependent upon a deal, a deal that may bring in fishing rights in UK waters.

**Andrew Charles:** There is a deal and a deal, but our European partners tend to please themselves when it comes to border hostilities. I think we set the tone and we are very solid and we are very firm about this, that we are going to have this situation, and we know what the consequences are if it kicks off. That gives the processors the confidence to export.



## HOUSE OF COMMONS

Q207 **Chair:** Ms Wright, do you have a view on this?

**Georgina Wright:** Yes, related to the access to waters, we do not feel that is a relevant area for the aquaculture industry but we don't want to be involved in a trade-off with access to markets linked to the access to waters.

Referring to the Chequers White Paper, ultimately we support as free trade as is possible. At some point in this session I think it is important to understand the potential negative impact of going to WTO export rules relating to fresh salmon and other fresh fish species and the infrastructure required to support that.

Q208 **Chair:** I am presuming that around the table there is general support for what has been proposed in Chequers, in the White Paper. Would that be a correct characterisation, Mr Anderson?

**John Anderson:** I think so, as far as fishing and seafood go. Everything in the section in relation to catching fishing opportunities mirrors what the industry has been pushing for in terms of being a coastal state, being out of the CFP and control over access to our exclusive economic zone. That is all what we are looking for on the catching side. The message, as has been reiterated to you several times, is free and frictionless trade with the EU and the ability to trade freely with the rest of the world. That again is obviously what we are looking for.

Just a point to note: the Scottish Government published a study, before the summer—I think it was in May—and it looked at various scenarios for future trading relationships with the EU once we are out. The scenario that yielded the best economic result was unsurprisingly the zonal attachment quota shares, the scenario where we are in control of our waters in the free trading environment. I think it said that we are looking at roughly doubling the output of the catching sector—that is doubling the amount of value of the fish caught—and we are looking at about a £500-million boost to the Scottish economy annually, and the creation of approximately 500 additional Scottish jobs, which presumably would be in our coastal communities. There is no better scenario than that and that is what we are all signed up to and hoping we can achieve over a decent timeframe.

Q209 **Christine Jardine:** Mr Wishart mentioned the Chequers proposal. How do you feel about it? How would you characterise each of your approaches to the White Paper proposals for aligning the UK to EU agrifood standards—the common rulebook that is proposed in the White Paper?

**Andrew Charles:** Whatever we have to work with, we will work with. Whatever has to be done, we will do and we will adjust and we will manage. I don't think anybody knows what is being proposed. I wish we did know what was being proposed, and we don't. What we will do—we have done it in the past and we will do it in the future—is manage any scenario that is thrown at us. What we cannot manage is chaos. That is



what we cannot manage. We have to be able to have, whatever the management structure is, as clear as water, "This is how it is going to work", and our industry will make it work.

**Q210 Christine Jardine:** How damaging would you say the chaos has been so far? Have you had a lot to deal with in the past year and a half, two years?

**Andrew Charles:** We have not had a lot to deal with in the past because we have been in this vacuum of everybody saying we are going through Brexit but we are not; we have not started yet. The reality will be when the quota is removed from European boats and all the really severe consequences that that is going to bring, bad feelings between nations and all that stuff that is going to go with it. That is what we have to manage as smoothly as possible and that is what will make a successful transition, but it is going to be very solid, good and strong governance that is going to guide us through those waters.

**Georgina Wright:** Yes, the freer the trade the better, regardless of the environment, the free trade area. That is what we are looking for. The freer the trade, the better the deal.

**John Anderson:** You are asking about the common rulebook, aren't you? I think, very simply, we need to conform to the EU standards if we want to continue selling our products to the EU. But we were instrumental in establishing those standards as a member of the EU, were we not?

**Christine Jardine:** Yes.

**John Anderson:** Harmonisation is vital, if that is where we do go. There are things like catching export health certificates, heavy administrative burdens that we would have to deal with if we did not have that. That all induces time delays when, particularly for live and perishable product, that is a major concern and something that we would want to avoid. I think it makes sense to agree to the common rulebook.

**Q211 Christine Jardine:** The common rulebook, though, suggests that the UK should be free to determine other rules related to agrifoods, such as on labelling and marketing. Do you think that offers advantages to your sector?

**Andrew Charles:** Labelling is labelling. Whatever the deal is, we will comply. It works both ways. What we need is clarity that these are the rules, this is what is going to be on the label, and when our goods get to the border we are not stopped by a customs person who says, "There is an oval round that number, not a square box". We have to have clear management, "This is what it is going to be", and whatever they want on the label, we will put on the label.

**Q212 Christine Jardine:** You have alluded to that a couple of times—the chaos, managing what is happening. Are you confident at the moment



that that is where we are, that we are getting a clear direction from Government and that you know what to expect?

**Andrew Charles:** We are not getting clear direction from Government. That is what we need, clear direction from Government: these are going to be the rules, this is what we are going to work to, and this is what we are going to have to do. That is what our industry is crying out for.

Q213 **Christine Jardine:** What about the salmon producers? Are they in the same position? Are they afraid that what we are getting at the moment from the Government is just not clear?

**Georgina Wright:** There isn't any clarity. We are quite flexible about labelling. We manage that currently in our system. That area is fine. But it really is the certification process and I would like to go into that detail now.

Currently exporting to the EU, due to the mutual agreements, the product flows. To countries like the US where there is a bilateral agreement, again the product flows. To third countries, there are two sets of certification required. One is a certificate of origin. That, overall, works quite well. That is issued online by a chamber of commerce and it is an electronic system. It works overall and we are working to make that seven days a week. The area where we have the biggest concern is about the health certificate and this is currently produced manually, by hand. In the case of salmon, approximately 50% of our exports are going into the EU and unfortunately neither DEFRA nor our local authorities of Scotland are currently resourced to manage that. We really do require a streamlined, automated system to deal with that.

Q214 **Deidre Brock:** My questions have really been answered by Mr Anderson but just with regard to the UK becoming an independent coastal state once it leaves, when it leaves, the EU, Mr Charles you talked about the possible impact on the Scottish fishing industry and fleet. Could you share with us your thoughts about what is going to happen as a result of the UK becoming an independent coastal zone?

**Andrew Charles:** What we have been told will happen is that all the fish stocks will revert back to the UK Government eventually. I think it is unrealistic to think that overnight all the fish stocks they are taking at the present moment will be taken away from the European fleets. That would bankrupt them, so there has to be a process that is gone through. However, the long and short of it is that for the processing sector, which is what I represent, we have this once in a lifetime opportunity of gaining this huge volume of stock. We have to decide what we do with it. Do we maximise the value of it or do we fill lorries and send that product all over Europe and not get the maximum benefit for our nation? I would like to think that we should be targeting a massive increase in processing of fish, increasing that, maximising the value, employing people.

Then we go to the migration problem. Our industry is highly in need of migrating employment to work these factories. Now we go on to that



## HOUSE OF COMMONS

issue. How do we fill that gap and make all this happen? There are solutions to it all but what we need is Government to solve those solutions, allowing contractors in to make this project happen.

**Q215 Christine Jardine:** One thing I should have asked before was about this restriction with abiding by EU agrifood standards. Could that restrict the UK's ability to strike trade deals with non-EU countries? I am thinking specifically of the US and India. How would that affect you?

**Georgina Wright:** From a salmon farming perspective, we would see them as minimum standards.

**Andrew Charles:** Same.

**Q216 Christine Jardine:** Same? That's fine. Is access to the EU market worth restricting the UK's ability to strike deals with other countries because of the size of that market? Would that be fair to say, or are you less concerned about the other markets? You said that frictionless trade with the EU was more important.

**Andrew Charles:** All markets are very important but if you look at the whitefish sector, the salmon sector and the shellfish sector, there are very few countries we are not doing business with right now, so the standards are there, the market is there, the trading is there. To make that happen from the Government's point of view, once the divorce is there, should be pretty straightforward.

**Q217 Christine Jardine:** The important thing for you is continued access.

**Andrew Charles:** Continue the access. Whatever the rules are, the industry will work round those rules and we will find a way to make it happen.

**Chair:** I can't believe it is over half an hour and we have not heard from David Duguid on the issue of fishing, but that is about to be put right.

**Q218 David Duguid:** Fortunately Mr Anderson, in his opening comments, pretty much answered all the questions I was going to ask, and you too, Mr Charles.

In answer to Ms Brock's question about the impact of leaving the EU, however, Mr Charles, you mentioned the high dependency your industry has on migrant workers. I understand, being the MP for Banff and Buchan, the high dependency on migrant workers in fish processing plants up there, but do you have an estimate of what sort of percentage, what proportion, of your workforce are EU citizens and what percentage of those would qualify for settled status under the rules proposed by the UK Government?

**Andrew Charles:** No, I do not have that information. What I would say is that for many factories, particularly the larger factories, it would be 80% to 85% migrant labour. I look towards what is happening with the situation in the UK and look at the success of the Scottish catching sector and how they have adapted using non-EU labour under contract. I think



this is something that we have to get our heads around, that there is a huge difference between migrant workers coming in, establishing and staying in the country, and contract workers coming in to do a very important job and going back home to their countries with a bunch of money and improving their quality of life and their communities' quality of life. They are two very different issues. We could manage, as an independent country, the migrant and the contracting situation a lot more easily on our own than under EU ruling. If you are taking in contractual workers, you have to do it with a very high social conscience and make sure that there are good places for them to stay, there are good medical care and what have you, but they could be incredibly valuable for making—let's call it Project Fish—the success that we hope it is going to be.

**Q219 David Duguid:** Project Fish. I like that. I am getting T-shirts made. The main question I was going to ask—that was a follow-up from an earlier one and I think this one is probably for Mr Anderson—and I know the answer to it but for the benefit of the Committee, why is the Scottish fishing industry opposed to reciprocal access to fishing waters with the EU being included in a future trade agreement with the UK?

**John Anderson:** I think I have alluded to the answer already but just to reiterate, it is the imbalance that exists between what is caught in our waters by the EU fishing fleet as opposed to what we catch in EU waters. There is a ratio of roughly seven to one there. That is what we are looking to balance up in the trade. Let's just take seafood products alone. Obviously there are trade deficits and surpluses elsewhere, but the trade in seafood products between the UK and the EU is roughly in balance. If you are using one to achieve the other, from the EU's point of view you could say they would obviously want to do that because they would not be giving up anything and they would be achieving the status quo, which to us is highly inequitable.

**Q220 David Duguid:** I think you mentioned earlier that there is no precedent at all.

**John Anderson:** No. We have looked at this. There is nothing that we are aware of. Trade is dealt with with trade in other products; trade in seafood products is dealt with with trade in other types of agricultural products, and goods in general. Fishing negotiations between coastal states happen—certainly between our neighbouring coastal states, Norway, Iceland and so on—annually towards the end of the year. The EU will sit down and negotiate with Norway. We attend those talks and we will sit down and negotiate with Faroe and Iceland. Once all those negotiations have happened, so we know roughly how much quota Norway, Iceland, and so on are going to get, the EU then has their quota and that is when relative stability—this phrase called “relative stability”—comes into play. It determines the allocation of the fishing opportunities within the EU to the individual EU member states. That is the inequitable part we are looking to move away from as a result of leaving the CFP.



**Q221 David Duguid:** You mentioned zonal attachment earlier. Could you explain a little bit more about what that means?

**John Anderson:** I am not a fish-stock biologist but basically it is about the fish within your own waters, in layman's terms. Not for all stocks but for many stocks, particularly the pelagic and demersal stocks, the amount of fish within our own waters is considerably more than we would catch because of what other EU member states' fishing fleets are catching. One of the best examples is perhaps North Sea herring. We have an extremely low quota for that. I think the Dutch and the Danes catch more in our waters than we do. These are the kinds of things—monkfish, saithe, mackerel as well, blue whiting is another good example—where the allocation is completely wrong, based on who is currently doing what. It is not across the board. There are some shellfish—langoustine—we are not going to get a massive increase in our nephrops quota because we catch those mainly within our own waters anyway.

There is a challenge in ensuring everyone would benefit if indeed we do achieve coastal state status and our fishing opportunities are based on zonal attachment, which is by no means given, because it is not the only criterion that they will probably use for determining quota shares once we are out. There are historical track records and all these other criteria that the EU will probably bring into play to try to lower or reduce our argument for achieving quota share. Certainly the zonal attachment argument is something that we are pushing hard because that is what makes more sense to us and that is what will achieve economic benefit for us once we are out of the CFP.

**Q222 David Duguid:** I have two or three very quick questions, if you don't mind answering them quite quickly, because I know everyone else is going to want to ask their questions as well.

We are talking about reciprocal access in the future, some kind of arrangement. How much do Scottish fishing fleets depend on being able to fish in what will become non-UK fishing waters after Brexit?

**John Anderson:** They catch seven times more in our waters than we do in theirs. We catch roughly £100 million-worth. When I say "we" I mean the UK. We catch roughly £100 million-worth of fish in EU waters. The EU catches £750 million-worth of fish in our waters. You can make your own conclusions.

**Q223 David Duguid:** About one-seventh, roughly.

**John Anderson:** Yes, that is the inequitable imbalance that we have and that is what we are looking to address. You can make up your own mind about how important that is. It will be more important for some actors than others. I would not say it is particularly important for the SFO. We do fish in non-UK, EU waters currently but it is not something we are massively dependent on.



## HOUSE OF COMMONS

Q224 **David Duguid:** Two more questions. One is how do you think the UK should control access for foreign vessels in the UK waters, as an independent coastal state, after Brexit? How do you see that happening?

**John Anderson:** That is a difficult question and those conversations are ongoing so I don't really want to say too much on that just now.

Q225 **David Duguid:** I think you did cover this earlier but I want a clear question and answer to this. How important is it that access to UK waters post Brexit does not get conflated with wider market access during the Brexit negotiations?

**John Anderson:** It is imperative.

Q226 **Chair:** Do you trust the Government on this, given their history and record with the fishing industry? We look back to the 1970s, where it was dispensable. We look back to the arrangement for the transition deal, which kept you in the CFP without even being at the top table to decide quotas. The fishing industry, to the UK, is minuscule in terms of other product services. Aren't they just going to trade you away for a good deal for the real things that they are after?

**John Anderson:** I am not going to get involved in the politics.

Q227 **Chair:** You must have concerns about that.

**John Anderson:** Naturally we have concerns.

Q228 **Chair:** When you are observing the way they have behaved and the way that they are currently addressing this, do you not get nervous that they are just going to trade you away for something that is more important to them?

**John Anderson:** We have concerns at various levels with both the UK and Scottish Governments about what their intentions are in relation to fishing and Brexit. All we can do is clearly make the case for what is the best economic outcome for the Scottish fishing industry and that is what we are doing. It is down to the politicians to deliver that.

Q229 **Chair:** Mr Charles, I am looking at what Philip Hammond, the current Chancellor, has said. He is, "Open to discussing with our EU partners about the appropriate arrangements for reciprocal access for our fishermen to EU waters and for EU fishermen to our waters". This is just setting us up for an arrangement where Andy Lebrecht said, "There will be no real difference to the current arrangements". That is where the UK Government are taking us.

**Andrew Charles:** I will get political. I am absolutely terrified about what this Government could do to the fishing industry. What terrifies me is the way that they have treated the processing sector, particularly in Aberdeen. If they were serious that there was going to be a massive amount of fish coming up to our markets, would you not have created an atmosphere that would attract investment into processing and not the other way round? I have huge concerns and that is political, but surely as



## HOUSE OF COMMONS

a nation we should be saying we have this massive opportunity, let's rise above the politics and try to deliver that opportunity for the good of our coastal communities? They have been hammered over the decades and they deserve a chance.

**Chair:** I think we all agree with that.

**Andrew Charles:** They do deserve a chance. To inflict a 40% increase in business rates in one of your fish processing centres of excellence is an absolute disgrace. For the British Government to turn round and do nothing about it, for the Scottish Government to turn round and do nothing about it and for the city council to turn round and do nothing about it is scandalous. It is very worrying what is going to happen when it comes down to our fish stocks.

**Georgina Wright:** From a CFP perspective, it does not impact aquaculture but I think Government must recognise that it is businesses that sell and trade fish, not politics.

Q230 **David Duguid:** I would add a comment to that. I am not going to disagree with Mr Wishart that what happened in the early 1970s under our UK Government was not good for fisherman, but what I would ask Mr Anderson in particular is what would you say—you were not around in the early 1970s either, certainly not as a fisherman, I am guessing—and do you have any feel for how much engagement is currently going on between the fishing industry, the UK Government and the Scottish Government and other Assemblies around the UK, compared with what went on before we decided to join the EEC?

**John Anderson:** No, I couldn't possibly make a comparison with how it was before. All I can say is that we have good engagement with politicians and with high-level civil servants both within DEFRA and within the Scottish Government. We have been able to sit down with the First Minister and the Prime Minister and make our case clearly, outline what it is we are looking to achieve once we leave.

Q231 **Christine Jardine:** I want to say that what you want to achieve and what you are looking for is quite clear. You have made it quite clear today. However, I get the impression that the message you would like us to take away from this is that you would like some clarity coming the other way from the Government and some commitment to a clear policy, particularly with regard to fish processing, so that you can plot the way ahead.

**Andrew Charles:** Absolutely. On your comments on management prior to the EU, the industry was crisis managed prior to us joining the EU. Fish were taken out. There was a quota, or a level of fish was discussed, and then the boats went and got on with it and they just fished and nobody was really committing to putting a huge amount of money into the science and very tightly managing the quotas. It was a very loose situation and when the boats overfished haddock and the haddock stocks went down, the boats went bust, the number of boats dropped, and it



## HOUSE OF COMMONS

was crisis managed. What we have had over the last 10 years, I believe, is the finest-managed fishery we have seen in my lifetime, and it is working.

Q232 **Chair:** So the EU brought order to fishing.

**Andrew Charles:** We were dragged, screaming, let's be honest. We were dragged, screaming, and the investment in the science, the investment in everything that went into turning this industry around has been a huge plus.

Q233 **Chair:** We never hear about that. All we ever hear about is the EU's thoroughly bad policy; we have to get out.

**Andrew Charles:** You are hearing it from me today.

**Chair:** It is the only thing that will rescue, save, our fishing industry.

**Andrew Charles:** Well, it is the truth. We have had 10 years of growth in our industry, on the catching side.

**David Duguid:** It is also worth commenting that the Scottish Government and successive UK Governments have had an influence at EU level with regard to the CFP and the sustainability of stocks. Would that be a fair assessment? Over the last 10 years the UK Government, being part of the EU, being a key player in the CFP, have had an influence in that improvement in management of stocks.

Q234 **Christine Jardine:** Would it not be a good idea to keep that influence at the top table in the EU, on the management of fishery stocks, management in the way that you describe over the last 10 years, rather than walk away and leave it to other people?

**Andrew Charles:** The bottom line is that we are facing a divorce. We have no choice about it.

**Chair:** We will leave that there because we are drawing you into a political discussion.

Q235 **Deidre Brock:** Someone on the previous panel said that no one in the food and drink industry had really believed that a no-deal scenario would be allowed to happen but then about two to three months ago that possibility became much more real and they are starting to put in place more preparations with regard to that. What contingency plans has the fisheries sector been making for the event of a no-deal outcome in the Brexit negotiations, and of course aquaculture as well, Ms Wright?

**Georgina Wright:** From an aquaculture perspective we are very dependent, in the case of no deal, no transition period, on local authorities and DEFRA improving their current procedures.

Q236 **Deidre Brock:** Could you give an example?

**Georgina Wright:** With regard to the health certification that I referred to, when you look at the sheer volume of salmon that is being exported,



## HOUSE OF COMMONS

it would more than double their workload and they are currently not resourced to manage that.

Q237 **Deidre Brock:** Is that your main concern?

**Georgina Wright:** That is our key area of concern.

Q238 **Deidre Brock:** Mr Charles?

**Andrew Charles:** As a processor, absolutely it is key. But I also want to say that somehow or other we have to manage these borders to make sure that if we revert to the rules, whatever they are, we will manage it, but we cannot manage chaos and we cannot manage anarchy. That needs strong governance to see what the consequences are for the other nations if they do not like what happens in the no-deal Brexit situation, which would be all the quotas would be taken back to the UK and there would be serious consequences for the foreign boats. There would be a lot of bad feeling, so we have to manage that.

**John Anderson:** There are two sides. There is the catching side and there is the trade side for the catch. A no deal is probably quite closely aligned to what the catching sector is pushing for, because what would happen, if we were walking away with no deal, is there is no agreement at all about access or anything as part of the Brexit negotiation settlement itself. Everything would just revert to coastal state and annual negotiations, so roughly that is what would happen.

On the trade side, it has bubbled up to the surface over the last couple of months, where it is, "What do we do in the event of a no deal?", because it is becoming a real prospect. We have been talking to the Scottish and UK Governments about what we are going to do. They have been coming to us saying, "You need to give us advice. You are the experts", and so on. I believe there is going to be a technical paper published next week by the UK Government—perhaps even today—and it is going to give advice to businesses on how to respond if there is a no-deal scenario.

DEFRA established the Seafood Business Panel over the summer. There has been one meeting of that, just talking about practical issues and how businesses can respond, so that is obviously feeding into the guidance. The Scottish Government have been a little bit behind the curveball on that, perhaps for political reasons, but I think they are setting up a similar working group to initially help work through some of the worst case—

Q239 **Deidre Brock:** When you say "political reasons", what do you mean by that?

**John Anderson:** I think there has been a lack of engagement in comparison to engagement with the UK Government and the Scottish catching sector on what we need to try to achieve with Brexit until recently. That is an honest opinion that I have and many of my colleagues within the Scottish industry would probably share that.



## HOUSE OF COMMONS

However, that has changed and there is better engagement now and they are working closely with Scottish Government officials on this and other things. There is a lot still to work through. We do not know exactly what is going to happen, but we need to plan for the worst-case scenario, absolutely, and there are a number of things—

Q240 **Deidre Brock:** But is it the worst-case scenario or the best-case scenario from your point of view?

**John Anderson:** I am talking about the trade side and the non-tariff barriers. These are the things that we need to work through in detail and understand what it means in reality. If there is no deal, how are we going to get all our product into the EU and are we going to be facing significant time delays? What about all the catch health certificates and certificates of origin? How are the haulage guys going to change their practices and all that kind of stuff? We need clarity on that. We need to work through it and we need to be ready. We are not yet.

Q241 **Deidre Brock:** How long do you think it will take to get the industry ready? I know it is, “How long is a piece of string?” but what you have just described there sounds enormously complex. How is this going to be managed, given the fact that you too have now said that it is really only in the last two or three months that a no-deal scenario has become a realistic prospect?

**John Anderson:** I did not say it had become a realistic prospect. It has become something that people have been talking about as more of a likelihood. It is for others to comment on how realistic it is or not. I do not know, but certainly we need to be working more closely with our Governments to ensure we are as ready as we possibly can be on this. How much resource is required? I would anticipate we would need quite a bit of resource to be ready if there is a no-deal scenario, which is by no means certain.

Q242 **David Duguid:** It is often said to me by fishermen that a no-deal solution is the best option but that is just in terms of coming out of the CFP. There is no need for a transition period because there is no change in processes or rules or policies. You become an independent state like Norway or Faroes and you come to the table like one of those, so nothing really changes there.

**John Anderson:** In essence, yes.

Q243 **David Duguid:** But obviously there is a wider supply chain to consider, as you have alluded to. Maybe this is a question for Mr Charles rather than yourself, Mr Anderson, but what would be the impact of the WTO tariffs on the fisheries industry?

**Andrew Charles:** I think tariffs can be managed. It is: what are the rules? You make the rules, you make the tariff and we will make it work.

Q244 **David Duguid:** So as long as you know what the rules are—



## HOUSE OF COMMONS

**Andrew Charles:** As long as we know what the rules are and we have clarity, but remember, twice as much comes in than goes out, so the important thing to me would be where does the tariff money end up? If the tariff money ends up being filtered back to assist the industry, that would be a plus.

Q245 **David Duguid:** We were talking in our previous evidence session, where it was, in my view, speculated that the introduction of tariffs with the EU could force the fish processing sector in Scotland to relocate to the EU to maintain zero tariffs. Have you seen any evidence of businesses in fish processing in north-east Scotland in particular making such plans?

**Andrew Charles:** I have seen evidence of fish being displaced because of the increase in business rates.

Q246 **David Duguid:** To Humberside, for example, or elsewhere in the UK or into the EU?

**Andrew Charles:** To Holland and France where fish is being processed outwith Scotland now, because we are becoming inefficient. I think the same thing would happen with a European processor who gets whole fish without tariff compared to having to pay tariff; they would essentially buy the non-tariff product. I think under the scenario of no deal, they are not going to have a choice. They are going to have to buy the fish with the tariff if their boats have no access to our waters.

It is unlikely, but once you start making fish processing inefficient by having very high energy costs, very high water costs, very high effluent costs, very high business rates, you are going to drive that processing sector out of where it is. They are going to go and find somewhere where they can do it a lot more efficiently than they can do it at the moment.

It is galling when you have such a geographical advantage. We have Peterhead there feeding fish into Aberdeen, feeding fish into the north-east, geographically superbly placed to serve the market, and I am seeing truckload after truckload of fish being loaded up with whole fish and being sent over to the UK and Europe.

Q247 **Chair:** Just on that, I think Mr Duguid is referring to evidence from Kristen Hopewell from Edinburgh University, who took the example of Norway, which was outside the single market and outside the customs union. They were facing fish export tariffs between 2% and 5% and lots of the Norwegian processing industry was relocated to Poland in order to be part of the single market and customs union. Is that something you fear might happen to the Scottish processing sector if we do find ourselves with these tariffs that we have to confront?

**Andrew Charles:** It has happened with business rates. Why wouldn't it happen with tariffs?

**Georgina Wright:** Whole salmon carries a 2% tariff, but further processed smoked salmon carries a tariff of 13%, so there would be the



## HOUSE OF COMMONS

potential for a knock-on effect down the value chain in Scotland and in the UK.

**John Anderson:** Like I mentioned, we have our own langoustine export business. We would be faced with, in the event of a no deal—reverting to WTO tariffs—15% on langoustine. We have looked at that. Obviously we do not want that but we would be able to absorb it. There I think our concern is that non-tariff barriers—

Q248 **Chair:** Is this where the sea of opportunity becomes particularly stormy and perhaps starts to dry up, and we are faced with a situation where you get control of your coastal waters and all of sudden you find yourself with no deal, out of the European Union and with an inability to sell or trade with tariffs that are almost astronomical?

**John Anderson:** The sea of opportunity is a very big arching sector, so you are repatriating your seafood capital, your seafood resource. It does not extend to trade, so there are risks and there are opportunities resulting from Brexit for the fishing industry. It is not all gain and it is not all loss; it is about managing the risk and maximising the return.

Q249 **Chair:** We do not hear all that much about the loss side when we speak to the fishing industry. Very often, particularly with the catching side, we only talk about the huge opportunities that you have.

**John Anderson:** The opportunity depends on how you do your analysis, but if you just apply tariffs across the board, an analysis has been done by the Scottish Government. They are looking at additional costs of about £40 million. Your potential value increase by achieving a zonal attachment quota would be 10 times that.

Q250 **Christine Jardine:** I have spent a lot of my life in the north-east, so I know a wee bit about the fishing industry, but not anything like the expertise David has. Something that struck me when you were talking about the fish processing sector moving, if we were to be in control of all our own waters and increase the fish we are catching, if there is no processing industry and there is no seamless trade with Europe, will the catching and the number of fish landed not be almost immaterial?

If we land as many fish as you want, if there is no way of processing them in this country, there is no frictionless trade with the EU, where are they going to go? What is going to happen to them? Does it not all have to be joined up? Do we not need something that ensures there is a processing industry and seamless trade with the EU? Fixing the quotas in isolation isn't going to help the fishermen if the other parts of the jigsaw are not there.

**Andrew Charles:** Are you suggesting there would not be any exporting?

**Christine Jardine:** I am talking about the situation with fish processing if we go on to WTO rules. We could have a situation, as has been described in Norway, where fish processing goes into the single market to



## HOUSE OF COMMONS

have access to the fish. What happens to fish that are landed in this country if they are faced with WTO tariffs and there is no frictionless trade with the EU? I am trying to look at this from the ordinary person on the street's point of view. They will be asking, "If you land all that fish, who is going to process them easily, quickly, before they rot?" Do you need all of the pieces of the jigsaw to be in place?

**Andrew Charles:** You do need all the processes there to be in place. What you are suggesting doesn't—

**Christine Jardine:** It is a worst-case scenario.

**Andrew Charles:** If what you are suggesting is we wouldn't be exporting anything, the market for seafood in the UK is £6 billion, of which we take in £3 billion, so there is a market there.

Q251 **Christine Jardine:** But if the fish processing is relocated to the single market, is that an issue or is that—

**Andrew Charles:** The processing sector would not relocate to the single market if it was not going to get supplied.

Q252 **Christine Jardine:** That is the answer to it; that is what it needs?

**Andrew Charles:** Yes.

**John Anderson:** I think the point you raise about lack of onshore processing facilities given a significant uplift in fishing opportunities coming into the UK is a good one. It is something that has been raised and there is work ongoing or there will be work starting to look at how we can beef up the processing and the onshore side of things to match this increased supply. The Sea Fish Industry Authority is doing some work and Seafood Scotland is working with them on that. It is a good question and it has been considered. It is something that we are looking at, but there is not too much we can say on that at this stage.

Q253 **David Duguid:** I wanted to go back into a part of the question I asked earlier, which I am not sure was entirely answered. Mr Charles, you mentioned that processing businesses are already moving to the EU because of the business rates issue. I think that is something that needs to be examined.

**Andrew Charles:** It is not so much that businesses are moving, the product is moving.

Q254 **David Duguid:** The product is moving? All right, so the product is moving to be processed further elsewhere, got you.

**Andrew Charles:** There are competitive companies out there that are highly efficient to fill orders with whole fish and take them into Europe for processing, rather than process them in Scotland.

Q255 **David Duguid:** It is not the actual businesses that are moving from Scotland to the EU. They will still be in business, but they will be less—



## HOUSE OF COMMONS

**Andrew Charles:** You do have smart processors that have European facilities.

Q256 **David Duguid:** Yes, but you mentioned that this is already something that has happened because of the business rates issue.

**Andrew Charles:** Not specifically business rates—it is about the running costs. It is about making sure that we have a very efficient platform. If we have the efficient platform, we attract the investment and then we keep growing business, but the discussion about the business rates and businesses moving was about tariffs. The higher you make tariffs, the higher you put up business rates, the more inefficient we become, the more business we lose to our competitors.

I think you asked the question about prawns. We all knew the headlines when prawns were being frozen in containers and taken to China for processing and taken back into the UK, where they are scampi. We know that story. That is the consequence of not having an efficient processing base that attracts investment into the UK. We have our own prawn peelers, our own contract employment, our own breeding machines, our own value and our own booming communities, but there doesn't seem to be the will of Government to make that happen and it is frustrating.

Q257 **Danielle Rowley:** Just focusing on non-tariff barriers, could you dig a bit deeper into specific examples of how the industry might be affected in the event of a no-deal Brexit, looking at non-tariff barriers? You mentioned before, Mr Anderson, about customs delays and perishables and the effect that that might have. It is something the previous panel mentioned as well. How would that specifically affect the fishing industry?

**John Anderson:** There are various non-tariff barriers. You have certificates of origin, health certificates, catch certificates, processing certificates, post-take control certificates, haulage permits, and there are additional rules around live shellfish exports as well with UK Government accredited status. Delays from any issues varying those requirements when we are talking about a just-in-time product are potentially significant, even more so with the smaller operators, who could not really absorb one or two lost shipments or whatever else.

Also there is a regulatory cost with no deal. You would need to pay for certificates of origin and environmental health certificates per shipment. You don't have to do any of that just now, so there is just a lot of regulatory burden. With the issue with the health certificates, some would suggest there is going to be an administrative backlog, because there are not the resources to go around and issue all these certificates and so on. Processes and procedures need to be put in place to prepare for that eventuality. That is what I was alluding to before, where there is a lot more work that needs to be done to ensure that we are ready for that scenario. We do not know that we are in that scenario yet, but it is responsible to prepare for that eventuality.



## HOUSE OF COMMONS

**Georgina Wright:** I would add to that clarity and confirmation on the border checkpoints at the point of entry. France is our main access route into mainland Europe and probably about 90% goes through the tunnel.

Q258 **Chair:** 90% through the tunnel?

**Georgina Wright:** 90%. The boats are used as additional.

Q259 **Chair:** Is that a time and speed-related issue?

**Georgina Wright:** Yes, and access.

Q260 **Danielle Rowley:** To quickly focus on geographical indicators specifically looking at Scottish salmon, how well have GIs protected and promoted Scottish salmon?

**Georgina Wright:** They will sell Scottish salmon anyway, but provenance and a PGI is very important to our product, so we would be looking for a UK GI that has a reciprocal arrangement with the EU for recognition. Scottish farmed salmon is a well known and well received PGI.

Q261 **Danielle Rowley:** Do you think that there are alternative ways of protecting it?

**Georgina Wright:** We believe there are, yes.

Q262 **David Duguid:** Ms Wright, I have kind of neglected you in my questioning, because I tend to focus on the offshore fishing sector. On the subject of salmon, is there an added quality seen from sea-caught salmon rather than farmed salmon? In the rest of our markets, for example, is there more of a quality seen from a sea-caught salmon than one that is caught in a farm?

**Georgina Wright:** The farmed salmon is raised in the sea. If you are referring to wild-caught salmon, the volumes are very small and unavailable in the retail sector. But Scottish salmon itself is perceived as the best quality in the world.

**David Duguid:** I will take that.

**Chair:** We are all agreed, yes.

Q263 **David Duguid:** This is for anyone: does Brexit provide an opportunity to increase fish exports with non-EU countries and, if so, what needs to be done to maximise this opportunity?

**Georgina Wright:** I will go first. We are exporting to over 55 countries and approximately 50% of that is EU, 50% non-EU. We are seeing consumption growing across the world. The biggest growth of consumption area is the USA, China and Asia. It is to facilitate. We are looking, as I mentioned earlier, to carry on the legacy created, but also continue to work on new ones. There is some work going on with that and the industry would like to be involved in that consultation process with those trade agreements.



Q264 **David Duguid:** What about for other seafood products, Mr Charles?

**Andrew Charles:** There is obviously massive opportunity in going to countries, but many are already being supported and that market is going on. The concern is that if we have a multi-agreement in Europe and we face this collision Brexit, will the systems be in place to be able to continue access to those countries? Maybe some of those countries might not want our product in because it might compete with product they have, so it could have a negative effect if we are not up to speed and we do not have those agreements in place. I think that the Government have to have individual agreements instead of one agreement. That would be a concern, if there was any damage done, where we would go from a position of having access to not having access to those countries.

Q265 **David Duguid:** If current trade deals with non-EU countries replace the potential loss—because I do not think anybody expects there to be a complete and utter loss with market access to the EU—is there enough confidence in export markets, whether it is salmon or seafood products, to weather the storm?

**Georgina Wright:** It is an opportunity. The sales are there and they are going to increase.

**Andrew Charles:** I think if you look at Russia shutting the door on pelagic, the Scottish industry was very successful in finding—

**David Duguid:** I think it took about nine months to replace that market.

**Andrew Charles:** This is where I go back to if we have clarity, clear management and a structure, we will manage our way through anything.

**John Anderson:** We are already actively trying out more seafood products in various non-EU countries. Seafood Scotland is active in America, Asia, the Far East and so on. I guess you cannot stop supplying one market and expect to take all that supply straight into another market and achieve the same price point and so on. That would take some time to try to achieve and it all depends on the product and the consumer preferences around the market that we would be looking to substitute into. There is definitely opportunity, but swapping from one market to another would not all necessarily be plain sailing.

Q266 **David Duguid:** How well, in your opinion, do the UK and Scottish Governments co-ordinate their trade promotion activity? Is there scope for improvement and what should we do to improve that?

**John Anderson:** I do not know if I know too much about it, but not particularly well. It was interesting hearing James Withers in the earlier session talking about the UK Government blaming Russia, was it, over devolved efforts to promote national product. There is the Seafood is Great campaign, but from where you are sitting, you do not have too much involvement or focus in that, although obviously anything is



## HOUSE OF COMMONS

welcome, but Scottish seafood exporting businesses go through Seafood Scotland and Scottish Development International.

The Sea Fish Industry Authority does some export promotion, but it is limited in what it can do because it is not allowed to promote to the Scottish or the English or whatever. That is because of how the Seafish levy is derived. It comes 80% from imports, which was a real bone of contention for quite some time. Seafood Scotland used to receive funding from Seafish to assist with exports, but the majority of the money came from the European Maritime Fisheries Fund, the EMFF. Seafood Scotland, because it was an IBO—inter-branch organisation—under the common fisheries policy received 100% to cover its export activity.

If we are leaving the EU, then that is going to come to an end. I think funding under the EMFF has been guaranteed up until 2020 but then we are facing a bit of a funding black hole for export promotion beyond that. Some real thought needs to go into that from the various Governments about how we are going to fund and promote Scottish seafood post Brexit. That is something that we are looking at within Seafood Scotland. We are looking as well at examples of best practice elsewhere around the world. The Norwegian Seafood Council does things particularly well. We are not saying that would work for us necessarily, because that is based on a levy. There is already a levy that goes to Seafish but they can't promote Scottish. Certainly there needs to be a lot of thought going into it.

We are not just going to be a member state under the common fisheries policy, we are going to be a coastal state. We want to step up and improve our marketing efforts to be more closely competing with the likes of the Norwegians, clearly not on the same scale but certainly that is the direction of travel we are going to go in. We need to beef up our marketing efforts to go along with that.

**Q267 David Duguid:** I want to give the rest of the panel the opportunity to answer the same question about the co-ordination between the UK and Scottish Governments on creating promotion.

**Georgina Wright:** We see a strength in the combination of both Seafood Scotland and Food for Britain. As an industry, we will use both to facilitate trade expansion.

**Q268 David Duguid:** Is there any scope for improvement at all you would like this Committee to take away to recommend to the Government on that?

**Andrew Charles:** Our associations thought there should be a look at Seafish and the way that the money is distributed. I do not think you should be ashamed of taking a levy on a product and using it to promote your national product, wherever it comes from. We fully support pushing and promoting a Scottish product on the caveat it does not damage an English product or a Welsh product. We are a British nation and anything



## HOUSE OF COMMONS

to improve everybody's whack would be welcome and any further funding coming from any resource would be hugely welcome in our sector.

**Chair:** On that note of cross-border solidarity, we are going to have to call this session to a halt, but thank you ever so much. We are imminently back on to the next exciting episode of Brexit-related fun, but thank you very much for your contributions today. If there is anything that you feel you could usefully contribute to this inquiry, please send it in. Thank you.