

## Scottish Government (ABR0052)

This is the Scottish Government's response to the call for evidence sent by Lord Teverson on 15 February 2017. The Scottish Government is grateful for the opportunity to provide evidence not because of what Lord Teverson described as "the differences in the natural environment and the farmers who farm it" but simply because agriculture is a wholly devolved matter and we may have different views to offer to other devolved administrations, that reflect Scotland's agricultural interests.

The Committee will be aware that on 20 December the Scottish Government published the document *Scotland's Place in Europe*<sup>1</sup>, which sets out our proposals for maintaining Scotland's relationship with Europe and also provides options for the UK Government to consider if full EU membership is not possible. The paper sets out that the UK as whole should remain within the European Single Market through membership of the European Economic Area (EEA) and within the EU Customs Union. However, in the case that the UK Government opts to leave, which it has signalled it will do, the paper also sets out the detail of a differentiated approach which would allow Scotland to retain European Single Market membership, as part of the UK.

These options represent a compromise in that they aim to protect Scotland's position – and reflect the fact that 62% of people in Scotland voted to remain in the EU - whilst respecting the result of the EU referendum in other parts of the UK. Three months after the Scottish Government published its proposals, we still await a response from UK Government.

The differentiated approach proposed by the Scottish Government has cross-party support in Scotland. In its *Determining Scotland's future relationship with the European Union*<sup>2</sup> report published on 5 March 2017, the Scottish Parliament Culture, Tourism, Europe and External Relations Committee called for a bespoke solution that reflects Scotland's majority vote to remain in the European Single Market and said that EEA membership should be explored with the EU 27 as part of the negotiations ahead, before and after the triggering of Article 50. The Committee also found that while there are no direct precedents for achieving a solution of this nature, it agreed that a variety of differentiated arrangements already exist and a bespoke solution for Scotland could be found. Furthermore on 17 January, the same day the UK Prime Minister gave a speech setting out the twelve principles informing the UK's approach to withdrawal from the European Union, the Scottish Parliament agreed a motion calling for Scotland's place in the European Single Market to be protected<sup>3</sup>.

In a statement<sup>4</sup> on 13 March the First Minister of Scotland confirmed that the Scottish Government will continue to do all it can to protect Scotland's interests during the UK's negotiations to leave the EU, including taking the steps necessary to make sure that the people of Scotland are able to exercise the right to choose their own future.

---

<sup>1</sup> <http://www.gov.scot/Publications/2016/12/9234>

<sup>2</sup> <http://www.parliament.scot/parliamentarybusiness/CurrentCommittees/103798.aspx>

<sup>3</sup> [http://www.parliament.scot/Chamber\\_Minutes\\_20170117.pdf](http://www.parliament.scot/Chamber_Minutes_20170117.pdf)

<sup>4</sup> <http://news.gov.scot/speeches-and-briefings/first-minister-speech-1>

The detailed arrangements for a referendum - including its timing - should be for the Scottish Parliament to decide. The next two years are hugely important. They will determine what kind of country Scotland will be – so the people of Scotland should have the final choice on our future, once the terms of Brexit are clear.

In response to the specific questions set out by the Committee for consideration as part of the Brexit: Agriculture inquiry the Scottish Government responds as follows:

**Question 1: What are the implications of withdrawing from the Common Agriculture Policy for your farmers and rural communities?**

Exit from the EU entails a number of risks and threats to which rural Scotland is particularly vulnerable:

- It is estimated that in Scotland around 8,000 people employed in the food and drink growth sector are non-UK EU nationals and up to 15,000 non-UK seasonal migrant workers are employed in the soft fruit and vegetable sectors for harvest in summer and autumn. The rural economy as a whole relies heavily on the free movement of people to make sure Scottish businesses can employ the workers they need. It is unlikely that this reliance could be successfully mitigated by substituting in future with local labour, as rural populations are ageing and in certain areas declining. Demographic change and the rural workforce are two of the reasons why Scotland needs movement of people.<sup>5</sup>
- Consistent with the undertakings given during the EU referendum, the UK Government should commit to match the EU funding that is currently allocated to Scotland, that is that year-on-year Scotland should receive its fair share of rural funding equivalent to EU funding which will be lost. Following Brexit Scotland would stand to lose EU funding towards CAP direct payments, market measures, the rural development programme and new research proposals beyond Horizon 2020. The UK Government has given some short-term assurances: It has guaranteed that Scotland will receive the same level of funding that it would have received under Pillar 1 of CAP until end of the Multiannual Financial Framework in 2020; and that all Scottish Rural Development Programme (Pillar 2) contracts entered into before the point that UK leaves the EU (which is still an undefined date) will be guaranteed, even when those payments continue beyond the EU exit point. The Scottish Government welcomed this and has committed to pass this funding on in full to the beneficiaries. However, beyond these limited, short-term assurances, the UK Government has given no indication at all about future funding. This continued uncertainty could have a devastating impact on farmers and communities across Scotland, who heavily rely on this investment and need to plan beyond the short term. Without the vital support that CAP provides, the rural economy would shrink.

---

<sup>5</sup> <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-projections/sub-national-population-projections/2014-based>

- Retaining tariff free access to the European Single Market is crucial to sustainability and growth in the rural economy. The European Community continues to be Scotland's top food export market and this trade creates a virtuous, mutually beneficial relationship for our food producers. Should the UK fail to reach agreement with the EU and the many countries with which the EU has trade agreements, and fall back to trade under World Trade Organisation terms, this would entail significant risk for sections of Scottish agriculture, such as cattle and sheep, as – like most of Europe - we currently produce at prices above the world market price, but are protected by the EU Customs Union external tariffs. The alarming consequences of this are further explored in the response to Question 5.
- EU regulatory regimes, enforcement and legislative frameworks help protect workers, the environment and create a level playing field for Scottish businesses operating in Scotland and abroad. For example, our application of EU regulations guarantees the provenance of our seed potatoes, enabling their export internationally. Producers see that these regulations far from being “red tape” are proof of quality and necessary for access to export markets. Beyond the importance for trade, regulatory regimes on food safety, animal and plant health are essential for protecting Scotland's consumers and environment, and enabling mutually beneficial technical and scientific cooperation.
- Exiting the European Single Market will also jeopardise Scotland's research and innovation activities, a fundamental driver of long-term competitiveness and sustainable and inclusive growth. Strong relationships with other EU countries, including the ability for researchers to collaborate and students to participate in exchange schemes, are a central part of these activities.

**Question 1a: Are these implications unique, compared to other parts of the United Kingdom?**

Rural Scotland is extensive, covering 98% of the land mass of Scotland and home to around a fifth of Scotland's population. Because of Scotland's geography, its remote rural areas face particular difficulties. These include a lower birth-rate than the rest of the UK and a very high proportion (85%) of agricultural land classed as Less Favoured. Quality of life there can be good, but these areas face serious economic challenges. The mainstays of the rural economy and vital to its success are the traditional land-based sectors such as agriculture, crofting, food and drink and forestry.

These are all sectors with very strong links to the EU, and the impacts of leaving will have a disproportionate impact in terms of losing access to the European Single Market (food and drink exports are four times more important to the Scottish economy than for the UK as a whole), workforce challenges and loss of tariff protection from non-EU countries.

In terms of EU funding, where Scotland currently receives 16.5% of the UK's CAP allocation reflecting the importance of agriculture to the rural economy, moving to a

population share of this essential support could result in Scotland losing around half the current CAP allocation.

These impacts are in addition to those highlighted in the evidence previously provided by the Scottish Government on the critical importance of fisheries, aquaculture and other marine interests in supporting economic growth, and providing long-term quality employment, in Scotland's rural and island communities. Scotland's aquaculture industry, for example, is projected to be worth over £2 billion and will support 10,000 jobs annually by 2020, with significant further potential. Scottish salmon is the UK's second largest food export, with Europe accounting for 40% of such exports. The imposition of barriers to trade with the EU not only jeopardises the growth potential of the industry, but would also be hugely damaging to the often remote and deprived communities which depend on the industry.

## **Question 2: To what extent do your farmers and the rural communities depend on funding from Pillar I and Pillar II?**

CAP provides vital support for the Scottish agriculture sector and rural communities. Between 2014-20 Scotland will receive €4.6 billion from the EU (€3.7 billion for Pillar 1 and €840 million for Pillar 2), equivalent to around £500 million per annum.

Scottish agriculture is more heavily reliant than the rest of the UK on CAP funds and support payments account for around two-thirds of total income from farming in Scotland.<sup>6</sup>

The nature of Scotland's topography and quality of land limits the choices available to farmers and crofters. Scotland's agriculture sector is very diverse, ranging from vegetable and soft fruit production on high quality farmland in the lowlands, to extremely extensive livestock farming in the Highlands and Islands. However, most Scottish farm businesses have limited ability to adapt their business model to changing circumstances, because their options are heavily constrained by land quality. Income support is therefore crucial, especially for fragile farming businesses in remote and constrained areas.

With around 85% of Scotland's agricultural land classified as Less Favoured, compared to only around 15% Less Favoured land in England, it is clear that Scotland has different needs which result in a different set of priorities: for example, maintaining extensive hill farming in remote locations to prevent land abandonment, as well as a crofting system that positively contributes to the sustainability of rural communities. The degree of reliance on support varies between sectors and is greatest in the sectors which are most important in terms of sustaining fragile rural population and the environmental benefits of extensive farming. Agricultural support, including income support payments, must be able to continue as farming in the remote areas will not be able to survive without them, with resulting damage to the rural communities that depend on farming and crofting.

---

<sup>6</sup> <http://www.gov.scot/Publications/2017/01/1031/0>

As the Scottish Parliament Culture, Tourism, Europe and External Relations Committee commented on 5 March:

- *“There is a very significant risk to EU competitive funding streams, agricultural support and structural funding in Scotland following withdrawal from the EU. In relation to agriculture and structural funding, it is not yet clear whether the UK Government will continue to provide funding in these area-based policies to the same extent as the European Union did. Any move towards a territorial funding framework within the UK that is based in population share rather than the allocation system currently in use would see Scotland’s agricultural sector, for example, lose hundreds of millions of pounds”<sup>7</sup>.*

The Scottish Government also notes that concerns about the impact on agriculture of a loss of EU support, combined with trading under WTO rules, are not limited to Scottish stakeholders. As reported in the House of Commons International Trade Committee’s report *UK trade options beyond 2019*:

- *We also heard that the consequences would be significant for British agriculture. The National Farmers Union told us: “The impact assessment produced by the University of Wageningen shows that under this scenario [WTO rules alone] with the full abolition of direct support, farm incomes would fall on average by €17,000 [per year]”<sup>8</sup>*

**Question 3: From a devolved perspective, should the CAP be replaced with a UK-wide framework policy for farming to harmonise regulations and the market for agricultural goods?**

No. Agriculture and rural policy are fully devolved areas and the Scottish Government must retain its powers to manage policy and determine funding levels appropriately.

We agree absolutely with the Scottish Parliament Culture, Tourism, Europe and External Relations Committee that:

- *“It is vital that there is clarity on policy functions that are repatriated from the EU and the funding that is provided to them. We believe that any power currently a competence of the EU that is to be repatriated after Brexit and which is not currently listed in schedule 5 of the Scotland Act 1998 should be fully devolved, alongside a funding mechanism, resulting in no detriment to Scotland.”*

The UK leaving the European Union will mean the repatriation of EU competencies. For Scotland, competence will automatically transfer in areas for which the Scottish Parliament is wholly or partly responsible, such as agriculture, fisheries environmental policy and justice.

---

<sup>7</sup> <http://www.parliament.scot/parliamentarybusiness/CurrentCommittees/103798.aspx> page 5

<sup>8</sup> <https://www.publications.parliament.uk/pa/cm201617/cmselect/cmtrade/817/817.pdf> page 44

There can be absolutely no question of the UK Government attempting to reserve powers currently devolved and the Scottish Parliament would not consent to such proposals. If there is a need to develop a common UK framework in specific areas of policy, this can be achieved through agreement and negotiation.

Whatever the eventual relationships between the Scotland, the rest of the UK and the EU, 'Brexit' also alters the fundamental basis for the current devolution settlement.

As the First Minister stated on 13 March, the Scottish Government is determined to continue to pursue all options to protect our interests in Europe, whatever our future relationship with the EU. With EU membership, participation in the CAP would bring certainty for the vital funding that many Scottish farmers depend upon.

**Question 4: To what extent should the UK, and the Devolved Administrations, preserve or align the regulation of agriculture and farming to that of the EU, for example in relation to GMOs, pesticides and animal welfare?**

By remaining in the European Single Market we can help influence the development of high standards across a wide area, allowing better environmental outcomes that benefit society as a whole by removing the pressure to compete in tradable sectors by lowering standards.

Food safety standards and the use of Genetically Modified Organisms are currently regulated at EU level. Given that we expect the EU to remain one of our biggest trading partners post-Brexit, a consistent approach to food safety standards and GMOs will be vital. It is also essential that our high standards of food production and animal welfare, and rules on the use of GMOs, continue post-Brexit in order to protect the clean, green status of Scotland's £14.3 billion food and drink sector.

The marketing and use of plant protection products (pesticides) is regulated for a number of reasons, including to protect human health, the environment and food safety and to ensure tested and authorised products are available to farmers. Adopting the EU's regulatory regime would minimise the risk of reducing pesticide availability in Scotland unnecessarily, and the risk of barriers to trade in foodstuffs produced using pesticides.

It will also be important that future rules governing plant and animal health, which permit trade in live plants, animals and plant and animal products, do not jeopardise Scotland's plant and animal health status. Scottish products generally compete on international markets on the basis of their quality, and high health status is an important element of this.

**Question 4a: The Government has announced it will carry over existing EU law where practical and appropriate in the Great Repeal Bill. Are there areas of current EU law affecting agriculture that you would like to see included in that Bill? Conversely, are there areas of current law that should not be preserved?**

The Scottish Government is considering the legislative implications of EU exit in relation to devolved matters. In doing so it will seek to discuss plans for the Great

Repeal Bill with the UK Government as they develop, in line with well-established practice for Westminster legislation, although to date little information about the scope and content of the Bill has been shared.

If, in light of those discussions and the discussions on the proposals included in *Scotland's Place in Europe*, the Scottish Government agrees that the Great Repeal Bill should include areas within devolved competence or changes to the powers of the Scottish Parliament or Scottish Ministers, the legislative consent of the Parliament will need to be sought in the normal way.

**Question 5: How important is trade with the EU in agricultural goods? What are your priorities for a trading relationship with the EU in the context of Brexit?**

Trade with the EU is undoubtedly valuable to our burgeoning food and drink exports. These are approximately four times more important to the Scottish economy than for the UK as a whole and this indicates the impact future trade arrangements with the EU and non-EU countries are likely to have on our food and drink sector.

Scotland's interests are best protected by maintaining our relationship with Europe and by staying in the European Single Market and the tariff-free access it provides for our food and drink exports. The European Single Market has removed barriers to trade and opened Scotland to a market of over 500 million people and 21 million small and medium-sized enterprises<sup>9</sup>. Businesses selling in the EU have unrestricted access to these consumers, helping them to stay competitive. As a result, Scotland's exports to the EU are now worth more than £11.6 billion a year, or 42% of the country's total international exports. The Scottish Government is looking to secure the benefits from the European Single Market and free trade across the UK.

The 60 EU Free Trade Agreements (FTAs) give preferential tariffs and reduce costs to exporting businesses through harmonised regulations, for example sanitary and labelling standards and bottle sizes. Import tariffs would likely raise input costs for food producers, raise consumer prices and harm competitiveness. This is in addition to the impact of a depreciating pound.

Leaving the European Single Market under the hard Brexit being taken forward by the UK Government is likely to increase the cost of exporting to EU markets (due to the introduction of tariffs, leaving the EU Customs Union and other non-tariff trade barriers), reduce the country's attractiveness to overseas investors and impose restrictions on labour thus increasing skills shortages and reducing productivity. This would be potentially, extremely damaging to Scotland's rural economy.

For agriculture and food production, stakeholders are telling us that any move away from EU and European Single Market membership would result in additional trade costs. There are also significant concerns from the livestock sector in Scotland, which is particularly reliant on EU trade and tariff protection.

---

<sup>9</sup> [http://ec.europa.eu/growth/single-market/goods\\_en](http://ec.europa.eu/growth/single-market/goods_en)

For example, approximately 95% of Scotland's red meat exports are destined for the European Union. Figures from the industry show that the value of beef and lamb exports from Scotland to the EU in 2015-16 was approximately £74 million which accounts for approximately 95% of red meat exports outside of the UK. However, if Scotland were subject to the current tariffs that are applied to countries outwith the EU, then the same volume of beef and lamb would cost around 50% more for importers to buy our products.

As recently highlighted in a briefing paper from Quality Meat Scotland (QMS):

- “Losing duty free access to the European Union market would result in significant market destabilisation. The extreme position would be one where Scotland and the UK traded with the European Union as a non-member state and face the punitive tariff rates...and the likelihood of significant reduction in export volumes unless there was significant price correction.”<sup>10</sup>

As *Scotland's Place in Europe* makes clear, standard EEA arrangements exclude most agriculture and fisheries products, and so any future solution for Scotland based on the EEA would require a deal for those sectors to be specially negotiated or they would face tariffs on exports to the European Single Market. The Scottish Government would also seek continued protection for named regional food products and a fair share of the box subsidies permitted under WTO rules.

**Question 5a: How important is trade within the UK in agricultural goods? Is this an area in which you see potential to expand?**

A differentiated route to Scotland remaining a member of the European Single Market, as set out in *Scotland's Place in Europe*, would allow Scotland to enjoy the benefits of the European Single Market in addition to – not instead of – free trade across the UK. There would be no need to make a choice between those markets. *Scotland's Place in Europe* also sets out the Scottish Government's position on the EU Customs Union.

The UK market is undoubtedly valuable to and important for Scottish agriculture. The rest of the UK accounts for around 83% of Scottish agriculture's exports outside Scotland and about 33% of our imports. However, the EU market is also of vital importance. Food and drink exports to the EU were valued at £2.3 billion in 2016 – approximately 41% of the total value of Scotland's overseas exports of food and drink (almost a third (31%) of total overseas Scotch Whisky exports, worth approximately £1.2 billion in 2016, go to the EU). Taking food on its own, exports to the EU were valued at £1 billion in 2016 which represented 69% of Scotland's overseas food exports.

Moreover, the EU market is important not only in its own right, but also because of the way in which the UK's ability to export to the EU affects the domestic UK market. For example, if the UK were unable to export livestock and meat to the EU, the

---

<sup>10</sup> QMS is the public body responsible for helping the Scottish red meat sector improve its efficiency and profitability, and maximise its contribution to Scotland's economy:  
[http://www.qmscotland.co.uk/sites/default/files/qms\\_briefing\\_paper\\_1\\_-\\_brexit\\_-\\_feb\\_2017.pdf](http://www.qmscotland.co.uk/sites/default/files/qms_briefing_paper_1_-_brexit_-_feb_2017.pdf) page 3



resulting extra supply on the domestic market would cause prices to collapse, with impacts for all domestic producers not just those previously engaged in exporting. This effect has been demonstrated in the past when the UK was temporarily unable to export livestock and meat due to animal disease incidents, such as the Foot-and-Mouth Disease outbreaks of 2001 and 2007. This real-world evidence suggests that losing the ability to export could cause farmgate prices for livestock in the UK to fall by up to 25%.

Furthermore, as QMS point out, the potential disruption to supply chains resulting from a so-called “hard Brexit” could see the benefits of value-added activities, such as the slaughter, processing and distribution of Scottish animals, moving away from the Scottish economy.

**Question 6: How important is access to labour from the EU to your farming and food industries? Can distinctions be drawn between skilled and unskilled labour, or the stage of the food supply chain?**

All our industries need access to a suitable labour force. There are around 181,000 non-UK nationals living in Scotland and many rural industries and remote rural communities rely on their valuable contribution.

The First Minister of Scotland made clear immediately after the EU Referendum result that: “citizens of other EU countries living here in Scotland remain welcome here, Scotland is your home and your contribution is valued.”

The availability of labour – both skilled and unskilled - from an EU-wide pool is absolutely essential to fulfil the diverse needs of the Scottish economy.

Rural Scotland has specific labour market and broader immigration needs. Around 8,000 people employed in the food and drink growth sector, particularly the food processing sectors, are non-UK EU nationals, and up to 15,000 non-UK seasonal migrant workers are employed in the soft fruit and vegetable sectors for harvest in summer and autumn. In addition, a significant proportion of the veterinary profession working in Scotland are EU-nationals, particularly in food hygiene and state veterinary medicine. The possibility of such a loss of workers would be hugely detrimental to the rural economy and negatively impact on rural communities who have welcomed these workers. In remote rural areas the agriculture, forestry and fishing sectors are the largest source of private sector jobs (16%)<sup>11</sup>, and these sectors traditionally involve more seasonal employment

The UK’s exit from the EU threatens our future ability to attract the talent vital to our world leading agri-food and environment research institutes in Scotland, which have a significant proportion of non-UK EU staff, and the resilience of the agriculture sector which benefits from this research. It also limits the scope for Scotland’s world leading scientists to bring their expertise to bear elsewhere.

The Scottish Government is exploring all possible avenues for Scotland to retain the benefits of EU membership and this includes freedom of movement. As set out in

---

<sup>11</sup> <http://www.gov.scot/Publications/2015/03/5411>

*Scotland's Place in Europe*, the EEA scenario would protect the free movement of people within the European Single Market, of which we will remain a part.

**Question 7: Have you conducted, or do you intend to conduct, an assessment of the resources that will be required to manage agricultural policy at a devolved level?**

The Scottish Government already has tailored EU support through CAP to meet the specific needs of Scottish agriculture and the rural economy.

Scotland currently receives 16.5% of the UK's CAP allocation. The Scottish Government believes that the UK Government should commit to allocating to Scotland year-on-year its fair share of rural funding equivalent to EU funding which will be lost – which would be consistent with undertakings given during the EU referendum campaign.

In the interests of a fair outcome, the UK Government should also commit to a pre-Brexit timeline to settle longstanding funding anomalies. For example the Scottish Government continues to believe that the additional funding allocated to the UK in the last CAP reform, under the EU's 'external convergence' formula, should have been added to Scotland's CAP allocation and not spread across all four UK administrations. This is because that additional funding was the direct result of very low CAP payment rates in Scotland, and Scotland alone in the UK met the EU's criteria for this funding uplift.

**Question 8: How, and to what extent, do you expect to work with the UK Government on (a) the negotiations with the EU regarding the process of withdrawal, (b) the negotiation regarding a trade agreement with the EU and (c) the repatriation of agricultural policy?**

There was agreement from the Prime Minister at the Joint Ministerial Committee Plenary meeting in Cardiff on 30 January to intensify joint work on the Scottish Government's proposals. Time is running out for the UK Government if we are to have any prospect of reaching a UK-wide agreement before Article 50 is triggered. The First Minister has been very clear; the Scottish Government will continue to do all it can to protect Scotland's interests during the UK's negotiations to leave the EU. We remain ready to engage with the UK Government on the compromise proposals that we published in December 2016 and we are looking to the UK Government to agree a means by which the Scottish Government can play a direct and representative role within the negotiations with the EU.

**24 March 2017**