

Scottish Government – Written evidence (PBS0047)

Introduction

On the 3rd of June 2020, Michael Russell MSP (Cabinet Secretary for the Constitution, Europe and External Affairs) published the Scottish Government's case for an extension of the EU exit transition period. In so doing, he said,

“In the referendum on membership of the European Union in June 2016 people in Scotland voted overwhelmingly to remain.

The Scottish Government's position is well known: we have always vehemently opposed Brexit and see Scotland's future as an independent country and an EU member state. That has not changed.

That goal of becoming a full, equal member of the EU, committed to the founding values of human dignity, freedom, democracy and equality is at the heart of the Scottish Government's ambition for Scotland.

Given the huge economic hit caused by coronavirus it would be an act of extraordinary recklessness for the UK Government to refuse to seek an extension.

That's because the default plan is to leave in around seven months' time with either only a very basic deal with the EU or no deal at all.

That would mean Scotland, and the UK as a whole, being subjected to an entirely unnecessary second economic and social shock on top of the COVID-19 crisis. More jobs would be lost, living standards would be hit and essential cooperation would be damaged. For many businesses which manage to survive the coronavirus crisis, this second, Brexit, shock would hit them at their weakest, and be the final straw to put them out of business. Each business lost is a permanent reduction in Scotland's productive capacity, and thus in our long-term prospects for inclusive, sustainable growth.”

Ignoring the evidence, the UK Government is intent on pursuing a bare bones trade agreement – or no agreement at all – and has refused to extend the transition period. According to the UK Trade Policy Observatory, even the most advanced services agreements do little more than restate the parties GATS commitments, and none come close to replicating the benefits of membership of the EU's single market. Even where a trade agreement suggests liberalisation of trade in services, ‘reservations’ restrict access to individual markets and, compared to EU membership, can make trade unviable or in some cases impossible.

Many areas being negotiated impinge upon devolved competence, and the devolved governments will be tasked with implementing aspects of the future relationship. As such the Scottish Government have called consistently for full and meaningful engagement with the UK Government in developing cross-UK negotiating positions and in reaching key decisions. This has not happened.

Disappointingly we received copies of the UK negotiating documents, including draft legal texts, with little time to meaningfully engage with them prior to publication. The UK Government also unilaterally rejected an extension to the transition period, without engaging with the devolved governments in any way first. We continue to have discussions at official and Ministerial level with the UK Government to try and fashion a better relationship on trade. It is in all our interests that they involve us, and indeed, all the devolved administrations more meaningfully.

Ivan McKee MSP, Minister for Trade, Investment and Innovation

June 2020

1. How important are the different UK professional and business services sectors to the UK's economy and trade in services? Please include data where possible.

- Please see Annex A

2. What are the UK's different professional and business services sectors' key priorities for the future UK-EU relationship? What are the key priorities of smaller professional and business services providers and providers from the UK's regions and devolved nations in particular?

Architecture

- The RIBA Business Benchmarking Report 2019 states that around 78% of chartered architecture practices employ fewer than 10 people. For practices between 5 and 10 staff, around 6% of work is international. Smaller practices are likely to have less capacity to plan for and adapt to changes in bidding for work in the EU.
- For practices between 50 and 100 employees, 12% of work is international and for practices over 100 employees this rises to 28%.
- Architecture firms seeking to work in EU member states may face a range of complex administrative and legal issues that vary between member states. The variety of processes and procedures will be challenging and likely to increase administrative costs for UK architecture firms or deter businesses from seeking opportunities.

Audit and Accounting

- Market access, MRPQ and mobility

Legal Services

- Market access commitments on legal services falling under Modes 1-4 of the GATS framework to remove barriers presented by reservations in the EU's existing GATS schedules;
- Removal of practical barriers such as ensuring availability of business visas (if required); and

- Other issues which affect services/business such as data flow provisions.

3. What preparations (if any) have UK professional and business services providers made, or planned to make, ahead of the end of the transition period?

Audit and Accountancy

- Large firms have been able to prepare for full contingencies, but smaller firms are less able to allocate resources to cover all eventualities and are, as a consequence, less prepared.

Legal Services

- The Law Society of Scotland has found the main obstacle to preparation to be the lack of certainty about the form the new relationship will take. Many, particularly larger firms and therefore, likely to have more international clients/business, created dedicated Brexit groups to coordinate efforts across specialisms and improve preparedness of law firms themselves as well as their clients.

4. What provisions should the Government seek to negotiate to minimise potential barriers to trade, particularly for smaller professional and business services providers? What steps should the Government take to preserve the competitiveness and innovation capacity of the UK's different professional and business services sectors?

- The most significant barrier to services trade with the EU is member state regulation which sets conditions for service providers operating within that member state. In terms of an FTA, these non-conforming measures are set out as reservations – CETA, for example, includes around 500 reservations for the EU. Many reservations extend access to other member states, and sometimes to the EEA or Switzerland, but not to FTA partner countries suggesting that there are no steps (beyond remaining in the EU) that the UK Government can take to minimise these barriers to trade.
- These reservations reflect national regulations, for example real estate reservations focus largely on residency requirements and for Denmark, Portugal, Slovenia and Cyprus, EU Member State/EEA residency approval is required to practice as a real estate agent, suggesting a significant barrier to trade for UK-EU services.
- Any divergence from EU standards and regulations will increase barriers to trade and costs for businesses, making it more difficult for them to remain competitive in the EU.

Architecture

- Architecture firms seeking to work in EU member states may face a range of complex administrative and legal issues that vary between member states.
- The variety of processes and procedures will be challenging and likely to increase administrative costs for UK architecture firms or deter businesses from seeking opportunities.

- In some EU member states, only registered architects can submit plans. If UK professional qualifications are not recognised in that state then UK architects may require to operate in collaboration with local firms. This may add to costs/ reduce income or deter UK firms from seeking work.
- These challenges are likely to be most acute for SMEs who have limited capacity and experience to address administrative and legal challenges.
- UK architecture firms will require arrangements that bring consistency to issues such as MRPQ and provision of services in EU member states if UK businesses are to continue to operate and grow in EU member states.

Audit and Accountancy

- The UK's accountancy and audit sectors have taken advantage of single market membership to export services.
- While big firms may be in a position to comply with member state regulations that do not apply within the single market (e.g. commercial presence), small and medium sized firms may not find trading with the EU viable under an FTA.

Legal Services

- The ability to provide legal services to overseas clients from a Scottish/UK base - under modes 1 and 2 and on *fly-in-fly-out* basis (mode 4) – is important to firms across the spectrum. Such services play a crucial role in facilitating foreign direct investment into Scotland/the UK in addition to supporting the international supply of goods and services.
- The free flow of data also underpins the international provision of legal services. Even commercial legal transactions routinely necessitate transfers of personal data. Particular requirements, or even the basic fact of differing regimes, can present trade barriers, which may be particularly difficult for smaller firms to manage. Safeguarding the movement of data between the UK and EU on the longer term is therefore important for traditional legal services.
- Data is also, of course, essential to support ongoing innovation in legal services. The sphere of legaltech is attracting increasing interest. The Law Society of Scotland launched their LawscotTech programme in 2018 and a new accreditation in legal technology (<https://www.lawscot.org.uk/members/career-growth/specialisms/areas-of-specialism/accredited-legal-technologist/>).

5. What type of arrangements should the Government seek to negotiate with the EU for the mobility of professionals?

Architecture, Audit and Accounting

- The UK Government should seek arrangements that maximise opportunities for the mobility of professionals through free movement or as close as possible, both for the provision of 'mode 4' services and intra-corporate transfers, or particular projects important for individuals' personal career development opportunities.

Legal Services

- Market access arrangements must be supported by efficient business visa systems which allow lawyers to enter a country for the purposes of meeting their clients face-to-face. If a lawyer has to wait a long time for a business visa to be authorised, this could act as practical barrier to provision of legal services. Additionally, clients may sometimes wish to travel to the UK to instruct or receive legal services, requiring an efficient business visa system for business visitors to the UK.
- The UK Government should also seek to negotiate provisions around intra-corporate transferees, including provisions to allow UK trainee solicitors to complete part of their training contract in offices in the EU27 on a reciprocal basis.

6. How important are arrangements on the mutual recognition of professional qualifications to professional and business services providers in the UK and EU? How could a future UK-EU agreement best allow for this?

Architecture

- The majority of UK architecture exports are outside the EU market, however UK architecture relies heavily on EU nationals who make up around 20% of the UK architecture workforce. The mutual recognition of professionals qualifications (MRPQ) has been an important factor in facilitating the current profile of the UK architecture workforce and in securing international talent to support UK business.
- Recognition of EU professional qualifications by the UK regulator, the Architects Registration Board, is under the control of the UK, however reciprocal arrangements will be a matter for EU member states. The development of a system to recognise professional qualifications that closely mirrors the current scheme, with a simple system for registration and recognition for architects, is therefore important in order to maintain the current balance of non UK qualified architects within the workforce and to support the UK's reputation as an international leader in provision of architecture services.

Audit and Accounting, Legal Services

- An agreement on MRPQ in Professional and Business Services (PBS) will be essential to facilitate trade in PBS. For Scotland, it is important that this agreement must be broad in scope, covering the same range of professions as the MRPQ Directive and with access to MRPQ-related information systems and a reciprocal data adequacy agreement. This system should be streamlined, responsive to change and reflective of Scotland's requirements – there is a risk that a burdensome system discourages professionals from relocating to the UK.

7. What provisions should the Government seek to agree with the EU on cross-border investment and rights of establishment?

Audit and Accountancy, Architecture

- A reliable environment for cross-border investment should be agreed, whilst also negotiating to ensure that EU member state establishment rules do not

negatively impact on the viability of trade in services by SMEs who were not required to establish in the EU27 during the UK's membership of the EU.

Legal Services

- Mode 3 (commercial presence) raises some more specific issues in terms of the barriers likely to be encountered. Many members of the Scottish profession now work for large international law firms that are likely to have offices across the globe. Smaller and mid-sized firms may operate through referral networks or seek to form joint ventures for particular projects to allow a comprehensive legal advice service on a particular project. It is important that such joint operations can go ahead as this benefits both UK lawyers and their international colleagues. Availability of different forms of practice, particularly recognising limited liability, which is now standard practice in UK firms, is an important issue where foreign (i.e. UK) lawyers wish to establish a commercial presence. Both in terms of establishing a permanent office and setting up a joint venture, it is important to ensure that restrictions such as caps on shareholdings are avoided.

8. Should there be regulatory cooperation between the UK and the EU on professional and business services? If so, what form should such cooperation take?

- As a member of the EU, the most significant barriers to trade for Scottish professional and business services (establishment, regulatory compliance, restrictions on access, mutual recognition of professional qualifications and restrictions on annual travel) were removed or addressed in the Single Market. However, without the comprehensive and extensive regulatory system that comes with full membership of the EU and Single Market, these potential barriers will re-emerge at the end of the transition period.
- In lieu of Single Market membership, promoting a high level of regulatory cooperation alongside close, dynamic alignment on rules and standards, would substantially mitigate barriers to trade arising from EU exit, and help protect the economic interests of Scotland and the UK.
- In February 2020, a written statement¹ on the future relationship between the UK and EU by the Prime Minister also advocated for an approach to trade in services streamlining “practical processes and providing for appropriate regulatory cooperation”.
- OECD advises that international regulatory cooperation (IRC) is beneficial as it allows countries to tackle regulatory challenges at the level where they occur, avoiding regulatory “arbitrages”. It can help address the unnecessary costs of regulatory divergence on businesses and consumers, and is an efficient administrative strategy, improving the capacities of domestic regulators through peer learning and sharing of resources. As Scotland's largest EU export services sector, regulatory cooperation in professional and business services (PBS) is therefore a key priority.
- There is a range of options to help the UK achieve the desired levels of trade and wider policy objectives with EU through regulatory cooperation. Typical mechanisms involve, but are not limited to, formal regulatory cooperation

¹ <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2020-02-03/HCWS86/>

partnerships, mutual recognition agreements, recognition of international standards and certification schemes, and memberships in international organisations promoting regulatory cooperation within particular sectors.

- Following EU Exit, loss of regulatory alignment may make it impossible for trade to continue in some services. PBS, particularly legal services, are generally regulated at Member State level within the EU and will require state-level agreement to re-enable trade following EU Exit. Regulatory cooperation could help to facilitate market access in these areas.
- Additionally, a comprehensive Good Regulatory Practices and Regulatory Cooperation chapter (GRPRC) agreed within a UK-EU FTA, with the close involvement of devolved administrations, will further enhance regulatory cooperation between the two parties.
- When implemented successfully, Good Regulatory Practices (GRP), such as Regulatory Impact Assessments, public consultation and stakeholder engagement, can identify regulatory measures between parties which could potentially create unnecessary barriers to trade. This will help to limit duplication and unnecessary divergence, without limiting regulatory sovereignty², a key reported negotiating principle for the UK Government. GRP can also limit information, specification and conformity assessment costs, a key benefit for SMEs in particular.
- It is essential that any such agreement on regulatory co-operation should involve meaningful engagement and input from devolved administrations, given so much of regulation is devolved, and the divergence between Scottish Government and UK Government position in some areas of regulation. In their Review of International Regulatory Co-operation of the United Kingdom³, OECD recommends that the views of Government Departments, regulatory bodies and devolved administrations are taken into account in order to develop a whole of government strategy for IRC, resulting in better quality regulation.

9. What lessons, if any, can be learnt from the EU's existing trade agreements with other third countries including services, or negotiations on trade in services?

- The Law Society of Scotland and other professional organisations and industry bodies have argued for a close relationship with the EU.
- However the EU's existing agreements were not negotiated from a starting position of close co-operation, and were intended – if not to increase the liberalisation of services trade – to at least ensure that there was no slippage in terms of the existing terms of trade.
- The key lesson is that no trade agreement offers the level of regulatory co-operation or removal of market access barriers that characterise the EU's single market in services; a free trade agreement with the EU should be viewed for what it is – an exercise in deliberalising trade and the wholesale removal of preferential terms of trade.

10. To what extent could UK-EU trade in professional and business services continue in the absence of a UK-EU agreement covering services?

² OECD, 'International Regulatory Co-operation and Trade: Understanding the Trade Costs of Regulatory Divergence and the Remedies', 2017, p37.

³ <http://www.oecd.org/unitedkingdom/review-of-international-regulatory-co-operation-of-the-united-kingdom-09be52f0-en.htm>

How effective would the WTO General Agreement on Trade in Services be in supporting such trade, and what arrangements (if any) could be put in place to go beyond the WTO framework?

- It is not possible to give a single or simple answer to this question given the varied levels of openness across the EU 27. Each country regulates separately and commitments under the GATS are very limited.
- In some areas there may be greater openness than specified in the schedules but it may be difficult (especially for SMEs) to ascertain what is allowed where – especially if translation is required.
- The EU does not operate as a single market for services for third countries, and regulatory fragmentation in itself can act as a barrier to trade, as businesses need to understand different regimes – e.g. in legal services there are different levels of openness across member states.

The Law Society of Scotland has previously stated:

“The optimal outcome from the forthcoming EU-UK FTA (and any subsequent) negotiations would be to preserve the current system of rights and obligations to ensure that individuals, businesses and other organisations throughout the EU can obtain advice from the UK lawyer of their choice who can in turn cooperate and collaborate with EU colleagues and vice versa. This is in the best interests of both UK and EU clients as well as being of benefit to the legal profession in the UK and the EU. The crucial role that solicitors play in facilitating trade and investment lends an importance to substantive provisions on legal services that goes beyond the sector itself.”

Architecture

- If EU member states do not recognise UK registered architects in future then UK architects may have to work ‘under the wing’ of a local architect, in countries where only registered architects can submit plans. This will add costs/ reduce fee income. Additionally the requirements to operate in an EU member state will vary and in some instances will place a significant administrative or cost burden, such as having to establish an office/ employ local staff, in order to operate.

11. If there were no reciprocal data adequacy arrangements in place between the EU and UK by the end of the transition period, what would the implications be for professional and business services providers?

- Cross-border data movement, storage and use are central to digital trade, necessary for digital transactions to occur. EU-UK data flows underpin the services economy and are vital for any business with customers, suppliers or operations in the EU.
- As a result of COVID-19, there has been a shift towards digital delivery of services. Professional and Business services have been able to use digital delivery (mode 1 of services supply) in the context of the global pandemic where other modes of service supply have been inoperative.

- In the case of no data adequacy decision or a negative adequacy decision from the EU prior to the end of the transition period, data transfers to the UK from the EU may become restricted. This will have implications for professional and business services providers, alongside other service providers, more so as professional and business service providers have a higher proportion of services exported remotely than through physical presence in comparison with other sectors. Digital delivery is dependent on a trading environment which supports cross-border trade in services. Ending the transition period without a data adequacy decision, will put at risk the opportunity digital trade brings to contribute to the economic recovery in Scotland and the UK. The agility of professional and business services in shifting to online delivery during the global pandemic will be negated.
- For professional and business services this relates to personal data such as outsourced human resources, payroll or other back office data; customer data; data transferred from partners.
- Professional and business service providers would need to free up resources (e.g. through contracting legal support) to ensure compliance. This means putting in place appropriate safeguards (e.g. binding corporate rules for intra-company transfers; 'standard contractual clauses' in contracts between sender and receiver of data; certification under approved certification scheme) or putting in place mechanisms to rely on data sharing exceptions (e.g. explicit consent).
- It should be noted that the use of Standard Contractual Clauses (SCCs), currently the most used appropriate safeguard for international transfers, may be invalidated by an upcoming European Court of Justice decision – based on a question of whether SCCs are a valid tool for EEA to US data transfers. If this is invalidated, it will create further complications and costs for professional and business services, reinforcing the need for an adequacy decision.

The Law Society of Scotland has previously stated:

"International legal services provision goes hand in hand with the free flow of data across borders. Where this data relates to individuals with the EU, the data must be handled in accordance with the General Data Protection Regulation (GDPR). It is important to note that this is not confined to advice to private individuals but may also be an important consideration in the context of commercial transactions or ensuring regulatory compliance. Although it is possible for third countries to obtain an adequacy decision, this can be withdrawn at any time. We therefore favour a more robust arrangement agreed on a reciprocal basis, which would give greater certainty to businesses, while ensuring continued respect for the privacy and data protection rights of individual citizens. Provisions on data flows should go beyond the B2C issues addressed in the GDPR and ensure the free flow of data on a B2B basis. Data localisation requirements could present a barrier to trade in this area and positive commitments to ensuring those flows are key to ensuring that businesses such as law firms can continue providing services to clients."

12. What opportunities (if any) could the UK's withdrawal from the EU offer to the UK's professional and business services providers?

- It is challenging, with so much uncertainty and so many unknowns about what the future arrangements will be, to clearly identify any opportunities that outweigh the potential losses and disadvantages. The UK's withdrawal from the EU will make it more difficult for Scottish PBS businesses to trade into EU member states. Looking to the UK Government's priority FTA countries, there is no evidence that they present opportunities that will compensate for the loss of access to EU services markets. For example, much of regulation for the provision of services in the USA is regulated at a state not federal level, and is unlikely to be included in an FTA suggesting that no improvement in market access will be achieved for Scotland's services exporters.

ANNEX A

Professional and Business Services Analysis

This note sets out analysis of the professional and business services sector in Scotland.

For the purposes of this analysis, the sector is defined as containing the following SIC codes (*Figure 1*):

Figure 1 - Professional and business services definition

SIC Section	SIC Division	Description
M - Prof, scientific and technical activities	69	Legal and Accounting Activities
	70	Activities of Head Offices; Management Consultancy Activities
	71	Architectural and Engineering Activities
	72	Scientific Research and Development
	73	Advertising and Market Research
	74	Other Professional, Scientific and Technical Activities
	75	Veterinary Activities
N - Admin and support service activities	77	Rental and Leasing Activities
	78	Employment Activities
	79	Travel Agency, Tour Operator and Other Related Activities
	80	Security and Investigation Activities
	81	Services to Building and Landscape Activities
	82	Office Administrative, Support and Other Business Support Activities

Professional and Business Services Sector in Scotland

The professional and business services sector is a large sector in the Scottish economy. In 2019, the sector accounted for around 25% of all businesses in Scotland, 17% of total employment and 12% of turnover (*Figure 2*).

Within the sector, professional services accounts for 17.8% of businesses in Scotland, and administrative services accounts for 7.4%. While professional services has a larger business base, the administrative services sector is the larger employer in Scotland.

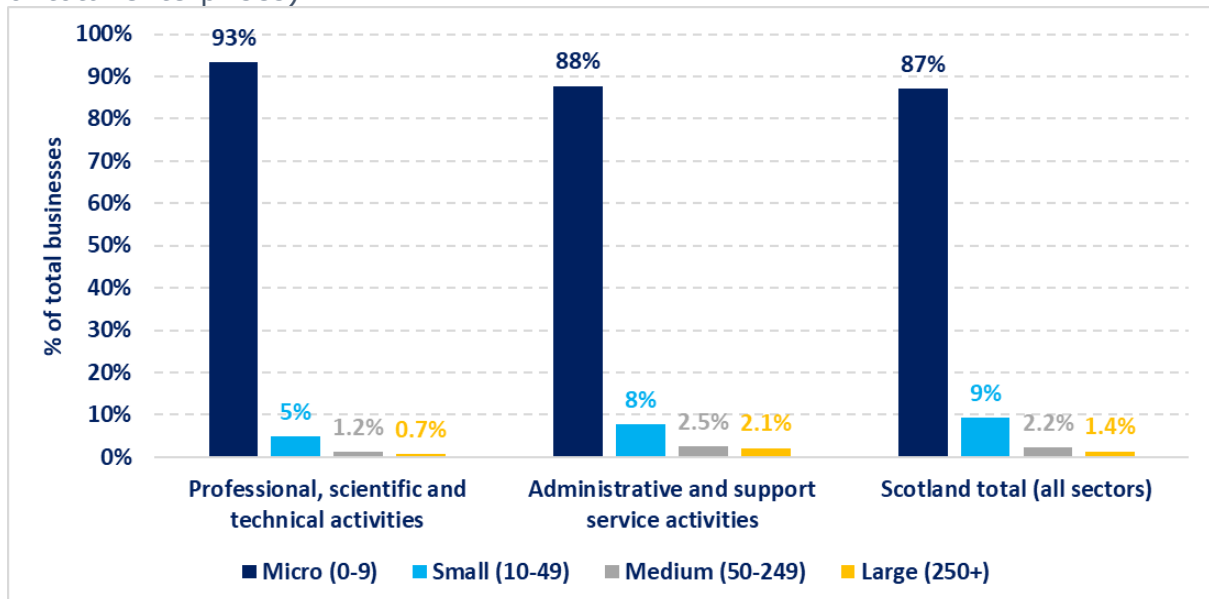
Figure 2 – Businesses, employment and turnover in professional and business services sector, 2019

SIC	Description	Total businesses	Total Scottish employment	Total Scottish turnover (£m)	Total businesses (% of Scotland total)	Total Scottish employment (% of Scotland total)	Total Scottish turnover (% of Scotland total)
M+N	Professional and Business Services	45,025	327,090	33,283	25%	17%	12%
M	Professional, scientific and technical activities	31,735	149,930	19,594	17.8%	7.7%	7.1%
N	Administrative and support service activities	13,290	177,160	13,689	7.4%	9.1%	5.0%

Source: Businesses in Scotland

The large business base in the professional services sector reflects the presence of a large number of smaller firms. *Figure 3* shows the breakdown of the professional and business services sector by size of firm. There are a disproportionate number of micro firms (including sole-traders) in the professional services sector compared to the Scotland average. The administrative and support activities is broadly reflective of the Scottish average.

Figure 3 - Professional and business services, enterprises by firm size, 2019 (% of total enterprises)



Source: Businesses in Scotland

Looking beneath the high level figures for the sector, there are a number of important sub-sectors for Scotland.

Figure 4 shows the number of businesses, employment and turnover figures for the sub-sectors within professional and business services. A number of sub-sectors make a significant contribution to the business base and employment in Scotland including: management consulting; architectural and engineering; employment activities; office support; and building/landscape activities.

Architectural/engineering activities and management consulting make up a particularly large share of the Scottish business base, accounting for around 12.1% between them. These sectors accounted for 4.1% of employment in Scotland, reflecting that many of these businesses are self-employed sole-traders, or are small companies employing a few workers on average. The architectural/engineering services sector is an important link in the oil and gas supply chain, both in Scotland and overseas.

Employment services and building/landscape services, account for a disproportionately high level of employment (5.2% between them)

compared to their business base (2.5%), reflecting the larger employment in fewer companies in this sector on average.

Figure 4 – Businesses, employment and turnover in professional and business services sub-sectors, 2019

SIC Section	SIC div	Description	Total businesses	Total Scottish employment	Total Scottish turnover (£m)	Businesses (% of Scotland total)	Total Scottish employment (% of Scotland total)	Total Scottish turnover (% of Scotland total)
M - Prof, scientific and technical activities	69	Legal and Accounting Activities	3,835	39,460	3,196	2.1%	2.0%	1.2%
	70	Activities of Head Offices; Management Consultancy Activities	10,370	27,190	2,917	5.8%	1.4%	1.1%
	71	Architectural and Engineering Activities	11,340	51,970	9,996	6.3%	2.7%	3.6%
	72	Scientific Research and Development	430	7,860	1,306	0.2%	0.4%	0.5%
	73	Advertising and Market Research	755	4,650	666	0.4%	0.2%	0.2%
	74	Other Professional, Scientific and Technical Activities	4,695	13,580	1,196	2.6%	0.7%	0.4%
N - Admin and support service activities	75	Veterinary Activities	310	5,220	316	0.2%	0.3%	0.1%
	77	Rental and Leasing Activities	1,370	13,640	2,193	0.8%	0.7%	0.8%
	78	Employment Activities	1,190	48,990	2,793	0.7%	2.5%	1.0%
	79	Travel Agency, Tour Operator and Other Related Activities	580	7,310	1,774	0.3%	0.4%	0.6%
	80	Security and Investigation Activities	325	13,310	384	0.2%	0.7%	0.1%
	81	Services to Building and Landscape Activities	3,190	52,670	2,467	1.8%	2.7%	0.9%
	82	Office Administrative, Support and Other Business Support Activities	6,640	41,260	4,077	3.7%	2.1%	1.5%

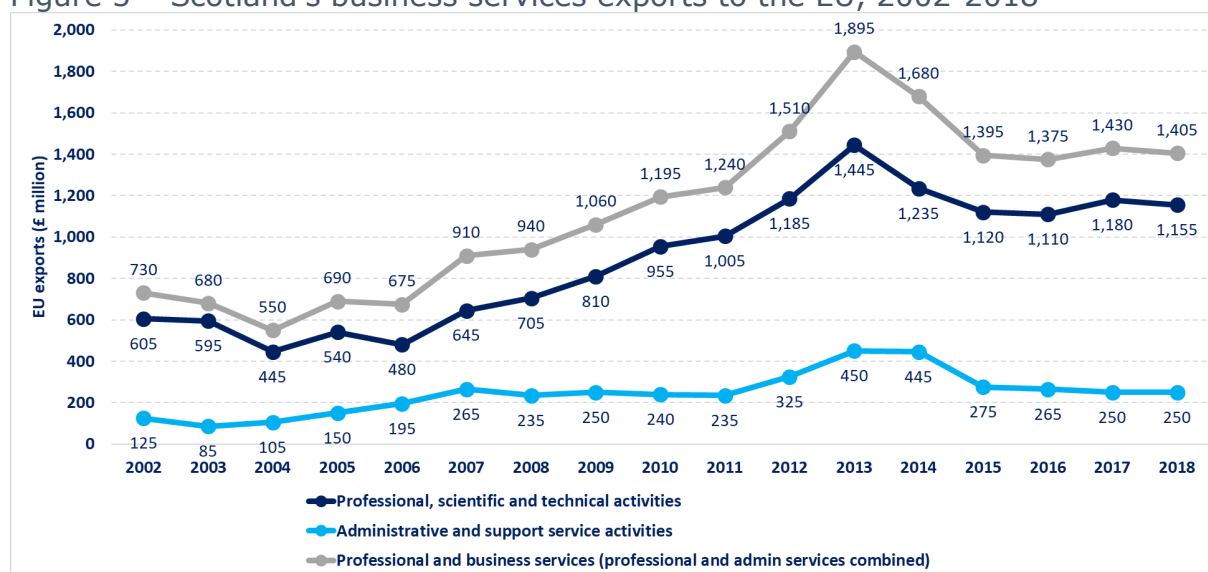
Source: Businesses in Scotland

Scotland's Professional and Business Services Exports

Scotland's exports of professional and business services to the EU were estimated to be worth £1.4 billion in 2018, accounting for 8.7% of Scotland's trade with the EU (Figure 5). This includes architectural and engineering activities (£420 million), scientific research and development (£240 million), legal and accounting activities (£120 million) and other professional, scientific and technical activities (£105 million).

The European Union is a major destination for Scotland's professional and business services exports. In 2018, the EU accounted for around a third of Scotland's overall international professional and business services exports.

Figure 5 – Scotland's business services exports to the EU, 2002-2018



Source: Export Statistics Scotland

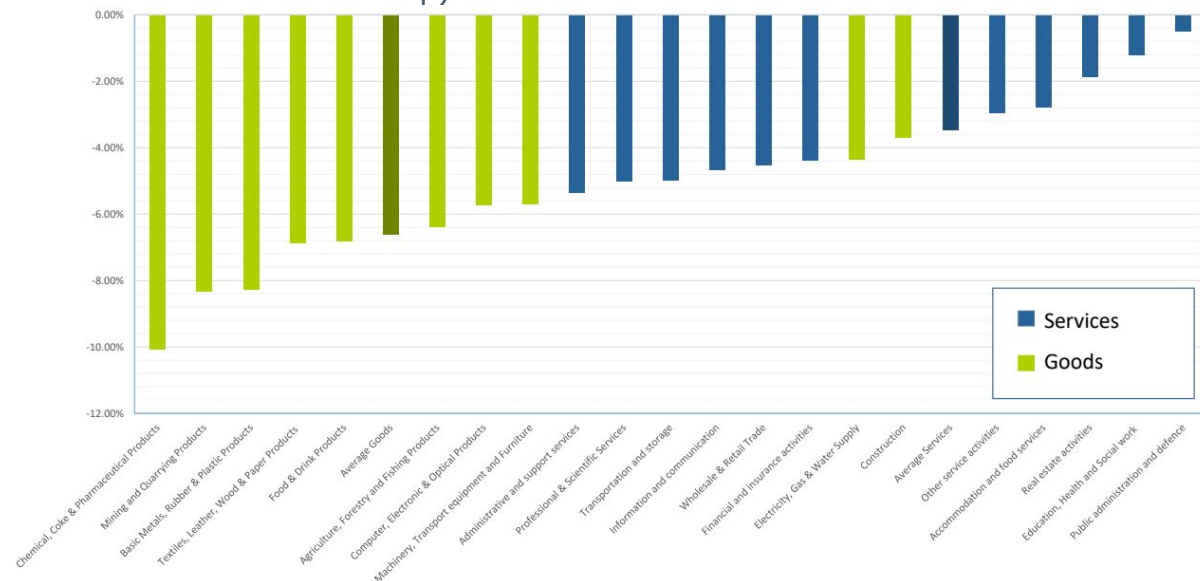
Impact of EU Exit on Professional and Business Services

The Scotland's Place in Europe (2018) report outlined the potential impacts of different EU exit scenarios on Scotland's economy⁴. The results showed:

- A Free Trade Agreement relationship between the UK and EU would mean Scotland's GDP would be 6.1% lower by 2030, compared to continued full EU membership.
- Under a WTO-style relationship, Scotland's GDP would be around 8.5% lower by 2030, compared to continued full EU membership.

Analysis of the long-term sectoral impacts of a UK-EU FTA show that professional and business services could be significantly impacted. *Figure 6* shows the estimated GVA decline for different sectors from a FTA relationship⁵. The results suggest that the GVA of professional services and admin services would be around 5-6% lower under an FTA, compared with continued EU membership. This makes these sectors among the most impacted services sectors in Scotland.

Figure 6 - Percentage Decline in Individual Sector GVA from UK-EU FTA (compared to continued EU membership)



Source: Scottish Government analysis

While services are generally less impacted by EU exit than goods, the size of the service sector in Scotland means that it drives the majority of the fall in overall Scottish GVA.

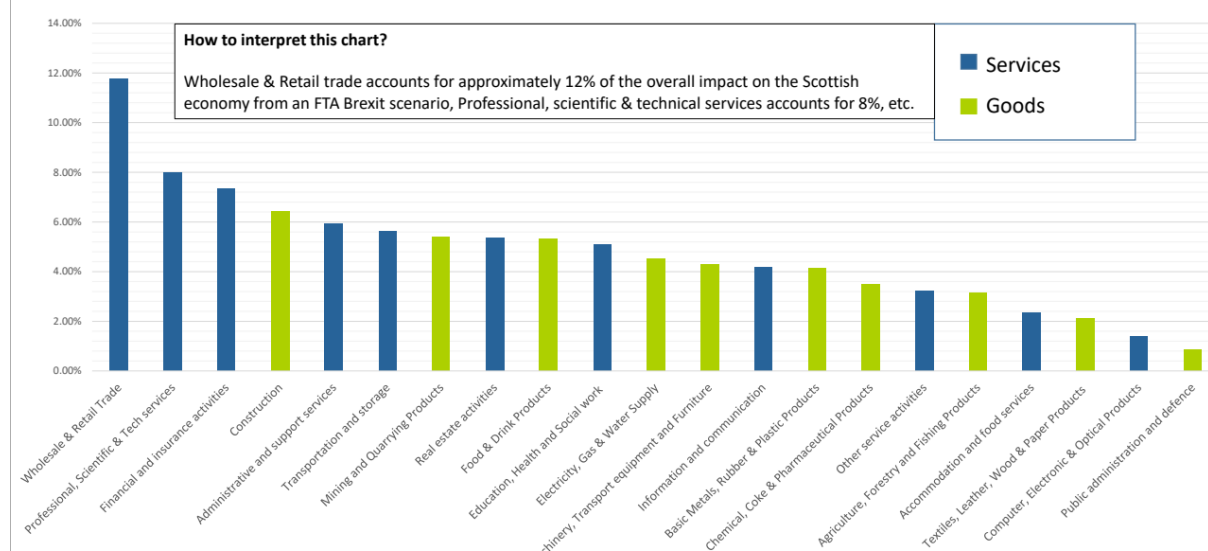
⁴ <https://www.gov.scot/publications/scotlands-place-europe-people-jobs-investment/pages/4/>

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<https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2019/02/state-economy-february-2019/documents/brexit-scottish-sectoral-economic-impact-analysis/brexit-scottish-sectoral-economic-impact-analysis/govscot%3Adocument/00546072.pdf>

Figure 7 shows the contribution of sector impacts to overall Scottish GVA. Professional and business services is a large driver of the decline in Scottish GVA from a UK-EU FTA. Around 8% of the decline in Scottish GVA is driven by professional services, while a further 6% is driven by administrative and support services.

Figure 7 – Contribution to Total Decline in Scottish GVA from UK-EU FTA (compared to continued EU membership)



Source: Scottish Government analysis