

14 June 2018

## Introduction

Let me start by reflecting on some very familiar words from the great poet W.B. Yeats.

*Things fall apart; the centre cannot hold;  
Mere anarchy is loosed upon the world,*

.....  
*The best lack all conviction, while the worst  
Are full of passionate intensity.*

Those words were of course written for a very different time, but there is a reason that they have been quoted so often in a recent times. They seem to capture perfectly a situation that often feels chaotic, and resonate with the scale of the challenges we face.

But, while there is much truth in them for us today, I would argue that there is no lack of conviction or passion in those whose views can sometimes feel unheard and unheeded.

Across our arc of Celtic countries we share a real conviction that continued membership of the European Union is vital to our shared prosperity. Recent polling shows a very large majority of people in Ireland support membership of the EU, while 56% of people in Northern Ireland and 62% of those in Scotland voted to remain in the EU.

The Scottish Government believes that the best option for the future wellbeing and prosperity of Scotland and the UK as a whole is to remain in the European Union.

That position has been consistent since well before June 2016, when the people of Scotland voted overwhelmingly to remain in the EU.

There are many reasons why they did so: for the protection it offers to workers; the access to a single market of more than 500 million people; and the firm belief that freedom of movement is a good thing, important to rural Scotland and our economy as a whole.

While this situation was not of our choosing, we are determined to do all we can to make an evidence-based case for an outcome that reflects the best interests of *all* parts of the UK.

We have taken every opportunity to put forward that case and to persuade others to support it.

This is not a theoretical argument. Businesses in Scotland will still need to sell their products, make investment decisions and operational plans, and to be able to recruit

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to support that work. The interests of exporters and those benefitting from foreign direct investment must be protected in future trading arrangements.

Protecting Scotland's interests requires us to prepare for a variety of scenarios.

That has been no easy task - two years on from the referendum, and with just over nine months until the UK is due to exit the EU, we are still little wiser about the deal the UK Government wants with the EU, and how it intends to achieve it.

The UK Government has said that it intends to publish a white paper shortly, which will reset the UK's position on the longer term relationship with the EU 27.

We are pressing the UK Government to take account in that paper of the interests of the Scottish economy across a number of key issues which will be fundamental to the new relationship between the UK and the EU, and to the future economic and social prosperity of Scotland.

Sadly, one thing that is clear is the UK Government's continued damaging determination to leave the Single Market and Customs Union - membership of which have proved so valuable to the economic and social wellbeing of the UK and Scotland - in order, it says, to pursue an independent trade policy.

In my address today, I will talk about the consequences of that for Scotland and how we can best ensure that our interests are protected.

### **Importance of Continued Membership of Single Market and Customs Union**

Exiting the European Union should not and must not mean exiting our largest and most secure international marketplace.

Analysis after analysis shows that continued membership of the European Single Market and Customs Union, and maintaining the four important freedoms that go with them, would be the least damaging option for a UK outside of the EU, helping to protect businesses, communities and individuals from some of the inevitable damage that will be sustained.

Our recent publication, *Scotland's Place in Europe: People, Jobs and Investment*, sets out our latest analysis of the implications of leaving the EU, confirming that leaving the Single Market and Customs Union would significantly weaken our economy.

Leaving the Single Market, or failing to secure a free trade agreement with the EU, would see Scotland's GDP £12.7 billion lower by 2030 than it would be under continued EU membership - a loss equivalent to £2,300 per year for every person in Scotland.

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Even the UK Government's own leaked analysis of the economic evidence points to the need for the closest possible participation in the European Single Market and participation in a Customs Union.

### **UK Government Customs proposals**

In a crowded field, the UK Government's intentions in the vital area of future customs arrangements are particularly difficult to understand.

I don't need to spell out the importance of this to an audience where this uncertainty and the potential implications are of such real concern.

I would though like to take a moment to express our deep concern at the continued prevarication by the Westminster Government over the UK's future relationship with the Customs Union, and its – often conflicting – red lines.

I will remind you briefly what little we know so far.

From the start the Michel Barnier has said frictionless trade needs both membership of the customs union and the single market. A customs union eliminates tariffs barriers but deeper co-operation is needed to eliminate the other barriers: customs controls, VAT and Standards.

The UK Government has explicitly rejected on-going, long-term participation in a Customs Union as a policy goal. Instead, they appear to have reached a very shaky Cabinet agreement on continued membership of the Customs Union for an indeterminate 'temporary period' after the end of the transition period, to enable new customs systems to be put into place. [A proposal already rejected by the European Commission].

Both UK Government options for future customs arrangements – the customs partnership and the so called maximum facilitation 'Max Fac' approach - have been shown to be unworkable, costly and damaging, and have already been dismissed as unacceptable by the EU. John Thompson, Chief Executive and Permanent Secretary of HMRC, did nothing to allay those concerns in his recent appearance before the Treasury Select Committee, emphasising the time needed to put new arrangements in place and estimating that the max fac approach could cost businesses up to £20 billion per year.

The UK Government has said it is looking for a 'deep and special partnership' with the EU which delivers the same benefits as the existing arrangements. It is not clear what that means, but one thing is clear. Without a much clearer commitment from the UK to regulatory alignment over the long term and to participation in a new customs union, that outcome will simply not be achieved.

But you know all of this, and the dangers of not reaching a deal with the EU. So, in the time remaining to me today, I would like to set out why all this matters so much to Scotland and how we are planning to ensure that Scotland's interests are protected.

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## **Importance of International Trade to Scotland**

For over 40 years, we have benefitted from membership of the Single Market and Customs Union, and the substantial negotiating power of the EU that comes with that membership. The UK was one of the main architects of a Single Market that gives us unfettered access to a market of over 500 million people, as well as the benefits from the EU's free trade agreements with more than 50 International trading partners.

The EU is the largest single market for Scotland's international exports – particularly in our coke and refined petroleum sector - with exports worth £12.7 billion in 2016, supporting directly and indirectly hundreds of thousands of jobs across Scotland.

Trade with the EU represents 43% of our total international exports, more than our exports to North America, Asia, South America and the Middle East combined. In addition, Scotland exported around £3.7 billion to countries with which the EU has a trade agreement in place, accounting for a further 12% of Scotland's international exports.

Six of Scotland's top ten export destinations are in the EU, with Ireland our sixth most important export market. A further two – Norway and Switzerland – have trade agreements with the EU.

Recognising the importance of these key markets, the Scottish Government's Trade and Investment Strategy includes a number of measures to support the Scottish economy and boost trade with the EU and others. Those measures, include the appointment of Trade Envoys to champion export market opportunities, a Trade Board to provide advice on practical ways to improve Scotland's exporting performance, and establishment of Innovation and Investment Hubs in Dublin, London, Brussels and Berlin – and Paris later this year - to provide a platform for collaborative activity to increase trade, attract investment and boost innovation and inter-governmental relations.

These demonstrate the importance we place on our trade with the EU. While others may put their faith in new, as yet unknown and unquantified trade deals, we prefer to recognise the value of what we have already.

## **Benefits from leaving the EU and Customs Union?**

Outside the EU and Customs Union, the UK would become responsible for negotiating its own international trade agreements, including with the EU itself, for the first time in 40 years.

Trade negotiation is a difficult and hard-nosed world where experience, expertise and size all have a vital role to play. The UK does not currently have that expertise or experience. Nor will it have the size of market to offer trade-offs with negotiating partners that, say, the EU has with its 500 million consumers.

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We will not get something for nothing. There will be a price to pay, and there will be losers.

For example, even before the recent imposition of President Trump's trade sanctions it was clear from the comments of his Trade Secretary Wilbur Ross and others that they would look to extract a high price out of any future deal with the UK. We have all heard credible reports of other countries who are likely to seize the opportunity for concessions in striking deals with the UK.

But what of the promised new markets?

While the UK Government suggests that there are opportunities to greatly expand trade further afield, economists and businesses will tell you that most countries do most of their trading with countries that are closest to them.

And, while the UK Government has suggested that any decline in trade with the EU from being outside the Single Market and Customs Union could be offset by exporting more to other countries, that argument has been roundly rebutted by a range of experts, including Sir Martin Donnelly, former Permanent Secretary in the UK Department for International Trade, who concluded in his speech at Kings College London in February that:

*"Even implausibly favourable market access deals with some third countries are arithmetically unable to make up for the loss of unrestricted access to more local EU markets in which so many UK producers are currently integrated."*

EU markets are key.

Some statistics to illustrate that point:

- The UK's trade with County Cork is worth almost as much as its entire trade with South Africa.
- Trade with Ireland is worth more to the UK than trade with India, Japan, New Zealand and Australia put together.
- And, as Scotland's Place in Europe demonstrated, even if the UK signed agreements with the ten biggest non-EEA single country trading partners (including USA, China and Canada) – a process that would take many years – this would only cover 37% of Scotland's current exports compared to 43% of current exports that go to the EU.

Trade and Investment in an increasingly service-based economy is tied closely to the mobility of skills and labour. No model of international partnership would give anywhere near the same benefit as does free movement of people, goods, services and capital. That stark reality should transcend party politics, and unite us.

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It is therefore clear that any benefits from the ability to pursue new trade deals would be far outweighed by being outside the Single Market and Customs Union. Yet that is exactly where the UK Government is leading the UK and Scotland.

Much of this will be familiar to you of course. The consensus around the negative economic implications of leaving the Single Market and Customs Union in pursuit of a free trade fantasy is nothing new.

So, how can we ensure Scotland's interests are protected if the UK Government continues down this path?

### **Scotland's Role in Future Trade Policy**

Leaving the EU will fundamentally change the nature of the UK as a state, and impact on the UK's current constitutional arrangements. The UK will become a third country, responsible for negotiating its own trade deals, with the EU and others.

Within the UK there are clear, albeit woefully inadequate, arrangements in place for the development of trade policy, scrutiny and eventual ratification of trade deals. These arrangements are already in need of substantial overhaul.

Losing the EU's negotiating power, scrutiny and expertise will require a massive change in the way the UK conducts its affairs internationally.

The way in which the UK and devolved administrations approach international trade policy and agreements will have to change radically to reflect a very different, and more challenging, context.

Central to this should be substantial change to the respective roles of the UK Government and Parliament and the devolved administrations and legislatures to reflect the magnitude and significance of the loss of the EU as the main negotiator and scrutiny body. There must be a much stronger role for the devolved administrations at all stages.

The world has changed since the UK last negotiated its own trade deals. So has the nature of free trade agreements themselves.

While earlier trade deals had a more limited focus on issues such as tariffs, quotas and cooperation, modern trade deals have in general evolved to extend into a much wider range of social provision and domestic policy. Many of these issues are, or touch heavily on, the responsibilities of the Scottish Government and Parliament and affect the interests of our businesses and citizens. The devolved administrations are often responsible for their implementation.

The conduct and content of future trade policy, negotiations and agreements will therefore have very important implications for Scotland.

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And Scotland and the UK could have different interests in some negotiations, best addressed before reaching the negotiating table.

While there are many similarities between Scotland and the UK's trading interests, there are also some significant differences in terms of the relative importance of various sectors and markets, where Scotland may have very different considerations. For example, the EU is a vital market for Scottish seafood products, accounting for 77% of seafood exports in 2017. The UK as a whole is a net importer of fish, while Scotland is a net exporter to the EU and the rest of the world.

In addition, Scotland has a strong record in leading public policy across the UK and beyond, for example in our ambitious climate change legislation, and extended moratorium on fracking. To ensure that there is no race to the bottom, we need to ensure that ethical concerns such as maintaining existing environmental and social protections form part of future trade arrangements and agreements, and honour our commitment to social democracy.

And we want a model for mobility and immigration that works for the whole of the UK, giving as many of the benefits of free movement as possible.

Understanding these – and other – differences will be crucial in agreeing a UK mandate for trade negotiations to take to future trading partners. Those negotiations will determine the future world trading success of Scotland and the UK. Even within specific sectors, there will often be distinct characteristics to be considered for Scotland, including distance from ports, and a high dependence on migrant labour.

Against this vastly different trading context, it cannot be right that arrangements for the development and agreement of trade deals in the UK simply remains the same.

However, while these issues have been raised in the context of the European Union (Withdrawal) Bill and Trade Bill, the UK Government has done little to allay concerns that it will react to the scale of this challenge by centralising power and diminishing, rather than enhancing, the role of the UK Parliament and devolved administrations.

The arrangements put forward by the UK Government to manage the development of UK wide issues that cut across the responsibilities of Westminster and the devolved administrations would see the UK Government able to ignore Scotland, Wales and Northern Ireland. That approach must change, and roles and responsibilities realigned, to ensure that the interests and priorities of all in the UK are properly represented, protected and promoted.

### **Scottish Government proposals**

The Scottish Government is therefore proposing, at the very least, a greater role for the devolved administrations in future trade deals.

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This happens in other countries around the world where the benefits of a more inclusive approach to the development of trading arrangements is recognised and welcomed.

We want to agree a system that works for the four nations of the UK in the context of the political and constitutional circumstances of the UK, and for the EU and other future trading partners.

CETA offers some useful lessons in this regard. Provincial involvement in the process – welcomed by both sides in the negotiation - ensured buy-in from those responsible for implementing the deal and allowed the federal government to negotiate on a better understanding of domestic issues. The resultant pan-Canadian consensus endured throughout lengthy negotiations and provided reassurance to the European Commission that the agreement would stick.

The developing nature of modern comprehensive trade deals and the impact they can have on almost every aspect of government activity – across a range of responsibilities – makes a powerful case for extending the involvement of devolved administrations across the UK.

Domestically, this will have advantages for governments and legislatures in the UK, Scotland, Wales and Northern Ireland, ensuring that trade negotiations are more transparent, that decisions are taken closer to the people affected and reflect their interests, and that any problematic issues are flushed out and dealt with quickly. Those advantages should also be plain to see for the UK's future negotiating partners, providing reassurance that agreements will endure.

We will publish our case for widening involvement in future trade policy shortly and hope that EU members and other future trading partners will see the benefits to them of negotiating with a broad base representing interests across the UK.

Scotland wants to be a constructive partner to the other nations in the UK and a constructive and fair trading partners to countries around the world.