



OFFICIAL REPORT
AITHISG OIFIGEIL

Culture, Tourism, Europe and External Affairs Committee

Thursday 9 May 2019

Session 5



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CULTURE, TOURISM, EUROPE AND EXTERNAL AFFAIRS COMMITTEE
14th Meeting 2019, Session 5

CONVENER

*Joan McAlpine (South Scotland) (SNP)

DEPUTY CONVENER

*Claire Baker (Mid Scotland and Fife) (Lab)

COMMITTEE MEMBERS

*Annabelle Ewing (Cowdenbeath) (SNP)

*Kenneth Gibson (Cunninghame North) (SNP)

*Jamie Greene (West Scotland) (Con)

Ross Greer (West Scotland) (Green)

*Stuart McMillan (Greenock and Inverclyde) (SNP)

*Tavish Scott (Shetland Islands) (LD)

*Alexander Stewart (Mid Scotland and Fife) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Reuben Aitken (Scottish Government)

Ivan McKee (Minister for Trade, Investment and Innovation)

CLERK TO THE COMMITTEE

Stephen Herbert

LOCATION

The Adam Smith Room (CR5)

Scottish Parliament

Culture, Tourism, Europe and External Affairs Committee

Thursday 9 May 2019

[The Convener opened the meeting at 09:31]

Decision on Taking Business in Private

The Convener (Joan McAlpine): Good morning and welcome to the 14th meeting in 2019 of the Culture, Tourism, Europe and External Affairs Committee. I remind members and the public to turn off their mobile phones, and any members who are using electronic devices to access committee papers should ensure that they are turned to silent.

Agenda item 1 is a decision on taking business in private. Does the committee agree to take in private item 3, which is consideration of correspondence from the Finance and Constitution Committee?

Members *indicated agreement.*

Article 50 (International Trade)

09:31

The Convener: Agenda item 2 is an evidence-taking session on article 50 negotiations on international trade. This morning, we will take evidence from Ivan McKee, the Minister for Trade, Investment and Innovation, and Reuben Aitken, deputy director, trade policy, Scottish Government. Good morning and thank you for coming.

I invite the minister to make an opening statement.

The Minister for Trade, Investment and Innovation (Ivan McKee): I would be delighted to, convener.

Good morning, everyone, and thank you for inviting me along this morning. The committee's inquiry into the negotiation of international trade agreements and the implications for Scotland is well timed. From the evidence that it has taken from a number of experts in the field, one message is clear: if the United Kingdom is to create an independent trade policy, there is a huge amount to do. It is essential that the devolved Administrations and legislatures play a full part in that work, and the voice of Scotland's commercial and trade interests must be heard.

The Scottish Government understands the importance of trade to the success of our economy; indeed, that is why we are so serious about enhancing and securing Scotland's role in future trade arrangements. Last year, we published a discussion paper that makes the case for a guaranteed role for the Scottish Government and Parliament in all stages of the formulation, negotiation, agreement and implementation of future trading arrangements, and we are continuing to press that case to ensure that Scotland's economic and social needs are protected and promoted. We are working across Government and beyond to identify what matters to the Scottish economy and, in particular, what the key differences between Scotland and the UK are that must be taken into account in developing and negotiating trade deals that work to the benefit of the whole of the UK.

The scope of modern trade deals is increasing. Typically, they deal with, and merge, a range of reserved and devolved policy areas. Because of the important implications that that will have for Scotland, it is right that the voices of our consumers, businesses and others are heard, not only on what we want to trade, but on how we want to trade.

Alongside work to ensure that there is a better way of developing future trade arrangements, we

are supporting our businesses now to increase the value of Scotland's international exports. The document "A Trading Nation—a plan for growing Scotland's exports", which was published at last week's national economic forum event, focuses on the actions that will have the greatest impact on Scotland's export performance and our economy.

The Convener: Thank you very much. As you indicated at the beginning of your remarks, the committee has taken a considerable amount of evidence from international trade experts and experts with experience of negotiating trade deals, and what has come through very strongly is the need to prepare, gather information and set the red lines very early on. That must happen at every level of Government, across Government and, of course, with wider sectors to ensure that, before you go into the negotiating room, you know exactly what your red lines are and what you hope to achieve.

You mentioned your discussion paper, in which you indicated that you very much believe that the Scottish Government must be in there early. However, the paper from the UK Government does not seem to indicate that. It mentions a role for devolved Administrations, but it does not specify that the role should be at that early stage. Where are you with the UK Government on that? Have you been told that you cannot be in there at an early stage, which is what the experts suggest needs to happen?

Ivan McKee: You are right. The discussion paper that we produced in August 2018 covered our view on the issue in depth. We looked at some examples, and we argued that international best practice was that devolved Administrations and Parliaments should be involved, not just at the beginning of the negotiations but even at the stage at which decisions are made about who to negotiate with. The devolved Administrations should be involved in drawing up the negotiating red lines and the offensive and defensive positions and in every stage of the negotiations through to the ratification of the agreement. The way that the Canadian provinces have been involved in negotiations sets some good examples to follow. We think that that is the best way forward.

The discussion paper was a substantial piece of work. As you say, the UK Government came back with a few paragraphs of comment on it. It recognises that there is a role for the devolved Administrations but it does not formalise that role or indicate how it wants to take it forward. We continue to talk with the UK Government, I meet my counterpart George Hollinbery from time to time, and work is going on behind the scenes on a concordat on how the process could and should work. However, progress has stalled and there is limited discussion. We are quite far away from

reaching an agreement on how to handle a process that we see as hugely important for the future trade negotiations that will take place with third-party countries and the European Union and for the on-going rollover continuity deals, which will perhaps have some changes in them. We feel that, from an early stage, we and the other devolved Administrations should be involved in the process.

The Convener: What has been your input in relation to the rollover deals? We call them rollover deals, but, as you know, they often differ considerably from the deals that we already enjoy.

Ivan McKee: Other than the fact that we periodically get an update on where the UK Government is with the process, our input is fairly limited, which is not great. I was in Norway when the UK Government announced that it had done the rollover deal with Norway. Straight away, it was obvious that the deal is not the same as the one that we currently enjoy as EU members. For example, it does not include services, regulation or a number of other aspects. It was presented as a rollover deal but, compared with what is currently in place, there are significant gaps, changes and omissions.

The involvement of the devolved Administrations is important not only in that sense, but because of the prioritisation of the rollover deals. The UK Government has gone through a prioritisation process to decide which of the 40-plus rollover deals it wants to do first. Nine deals are now in place, although some of them are different from what was in place before. Other deals are not UK priorities but are Scottish priorities, given our specific sectoral interests. For example, some of the north African markets for items such as seed potatoes, which are important to our agricultural sector, are critical to Scotland but low on the UK's list of priorities. In terms of both prioritisation and content, it is important that Scotland is involved. We are disappointed with the level of engagement so far.

The Convener: Has the UK Government point blank refused to consider Scotland's early engagement? You say that you have not yet been able to reach an agreement, but has the UK Government said that it will not include the Scottish Government at the early stage or have you help to set priorities?

Ivan McKee: To be fair, there will be discussions at the official level, so Reuben Aitken might want to comment on that. George Hollinbery understands that it makes sense for us to be involved—he certainly makes the right noises at the top level. However, when we get down to the details, the process is very much a stop-and-start one. We go through periods in

which we get information, but it then dries up and we have to push again to get more information.

I get the feeling that there is more of a box-ticking exercise as opposed to the Department for International Trade being fully engaged and understanding that it is important that we are involved. That involvement is important not just from our point of view but because it will allow the UK Government to go into the negotiations with a much stronger position, because the negotiating party will understand that the UK Government has buy-in across the piece and that that will not fall apart through the negotiations as fault lines start to appear.

Reuben Aitken may want to add something about communications at the official level.

Reuben Aitken (Scottish Government): I agree whole-heartedly with what has been said. The issue that we face is that the narrative about wanting to involve us is often quite good; in practice, however, the engagement and involvement—for instance, in relation to the recent announcements on tariffs, which will have a material impact if they come to pass—are next to nothing. As the minister said, although the noises are positive, the practice that we are experiencing is not as good as we would like it to be.

The Convener: I take it that you are referring to the decision to liberalise or drop tariffs in certain areas in the event of a no-deal Brexit. I think that the committee was quite surprised by some of the areas that had been chosen as ones in which to drop tariffs. Various dairy products were involved, which certainly affects the part of the south of Scotland that I represent. Were any other tariffs dropped in respect of which, had you been consulted, you would have said, “No. That’s bad for Scotland.”?

Ivan McKee: You ask about our input into those decisions. I remember the night fairly well, as I was out at dinner with representatives of a group of technology businesses, and I had to leave it to take a call at 8 o’clock. The call was to let me know that the Prime Minister had just announced in the House of Commons that the tariffs were to be published in the morning, so it was public knowledge. I could not be told what the tariffs were, because the information was market sensitive, but I was told that I would find that out when they were announced in the morning. That was the level of engagement in the process.

We have asked for the impact assessment numbers and how the decisions on the tariffs were arrived at. It is clear that it is a matter of balancing the consumer interest with the producer interest and maintaining positions for future negotiations. If too much is given away at this stage, there will be less in the bag for negotiation later, which would

put us in a weaker place. The situation is therefore multifaceted.

As I have said, we have been disappointed by the level of impact assessment that we have seen—in effect, we have seen nothing—and the process that the UK Government went through to arrive at the decisions on tariffs.

You highlighted that there are concerns on the agricultural side, as it is clear that Scotland has a profile that is different from that of the rest of the UK in respect of what is important to us. As I have said, we are still waiting to understand what number crunching has been done to assess the impact on the UK economy and on the Scottish economy.

The Convener: In an ideal world, if things changed and you got the early engagement that you and the experts say is needed, how ready is the Scottish Government to provide the UK Government with pertinent information on Scotland’s aggregate and sectoral interests? Do you have the information and the capacity to make a big difference at an early stage?

09:45

Ivan McKee: Yes, I think that we have. We have set up a new directorate in the Scottish Government—I believe that it now has 70 people—that will look at international trade and investment in the context of driving exports and focusing on trade policy. That will give us the capacity to engage with businesses in Scotland and to analyse what the priorities are.

We responded last November to the UK Government’s consultation on the four trade deals that the UK has started work on—with New Zealand, Australia, the US and the trans-Pacific partnership—with a fairly substantial document that identified for each of those markets what the UK’s priorities were, what Scotland’s priorities were, where the differences were and the different approaches that we would like to see with respect to those negotiations.

I therefore believe that we have the capacity in place and that we have shown with our response to the consultation on those four trade deals how we would approach them. However, the specifics will clearly depend on where the UK Government goes next with trade deal negotiations, the environment that we are working in with regard to the situation with the EU—that is, whether we are in or out of a customs union—and the UK Government’s priorities for which markets it will look at first.

Claire Baker (Mid Scotland and Fife) (Lab): I will ask a bit more about capacity issues. A couple of weeks ago, we took evidence from trade

negotiators who demonstrated huge experience and expertise and who laid out for the committee how complicated trade negotiations are. It is not just about preparations for gathering information on Scotland and feeding that in, but about the hard-edged business of trade negotiation.

I do not know whether you want to give your views on the UK Government's capacity to deal with trade negotiations, but you referred to there being a box-ticking exercise and a lack of engagement. That may be tied to capacity issues—I am not sure; perhaps that is too fair to the UK Government, but there is a lot going on around Brexit. What understanding and capacity building ability does the Scottish Government have around how trade negotiations work and the real political story involved in them?

Ivan McKee: You are right that there is huge complexity around trade negotiations. It is about lining up our offensive and defensive positions and understanding the wider context, how it will impact our economy and what cards to play at any particular point in that process. Clearly, the EU has been at that for a long time and it is fair to say that it has developed significant capacity to do negotiations, as has been demonstrated in its negotiations for the 40 deals that it has in place.

In contrast, the UK has not done any of this work for 40 years, so its lack of experience would be a challenge. That is clearly an area of concern for us, as part of the UK, with regard to benefiting or otherwise from deals that the UK manages to negotiate.

Within the UK environment, it is clear that the focus has been very much on preparing for the no-deal scenario. The whole UK Government has been sucked into the Brexit environment and preparations for Brexit; in particular, it has been sucked into preparing for no deal in relation to trade, to the exclusion of much else. The priority has therefore been to focus on rollover deals rather than new trade deals, which talks to a capacity challenge at the level of new deals.

From the Scottish perspective, I think that it is clear that the UK would lead trade negotiations and that our role would be to flag up, in advance, issues of concern to Scotland and ensure that they were included in the UK's negotiating mandate. There is therefore a different ask in terms of what we would bring to the table. We would not lead the negotiations, but we have argued for Scotland's concerns to be taken on board as part of the UK's initial negotiating position and for Scotland to be involved in the process as the negotiations develop, so that we are just one step back from the front line.

We have the capacity in place and we will see how the process moves forward, but a large part

of it is clearly going to involve our engagement with sectoral bodies and businesses throughout Scotland, to understand what is important to them as we approach each negotiation. We will also engage with the Parliament.

Claire Baker: You mentioned that a concordat is being developed and you said that it would be around how the process would operate and how the two Governments would co-operate. I understand the proposal that you have put forward from the Scottish Government about early-stage involvement and being involved in the process as it goes on. We heard from trade negotiators that people go into negotiations with offensive and defensive positions and that they have red lines, but when it comes to making a deal, there are trade-offs involved in doing so. You have indicated that the UK Government would be the negotiating team, but how far do you think the Scottish Government should be involved in the final stages and how might the process operate? Will the concordat address those issues? Is there a role for devolved Administrations at that level, or is there a recognition of their involvement?

The trade negotiators also talked about the importance of trust between the key negotiators and how it operates in the UK's political context.

Ivan McKee: Yes, and it is important to recognise that it is not just Scotland—all the devolved Administrations are involved in the process.

You are right—the detail of the process as we get to the business end of negotiations, when the trade-offs have to be made, is the crucial part and Scottish interests need to be protected at that point. That is why we argued for involvement from the very early stages of the process right through to the final stages of the negotiation and the ratification of any agreements. When it gets to the hard-nosed part at the end of the negotiations, it is important that our interests are represented and heard.

As I said, the discussion paper identifies some international practice, which we think it is instructive to learn from, where the subnational Administrations are involved to some degree in the process, such as in Canada, Belgium and other countries. There are models out there that work well, and we can look at and learn from them.

You are right about the trust aspect, because it is important that everybody is lined up behind a single negotiating position, understands the trade-offs and is able to have such discussions in the back room in parallel to the on-going negotiating process. That is how you build trust. If you do it in isolation without involving the wider interests of the devolved Administrations and so on, you end up in a weaker position in which you do not have buy-in

across the piece for what you are negotiating. That can be more problematic. I think that the parties that are negotiating recognise that. For example, the EU was very keen that representatives of the Canadian provinces were in the room and were part of the process of negotiating the trade deal with Canada. It is recognised that that is the mature, grown-up way to do it—it is the way that gets the best results and builds the most trust in the process.

Jamie Greene (West Scotland) (Con): I take on board what you are saying with great interest, and you make some very valid points. If all the negotiators are singing from the same hymn sheet it makes the negotiation much more powerful. That approach is commendable.

It is interesting that you mention the Canada deal. You could argue that the reality of that deal is the obverse, because it took so long and suffered so many problems due to the vested interests of each constituent part of the bloc that was negotiating. Famously, Wallonia refused to give Belgium's authorisation to ratify the deal. I am very pleased that the Canadian provinces did not have that issue.

My question, therefore, is what happens when there is a single negotiating body that is made up of individual parts with their own vested interests or—given that the transatlantic trade and investment partnership and the comprehensive economic and trade agreement were politically controversial for many people—political views on the world? If the members—in our case, the devolved Administrations—cannot agree a single unified position before the negotiators go into the negotiating room, that puts us in a sticky position.

Ivan McKee: As you say, what is important is how you approach the negotiation and the intent that is there. Certainly, if we end up in a position in which we are having to negotiate trade deals because we are outside the EU—hopefully, we will not—the intent would be that we have to get the best deal for the whole of the UK, and Scottish interests need to be protected in that.

Clearly, there will be areas of disagreement and areas of different priorities, and those need to be worked through. That is part of the negotiating process. The EU brings 27 countries to the table when it negotiates, and the range of different objectives in that situation can be wide, given the range of countries that are involved. It has a very well-developed and mature process in that regard, which involves identifying everyone's negotiating stances and publishing them so that everyone can see what they are, and they move forward from there.

The fact that lots of parties are involved can give you strength. You could say that, in the

negotiations on Brexit, it is the EU that has had the most stable and clear positions, despite the fact that its negotiators represent 27 parties, and that it is the UK that, despite the negotiators representing only Westminster, has not had clarity about what it is looking for. The fact that you have lots of parties does not mean that you will have a confused position. It has been demonstrated that quite the opposite can be the case.

Jamie Greene: In an ideal world, that is the case. You have hit the nail on the head: if there is an established protocol by which dispute resolution can be achieved within a negotiating block, that is helpful. However, the issue that I am talking about comes up time after time. Italy is another great example of a country that sticks its boot in when it feels that it is appropriate to do so. Of course, these situations are altered by political shifts within each country's domestic landscape. For example, the Five Star Movement has a strategy in that respect, and has tried to put a block on the Australia trade deal. Even within the EU, such situations can arise.

I want to ask about your views on the nature of the types of bilateral deals that we are discussing. A year after CETA was introduced, we have an opportunity to analyse its success or otherwise. What we are seeing is that imports from the EU into Canada are massively on the increase, but exports from Canada into the EU are not. Many Canadian businesses are suffering due to the flooding of their country with zero-tariff goods, which is a concern in relation to their domestic markets. How would such issues affect us here as we start to negotiate bilateral deals? How do we protect Scottish interests in that regard?

Ivan McKee: I am not aware of the evidence that you are talking about, but that is interesting. If that is the case, that would point to the EU having negotiated a better deal. I think that it speaks to the importance of having a clear and well-understood negotiating position, and the strength that comes from ensuring that you have buy-in across all parties for what you are trying to achieve. It also speaks to the difficulty that we face as a result of the fact that, as we said before, the UK has not been involved in such negotiations in 40 years. It is not as easy as some would have you believe. You do not just rock up, do a bit of negotiating and sign a great deal; you need to understand clearly the implications of what is happening and what the risks and opportunities are, and you need to be able to leverage your interests through the negotiation.

The processes around those negotiations take a long time, because of their complexity. As I say, you need to understand very well what the implications of the outcome are for your consumers and your businesses.

Jamie Greene: Different parts of the UK will have different markets and strengths. For example, one region might have a seafood industry or a dairy industry that is stronger than another's. Equally, there might be shared interests. For example, Whitby, Cornwall and Aberdeenshire might have a common goal in the negotiations. Just to zoom in on Scotland, my question is, how would you approach those issues if you were around the negotiating table and were trying to promote Scotland's interests while being cognisant and respectful of the interests of other devolved parts of the UK?

10:00

Ivan McKee: At that level, it is about understanding clearly where our interests are. You highlighted some of them. As I said, the Scottish Government has put the capacity in place so that we understand that better and are able to articulate it better. It is then about having discussions on the upsides and downsides and putting forward the arguments and evidence that highlight why, based on what we will do, certain parts of the UK will suffer or benefit.

Clearly, it depends on who we are negotiating with on the other side and what their asks are likely to be. Depending on who it is, they will have different priorities. We must understand how best to play that. The Scottish Government's expertise in and understanding of engagement with sectors in Scotland must bring value and strength to a UK negotiating position.

Jamie Greene: Thank you. That is very helpful.

Stuart McMillan (Greenock and Inverclyde) (SNP): Towards the end of the process, when the treaties are concluded, what type of activity will the Scottish Government look for to monitor the impact of any trade deals that will be undertaken?

Ivan McKee: The process is new to us, as are the discussions with the UK Government on how that will work. At that stage, as from the beginning and as we move through the whole process, we need to understand the strengths of our sector and where the risks and opportunities are, and to do some analysis on that. We are creating the capacity to do that, so that, as we get through that process, we are able to present the data and say how the impact will affect Scottish producers and what we think the risks are in any given scenario. It is about having that data, analysis and impact assessment to hand, so that we can share and compare notes with the UK Government's data on various sectors, in order to reach the strongest negotiating position.

Stuart McMillan: Have you had any discussions with the UK Government on that type

of activity, or will you approach it closer to the time?

Ivan McKee: At the moment, we are keen to talk about all of it as much as we can. The discussion paper talks to all stages of the process. As I said, the issue is bringing the UK Government to the table to talk to us about pulling together the concordat, understanding each stage of the process, what that engagement looks like and the mechanisms whereby the Scottish Government, the Scottish Parliament and other devolved Administrations take part in that engagement. The UK Parliament also has a role in that, which, in our view, needs to be enhanced.

Stuart McMillan: On the aspect of the engagement with the Scottish Parliament, we have similar discussions around the secondary legislation in the Delegated Powers and Law Reform Committee; we had a session about that on Tuesday. What will the process be for the Scottish Government to keep the Parliament fully up to date on how the trade negotiations are developing?

Ivan McKee: We want to engage, involve and consult as much as possible because we think that that brings strength to the process. The Government is happy to provide information to committees and to the Parliament and to appear before committees to give regular updates. The only caveat is that, at various stages, there might be scenarios in which the UK Government does not want us to share confidential information more widely and publicly. However, outside of that, we are keen to engage with the Parliament and with wider sectoral interests across Scotland.

Stuart McMillan: You have said that you are keen to attend relevant committee meetings where that is possible. Is that notwithstanding that, occasionally, those sessions might have to be private rather than public?

Ivan McKee: Yes. Within those constraints, I am always delighted to appear before the committee.

The Convener: I have a supplementary point. When the First Minister appeared before the Parliament's Conveners Group yesterday, I asked her the same question. She said that she envisaged a very formal role for the Scottish Parliament in the scrutiny of trade negotiations. You will know that the European Parliament's Committee on International Trade has such a role. Will you expand on what the Scottish Parliament's formal role might look like?

Ivan McKee: I am sorry—I do not have any more specifics on that. I am not sure whether Reuben Aitken might want to add anything.

Reuben Aitken: I have nothing to add beyond what we set out in the discussion paper, which was that we want to make the process as transparent as possible because we believe that that is a better way to achieve more societal engagement and better outcomes for Scottish consumers and producers. However, we are keen to hear recommendations from parliamentarians, committees and the Parliament itself on what might be the most effective type of engagement.

The Convener: I am sure that the committee will be very happy to do that at the end of its inquiry. Thank you very much.

Stuart McMillan: I have a final question, convener.

The Convener: I am sorry, Mr McMillan—I did not realise that you had not finished.

Stuart McMillan: My question will be brief. Minister, in your earlier comments you used the words “trust” and “intent”, and you spoke about the EU having a “mature process”. You also highlighted the fact that the concordat is currently being developed. Have you seen the trust, intent and mature process to which you referred being displayed by the UK Government towards the Scottish Government and the other devolved Administrations?

Ivan McKee: It would be fair to say that, in those respects, the UK Government’s approach could be much better than it has been to date. That is probably due to the combination of capacity issues at the UK Government’s end that we discussed earlier, its lack of experience in trade negotiations and, frankly, the fact that the Westminster system is largely set up to focus on that Government’s priorities without necessarily taking into account the wider concerns of the devolved Administrations or the UK Parliament.

Stuart McMillan: Thank you.

Alexander Stewart (Mid Scotland and Fife) (Con): Minister, we have already touched on the need to enhance and protect the trade that we have. We are well aware—as are you—that Scotland has world-leading goods and services, and that our status in that respect must be secured. What stage has the Scottish Government reached in considering ways of selecting trade partners for future negotiations, and which countries we should deal with so as to enhance and protect our goods and services?

Ivan McKee: If only it were up to us to make such decisions, but I am afraid that it is not—yet.

A number of different scenarios are in play. I have mentioned our priorities as far as the rollover agreements are concerned. We have also clearly articulated to the UK Government the countries in which we have specific sectoral interests. For

example, I have mentioned the north African countries in which we have agricultural requirements.

We have commented at length on our priorities in the four potential new trade deals that the UK Government has identified, which are those with New Zealand, Australia and the US, and also the trans-Pacific partnership. The position is still uncertain. New Zealand is very small, and the trans-Pacific partnership is not yet established, so we would be coming in there at an early, embryonic stage. While the US might be our largest market, a trade deal with it would present many challenges as well as opportunities.

Currently, the European Union is by far our biggest trading partner. As I have already indicated, the Scottish Government’s position is that we should stay in it—or, as a minimum, in the customs union and the single market—so that we would not need to go through the whole trade negotiation process anyway. However, if neither of those options were to come to pass, we would have to negotiate a trade deal with the EU. To our mind, that is the priority. We have done our export plan analysis of the top 15 countries and almost all of them are in the EU, so we see that as the clear priority for securing a trade deal in Scotland’s interests and the UK’s interests.

Alexander Stewart: You have identified that there are a number of countries across the EU that you would prioritise to ensure that there is negotiation and that trade goes back and forward, but we are where we are with the negotiations at present. None of us wants to be in this situation, because we want to ensure that business and commerce are given stability and continuity so that they know what is happening.

Many businesses have worked to ensure that they have contingency plans in place. As we continue the process, what does the Scottish Government see as its role in ensuring that there is continuity and stability?

Ivan McKee: If you are talking about stability through the Brexit process, I find the way that the UK Government has handled that hugely problematic. Almost every day, I hear from businesses across a range of sectors about the challenges that that is causing them. It was hard to imagine that the position that we were in could get worse, but it probably has done, because we now do not even know what we do not know. Nobody knows what is going to happen, or when. For people who are trying to run businesses in that environment, it is hugely complex and very costly and problematic.

Given the chaos of the Brexit situation, I think that it is about supporting businesses to be able to deal with those challenges, try as best they can to

anticipate what may or may not happen and, in relation to the trade deals that we are talking about, move forward on the rollover. That still has a long way to go, because only nine of the 40-odd agreements that exist have been put in place, and many of them have been put in place only partially. That process needs to be moved forward with pace.

Alexander Stewart: We are having negotiations about the tariffs and supplies. Has the Scottish Government considered dropping any tariffs or discussed the process for the businesses that are looking for support?

Ivan McKee: Again, I note that it is not up to us to drop tariffs, but—

Alexander Stewart: What role does the Scottish Government have in that process?

Ivan McKee: As I said, it has none. The UK Government decided what it was going to do, and it did not consult or inform us. It just pushed ahead with that. Our perspective is that the amount of analysis and impact assessment that it did was minimal at best, which is a concern to us. There are risks that the approach could open up our producers to some challenges, perhaps in certain sectors, and, in relation to new trade negotiations, put us in a position where we have less negotiating capital to deploy.

Tavish Scott (Shetland Islands) (LD): Minister, are you prepared to concede that although we talk up trade deals, they have their limitations? Bombardier has just announced the closure of its operation in Northern Ireland regardless of the Canada-EU trade deal. Do you accept that although they are important for business, trade deals are not the be-all and end-all of the bottom line of any business?

Ivan McKee: Absolutely. Businesses will trade with businesses in the most difficult and complex of environments, because that is what they do. It is an important point. At the end of the day, it is businesses that trade and export, and they will continue to do that. The job of Government, in our view, is to support that process and make it as easy as possible.

The export plan that we published last week talks about the Brexit scenario and the trade deal scenario, but only briefly in relation to the context. It recognises that it is businesses that export and that there is a huge amount that the Government can do to support them to export, notwithstanding any trade deals that are or are not in place, by providing information, advice, support, connections, networks and focus across a range of opportunities.

It is clear that what you say is exactly right. Trade deals help to create an environment in

which trading can be made easier—or more difficult, if we get them wrong—but they are only one layer in the process.

10:15

Tavish Scott: I agree. Related to that, is it important whether businesses that operate out of Scotland are foreign owned or domestically owned? The two obvious examples in food and drink are the whisky industry and the salmon farming industry, which are predominantly foreign owned but are very much part of Scotland's food export business. Does it matter?

Ivan McKee: It depends on each case. We have all seen examples of both types of business. I worked in and lived through the time of silicon glen, which was problematic because so much of that was satellite plants of foreign-owned corporations that, for various reasons, moved the plants elsewhere. However, I regularly meet businesses that were Scottish owned and are now part of larger groups. The fact that those businesses are now plugged into international business means that they have a wider perspective and access to more markets, technology and investment, which has allowed them to go from strength to strength. Earlier this week in Glasgow, I visited a business that has trebled in size since it was taken over by a foreign group.

Whether it matters depends on the owners' intent and what they bring to the party. The Scottish Government and our agencies actively push foreign direct investment because it brings great value to the Scottish economy. A big part of what we do is to ensure that our businesses have deep roots, so that if foreign corporations acquire our businesses for their technology, their links to academic institutions, the skills and talents of their people or perhaps the natural resources that are inherent to their product or process, the businesses, regardless of their ownership, will stay in Scotland.

Tavish Scott: In relation to your point about your agencies, do I gather from your published documents that you are thinking of making plans for Scottish Development International in the context of what you have discussed this morning? Could you lay those plans out for the committee?

Ivan McKee: As we discussed, the role of SDI will not largely be on the trade policy side; it will continue to support businesses in all the ways that I have outlined and which are in the plan. We have doubled the SDI resource in Europe over the past three years and we have an export plan to continue to add market specialists in particular in our key target sectors to give us more depth and connections. At the end of the day, businesses

want to have opportunities highlighted to them, they want to better understand the market that they are going into and they want connections and networks that they can rely on. SDI focuses on those areas. The trade policy aspect of that is much more within Reuben Aitken's team in the Scottish Government directorate.

Tavish Scott: My last question is related to Tony Mackay's briefing paper, which was sent to your office. I thought that giving you a fair chance to look at it was a courteous thing to do. He made an interesting point about import substitution, which I had not thought about, and the context of facts, figures and data that would either support or disprove his contention that we are not doing enough. What is your take on that?

Ivan McKee: I am surprised that he did not find what he was looking for, because if he had looked for "import", he would have found that "import substitution" is mentioned in section 7. We identified that import substitution was outside the scope of the plan, because we had to draw a box around what we were going to focus on. To get the depth of analysis that we wanted, we focused on driving exports.

We recognise that import substitution is an issue. The plan highlights that we will look to follow up on import substitution in the context of its wider aspects and the quality of export. By "quality of export", I mean that a large part of some exports' value added is within Scotland. Clearly, those exports add more to the economy than exports that involve a company importing something, adding something small to it and exporting it again. We understand that, and we flagged up that through the next phase of the export plan, we will be doing some more deep dives in sub-sectors to understand their value proposition.

Another point that was raised in Mr Mackay's commentary concerned the trade deficit. That is also covered in the export plan and, contrary to what he asserted, the data is clear: Scotland runs, and has consistently run, a trade surplus. That is in contrast to the rest of the UK, which has not done so for some considerable time. In that sense, Scotland is better placed than the rest of the UK.

Tavish Scott: With whom is the surplus?

Ivan McKee: It is in international trade.

Tavish Scott: It is outwith the UK.

Ivan McKee: It is international: Scotland's international exports are higher than our international imports.

Tavish Scott: Is that fundamentally whisky and salmon farming?

Ivan McKee: It is a range of things. Clearly, oil and gas services and oil and gas themselves are part of that. It also includes different technologies and advanced manufacturing.

Annabelle Ewing (Cowdenbeath) (SNP): Good morning, minister, and thank you for coming to see us. We have had a very interesting discussion and I would like to pick up on a few points.

Tavish Scott mentioned the importance of the salmon industry. In Rosyth, in my Cowdenbeath constituency, Mowi has some 600 jobs in salmon processing, so I am well aware of that. In that regard, I refer to the point that the minister made about the role of government in business. Business will trade with business, but surely it does not look to governments to impose additional burdens. I am sure that everybody in Rosyth and elsewhere is watching the situation very carefully.

We received a copy of the excellent report, "Scotland's Role in the Development of Future UK Trade Arrangements. A Discussion Paper", in our committee papers this morning. I see that it is dated August 2018. I heard what you were saying about how discussions are on-going on a stop-start basis. Has there been any formal response to the paper from the UK Government? August was nine months ago.

Ivan McKee: There has been no formal response to the paper, but, as I said, in the UK Government paper that came out in the past few weeks, there were some paragraphs that mentioned what it sees as the role of the devolved Administrations. Reuben Aitken may be able to add to that.

Reuben Aitken: The minister is right that there has not been a formal response to the discussion paper. In the February 2019 command paper, "Processes for making free trade agreements after the United Kingdom has left the European Union", there were about six paragraphs relating to the involvement of devolved Administrations, with a lot pointing to future work that still needs to happen. As the minister pointed out, that relates to the concordat, which, we hope, will formalise a role for devolved Administrations and wider industry interests in the negotiation pathway and the nitty-gritty of developing good trade mandates.

Annabelle Ewing: Thank you for that helpful clarification. In the sections on process issues in the Scottish Government's paper, detailed proposals were made for a workable arrangement. It is disappointing that the UK's response to that has been six paragraphs that probably do not address the detail, because it is the detail that we need to sort out.

It is sadly still the case that we could see a no-deal scenario at the drop of a hat, because we

have no idea what is going on at Westminster. What is the timescale for the concordat? Neither I nor the minister wants this, but it might have to kick off quite soon, so what is the UK Government's intention on the timing?

Ivan McKee: It is disappointing that the UK Government has not seen fit to discuss the concordat with us and move forward with getting it in place. We have narrowly avoided—I have lost count—two cliff edges so far, and, as you say, who knows what is around the corner? The delay could be a significant issue, depending on how things play out over the coming period. We are disappointed; we would have liked to have seen more progress and we urge the UK Government to move forward and engage more seriously with us on those matters.

Annabelle Ewing: Another important issue that was raised was respect. I was appalled, although perhaps not surprised, to hear the minister say at the outset of his remarks that the first that he knew of the free-for-all tariffs was when the Prime Minister announced them. I do not see any respect in that—there was no prior notification or discussion. The Scottish Government has made practical proposals and if some kind of concordat is bashed out along some of those lines—I suspect that it will not take on board much of what has been suggested—how can we seek to ensure that Scotland's interests can be protected in subsequent trade negotiations, given the current constitutional set up? How can we ensure that Scotland's interests are not traded away—or ignored—by the UK Government?

Ivan McKee: You are right to suggest that Scottish sectoral interests might be traded away in the heat of battle towards the end of any international trade negotiation. Fisheries is an obvious example of a sector where that scenario might develop, but there is a risk in many other sectors, too. We have talked about building up that trust and it is hugely important that the different parties on the UK side are comfortable and familiar with how things are developing and where they are going. That process takes time. The sooner we start on that the better. Getting in place the building blocks, such as the concordat, is therefore doubly important, not just because doing that lays down the process, but because it builds the communication channels and deeper trust that is important for the whole of the UK, including Scotland, in any future trade negotiation.

Annabelle Ewing: I would argue that a very simple way to ensure that our interests are always protected first and foremost in trade negotiations is to negotiate them ourselves.

Ivan McKee: Indeed.

Kenneth Gibson (Cunninghame North) (SNP): Members will not be surprised to hear that I support what Annabelle Ewing has just said. From what we have heard today, it seems to be a case of Westminster knows best—although we know that it does not—and Scotland is left on the outside looking in. Is that a fair assessment of where we are with the negotiations?

Ivan McKee: That would be a fair assessment.

Kenneth Gibson: Over the years, I have spoken to some businesses in my constituency that are doing okay, but could do better. One way in which they could do better is by entering the export market. I am talking about fairly large companies with a significant number of employees that are doing well within the UK. In recent years, those companies have been deterred from exporting—perhaps for several reasons. How likely is it that the current discussions will encourage people to export? Are they likely to have the opposite effect and prevent companies from growing and exporting?

Ivan McKee: That backdrop and message are important: when businesses see barriers going up, uncertainty, lack of clarity and trade negotiation processes that could go on for years—withstanding the discussion I had with Tavish Scott earlier about the fact that trade deals are not the be-all and end-all—that sends a message and creates an environment that makes it less, rather than more, likely that those businesses will export.

It is interesting that Mr Gibson mentioned those kinds of businesses. In our export plan, those businesses are tier 3—businesses that are big enough to export, but have not yet done so. We see that layer as hugely important in our efforts to drive up Scottish exports. If there are businesses in his constituency that are potentially in that position, I would be interested in knowing about them and in meeting them to understand better what they see as the challenges and what the Government can do to help them.

Kenneth Gibson: I have one business in mind and I would be more than happy to assist in that.

It is clear that we have some vibrant sectors that are growing quite quickly. The salmon sector has already been mentioned and paragraph 36 of the discussion paper says:

“In 2017, 92,000 tonnes of fresh Atlantic salmon worth £600m was exported from the UK (of which 99% was Scottish), representing a 35% increase in value and 26% increase in volume from 2016.”

I should say that I have a constituency interest. W & J Knox of Kilbirnie was founded in 1778 and employs 130 people, and it actually backs on to my house. Despite it being in Kilbirnie, the company cleans the salmon nets for all the fish farms across Scotland. There are a number of

sectors that people do not automatically think of in terms of employment.

How will our international competitiveness be affected in areas such as salmon, for example, if they are not prioritised the way they should be? If 99 per cent of the salmon is Scottish and just 1 per cent is from the rest of the United Kingdom, it might not be given the same priority.

10:30

Ivan McKee: That is true. The aquaculture sector is interesting. Annabelle Ewing talked about Mowi in her constituency. It farms on the west coast and further north, although it has a large facility in Rosyth. I met representatives of Mowi when I was in Oslo a couple of months ago, along with other investors in aquaculture in Scotland. If we look at what Norway has done and compare its position to where Scotland is, there is the potential to add significantly to our export statistics in this sector. We are very much focused on that but, as Kenneth Gibson correctly identified, that growth potential is put at risk by the uncertain times that we are in and where the trade negotiations might go.

That is unfortunate because that potential is not just in the areas that we would expect. I am told by the Norwegians that Scotland has the best waters in the world for salmon farms because of the temperature. Shetland was identified as the best of the best. We do have potential and it is not just in those areas. As Kenneth Gibson rightly identified, there are businesses in the supply chain right across Scotland.

Kenneth Gibson: On export markets, the discussion paper notes the importance of the EU, which receives 43 per cent of our international exports. However, the USA receives 16.1 per cent of our exports. As a country, it is the largest of our export markets. I am interested in what the Scottish Government is doing to see whether we can continue to grow that market. Again, we know that there are issues with that and I will not touch on the clichés that we hear in the media all the time about specific types of poultry, for instance. What is the Scottish Government doing to preserve its links with that specific market, given its scale?

Ivan McKee: You are absolutely right; the US is number 1 out of our current export countries, and we see huge growth potential there. However, it is interesting—this goes back to the point that was made earlier—that a lot of businesses will trade there in the current trading environment and, although a trade deal might add some value, it is not the be-all and end-all for businesses wanting to continue to trade and grow there.

The US is a focus for SDI and for me. I will visit later this year to see at first hand what we are doing there and what we can do to continue to grow that market. We have a presence and SDI has a presence in a number of states in the US, focused on different sectors, whether it be oil and gas in Houston, technology in Boston or Silicon Valley, and so on. We see great opportunity in the US and we are keen to continue to build those links to increase exports.

Kenneth Gibson: It is also interesting that the US and our second biggest export market, the Netherlands, are traditionally our two biggest inward investment partners. How is this scenario affecting inward investment? In recent years, Ernst & Young has produced annual figures that show that, outside London and the south-east, Scotland has attracted the third biggest inward investment of the 12 UK regions and nations through jobs and new companies and so on.

Ivan McKee: The current scenario is not helpful. Businesses have to make decisions on where to invest internationally and, if I am not mistaken, the data shows that uncertainty around Brexit has had an impact on the whole of the UK, which of course affects Scotland's position in that environment. As you rightly identified, we work hard to be at the top of that tree. We have done well and we continue to push on that. We are right at the top for research and development investment over the past year, ahead of any other part of the UK. That is a great success, but the Brexit environment is making things difficult, because it is hard for businesses to factor the uncertainty into their investment decisions.

Jamie Greene: The First Minister stated in recent days that every Government minister and directorate will review their policies in the light of the declared climate change emergency. Will that alter the amount of resource or work in your department that goes into the energy sector, specifically carbon energy? You mentioned your office in Houston that supports the oil and gas sector. Is there potential that you might reduce activity in your portfolio due to recent movements?

Ivan McKee: The key issue is transition, and Scotland is leading the world in technology in the renewables sector. That is recognised and, when I visit the international markets, I see the high esteem in which the Scottish renewables sector is held, including the technology that we have in place in that rapidly developing sector.

It is about how quickly we manage the transition, and we have tremendous scope for that. The statistics for the amount of renewable energy we generate in Scotland continue to outpace all the estimates and forecasts. Recently, in Oslo, I met representatives of Equinor, which has chosen Scotland to invest in the world's first commercial

offshore floating wind farm. That is a step change in the technology.

Scotland is well placed for all the renewables opportunities. The biggest single contribution that my department can make in the innovation and trade spaces that I am responsible for is to do as much as we can to generate innovation in the renewables sector to accelerate the transition.

Jamie Greene: If a traditional carbon energy company approached you or any of your agencies for assistance, would you say, “No, thanks—we are focusing on environmentally friendly energy at the moment”?

Ivan McKee: There are processes in place at the moment, and we have long-standing arrangements with businesses in all sectors that we continue to support. The point that I made is about the transition. It is not a cliff edge; it is a transition, and it is about accelerating the transition so that the renewable technologies are moved even further ahead than they already are.

I mentioned Equinor, but all the businesses in that sector understand very well that the transition is hugely important. A few weeks back, I was at the Oil & Gas Technology Centre in Aberdeen and, despite its name, a huge amount of what it does is renewables focused, and that continues to increase. We and the sector understand that it is all about driving the innovations—whether in wind, hydrogen, the adoption of electric vehicles or heat solutions—to accelerate the trend.

Claire Baker: It might be too early to say—or the decisions might be kept behind closed doors—but I think that we have an understanding of where Scotland might see opportunities, whether that is in access to specific markets, services or procurement. We can see where the positives are, but there is an expectation that there will be compromises and we will have to be prepared to trade something in exchange for those benefits. For example, Mr Gibson mentioned American chicken; the loosening of regulatory standards is one possibility and having tariff spikes on certain products is another. Can you say what Scotland might offer in exchange for some of the things that we are looking for?

Ivan McKee: That is a valid point and I am glad that you raise it. We have not really touched on that, as we have tended to focus on the impact on producers and consumers.

There is a range of regulatory aspects, whether on the environment, workers’ rights, food standards or animal welfare, that are hugely important in the Scottish context. The fact that many of those issues are devolved highlights our point that trade deals these days are complex—they are not just about selling widgets; they have much wider impacts than that. There is an impact

on many devolved aspects, which is why it is so important that the Scottish Government and the other devolved Administrations are involved throughout the trade negotiation process. Access to our national health service has been talked about, too.

In all those areas, the Scottish Government’s position is that we want to maintain our current standards and we would be strongly opposed to anything that opened up our NHS or any other aspect of our public sector to unwanted inputs from businesses that might seek to privatise or otherwise challenge some of those services. We are very firm about that, and we would put that position on the table as part of any trade negotiations, depending on how they unfolded.

Claire Baker: It could be suggested that that is quite a protectionist approach. The US is seen as quite an aggressive negotiator; will it be possible for Scotland and the UK to get trade deals with the US if such an approach is adopted? It might not be the time to talk about where we would make concessions, but there is a trade-off involved in making such deals. Does the UK understand the rules of the game when it comes to international trade?

Ivan McKee: Given that there is a lack of experienced trade negotiators, that is a potential challenge. Mention has been made of the deal between Canada and the EU; not all trade deals are good deals. If you negotiate a bad trade deal, you end up in a worse position than where you started from. It is very important to understand what you would gain and what you might lose as part of that process and to go into it with your eyes open. The be-all and end-all is not to negotiate trade deals if those deals will not help you to deliver what you are trying to achieve, whether for the economy or for wider society.

It is all about what happens in the negotiations, so it is very important that, when aspects are being dealt with on which we have a different perspective from the rest of the UK, our input to any UK negotiating position on a potential deal is such that Scottish interests are to the fore.

The Convener: It is interesting that you mentioned the NHS. When we took evidence from international trade experts a few weeks back, we talked about the importance of setting the red lines of one’s negotiating position at a very early stage. When I pointed out to those international experts that the Scottish NHS was independent of the UK NHS and that concerns had been aired publicly that the Scottish NHS could be opened up to more marketisation as a result of international trade agreements, they said that it is possible to specify at the very beginning, before the start of negotiations, that the Scottish NHS should be treated separately because it is not marketised in

the same way as the English NHS. Is the Scottish Government aware of that option? Are you looking into the possibility of doing that? I am thinking of a trade deal with America, in particular.

Ivan McKee: Absolutely.

The Convener: Okay. Are you able to give us any more detail?

Ivan McKee: Of course we are aware of that option. I am glad that you have given us the opportunity to raise the issue, which will be very much to the fore of our thinking if and when we get to the stage of making inputs to any UK trade negotiations.

The Convener: Thank you.

The committee is aware that the issues of state aid and geographical indication status are ongoing areas of disagreement between the Scottish and UK Governments. The UK Government believes that those are reserved matters, even though they are not specified as such in the Scotland Act 1998. What are the implications of that position for the devolution settlement?

10:45

Ivan McKee: I will bring in Reuben Aitken, because this is quite a technical area.

On state aid, the issue is not necessarily that we would be freed from the state aid rules and we could do what we liked, because in trade negotiations with partners—the EU is the obvious example—the concept of a level playing field applies. If we were negotiating a trade deal with a country and we intended to subsidise business to export to that country, it would feel that that was unfair, so that would form part of the trade deal negotiation.

I think that it is fair to say—Reuben will correct me if I am wrong—that the UK Government has stated that, in future, the state aid rules would broadly stay the same as they are at the moment. It is one of those areas in which there is disagreement about the wording of the 1998 act when it comes to where the responsibility lies, but I do not think that that would necessarily lead to any different approaches in the immediate term. The issue of geographical indication status is a bit more complex, so I will leave that to Reuben.

Reuben Aitken: I agree with what the minister said. For us, the important thing here is the close alignment between Scotland and the EU on the state aid principles and geographical indication status. Both of those are very important to how the EU does business and to trade in its internal market, and the Scottish Government recognises their importance.

I do not want to segue into a long debate about which aspects are devolved under the devolution act and whether state aid and geographical indication status are devolved or reserved. The important point is that they are very important to Scotland's trading relationship with the world and that our alignment with the EU's position on the application of the state aid principles is a sensible approach. Likewise, we see geographical indication status as having an important role in preserving and protecting Scottish brands, just as the EU sees it as having an important role in protecting EU brands. There is a strong sense of alignment there.

The Convener: Thank you. We have had a very wide-ranging discussion. Thank you very much for coming to give evidence. We are slightly ahead of time, but we will now move into private session.

10:47

Meeting continued in private until 11:05.

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