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CONSTITUTION, EUROPE, EXTERNAL AFFAIRS AND CULTURE COMMITTEE
28th Meeting 2024, Session 6

CONVENER

*Clare Adamson (Motherwell and Wishaw) (SNP)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*George Adam (Paisley) (SNP)
*Neil Bibby (West Scotland) (Lab)
*Keith Brown (Clackmannanshire and Dunblane) (SNP)
*Patrick Harvie (Glasgow) (Green)
*Stephen Kerr (Central Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

William Bain (British Chambers of Commerce)
Adam Berman (Energy UK)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Constitution, Europe, External Affairs and Culture Committee

Thursday 12 December 2024

[The Convener opened the meeting at 09:00]

Review of the EU-UK Trade and Co-operation Agreement

The Convener (Clare Adamson): Good morning, and welcome to the 28th meeting in 2024 of the Constitution, Europe, External Affairs and Culture Committee. We have received apologies—sorry, that is not relevant any more, as Keith Brown has joined us.

Our first agenda item is to continue to take evidence in the second phase of our inquiry in relation to the review of the European Union-United Kingdom trade and co-operation agreement, focusing on trade and services. We are joined online by Adam Berman, director of policy and advocacy, Energy UK, and William Bain, head of trade policy, British Chambers of Commerce. Welcome to you both and thanks for joining us.

I will start with a question to each of you individually. Mr Bain, in a news release last month, you said:

> "The UK economy is now 81% services based, and increasing amounts of these activities are exportable to customers overseas",

and you particularly highlighted

> "Growth and consumer demand in the Asia-Pacific region".

What is your sense of the balance between UK-EU services trade and trade with the rest of the world? How has that balance changed following Brexit, and what are the determining factors behind any such change?

William Bain (British Chambers of Commerce): Good morning. It is very interesting to look at what has happened to services since Brexit. In that period, there has been an increase of 9 per cent in services exports from the UK to the EU—there has been growth. Services exports from the UK to the rest of the world have increased by 13 per cent. That demonstrates the continued shift in the economy towards services jobs and services opportunities, as well as a growth in the exportability of services that are provided by firms, employees and contractors here in Scotland.

During the pandemic period, there was quite a big shift to the remote supply of services. Globally, there has been a 40 per cent increase in the degree of services that are provided in what is known as mode 1, which includes the remote provision of services. That was a trend of the pandemic period, and we will see to what extent it continues, as things have unwound somewhat in the past four years. There is an indication from Office for National Statistics data that there is a bit of a return to the in-person provision of services compared with the peak of 2020. However, globally, the trend is for an increase in demand for trade in services, whether those are financial, business, professional, travel, transport or—as is increasingly the case—cultural.

The Convener: Thank you. Mr Berman, Energy UK said that, post-Brexit,

> "the UK moved to a set of less efficient trading arrangements with the EU"

and that

> "Whilst some sectors were able to redirect trade flows to work around these new barriers, this wasn't possible for energy."

Will you expand a little on what the barriers have been in your sector? Do you have any suggestions for changes to the TCA that might help?

Adam Berman (Energy UK): Good morning. When it comes to energy, there is a physical reality within which some other sectors do not trade. There are physical electricity and gas interconnections between the UK and Europe—both EU and European Economic Area states. There are no other physical interconnections, just because of the geography. That means that Brexit profoundly affected the energy sector and continues to do so under the new standards and framework that the TCA set up after the end of the withdrawal period.

Today, the primary issue is in electricity trading. The UK has moved to a less efficient form of such trading, which constitutes a relatively small regulatory barrier—but a barrier nonetheless—that leads to increased energy costs for UK consumers to the tune of a few hundred million pounds per year. The figure moves depending on the energy prices that underpin it but, in the course of one or two parliamentary sessions, those are sizeable amounts of money that lead to higher energy bills for consumers across the UK.

One area that absolutely needs to be addressed in the TCA, and any possible review of it, is electricity trading arrangements. At the moment, we have an unsatisfactory arrangement, with an ambition to move towards what, notionally, should be a better one. The current arrangement involves a slightly wordy concept called multiregion loose volume coupling, or MRLVC. The energy industry has recognised that the TCA was signed in some haste and that MRLVC is perhaps not a long-term solution. Therefore, we are urging both sides to come together and figure out whether there is a better one. We feel that there could be a solution that would fit within both sides' legal and political frameworks and red lines.

However, we have a timeline issue. As of today, the current arrangement is having an impact on investment, particularly in the North Sea. Complex infrastructure of the type that will form the next generation of clean energy infrastructure there, which will rely on our having incredibly efficient trading arrangements, cannot be run by someone sitting at a terminal and saying, "I am going to send this wind over here and this solar over here"—it will need to be completely automated.

Another issue is that the electricity trading chapter of the TCA is explicitly linked to the fisheries one. Both chapters will be up for review in 2026, which means that electricity trading—an area in which we hope that both sides will agree on the need for net zero, cheaper energy bills and energy security—could possibly become slightly politicised by being thrown into the mix along with fisheries. We are therefore encouraging the UK Government, supported by the devolved Administrations, to move forward on electricity trading as soon as possible, so that we do not end up in a fractious and unhelpful discussion in 2026.

The Convener: That is very helpful. Thank you very much.

We move to questions from committee members.

Alexander Stewart (Mid Scotland and Fife) (Con): My question is for Mr Bain. The fact that the UK Government is now talking about a reset suggests that there could be opportunities in the future. It would be useful to get a flavour of whether you see such a reset as a positive development as far as our ability to continue to trade is concerned, and whether it could unlock the provision of more services in some sectors. Over several months, the committee has taken evidence from individuals, organisations and sectors that have told us about various difficulties. Others have told us how they have developed, progressed, changed and adapted to ensure that trade continues to flow. Could you give us an indication of how you see the whole reset happening and how it might change things?

William Bain: We welcome the opportunity for a reset and for the enhancement of the TCA. For around four years, the BCC has campaigned for improvements to be made to the agreement. Evidence from a survey of our members consistently indicates their dissatisfaction with how barriers to trade inhibit the growth of their businesses. Only 40 per cent of them believe that the trade and co-operation agreement helps export growth, which shows the need for improvement there.

Specifically on services, we conducted a survey in July and August, which we will publish in full in our policy paper on 23 December—we will make sure that the committee gets a copy of that. Of the more than 1,300 respondents, 56 per cent were service companies. In total, 46 per cent said that easier movement of personnel between the UK and the EU was the most important thing that would help trade with the EU—that was the top option.

Companies tell us that they are still having problems securing secondments for staff so that they can work from company offices in the EU. There are problems with the rule on the number of days for which people can stay—for short-term stays, it is 90 days in every 180. The range of activities that are permitted is sometimes subject to member state reservations, which vary from country to country, and there are the block reservations that are set out in annexes 21 and 22 of the TCA. We need a broader range of activities that businesspeople from the EU can do when they are in the UK, and that UK businesspeople can do when they are in the EU. I think that those are the key areas that businesses want to see progress on.

The issue of mutual recognition of professional qualifications was among the top four areas that businesses want to prioritise in the reset. Nearly four years on from the TCA, it is interesting that that is still a problem in areas such as law, accountancy, auditing, architecture and design.

Alexander Stewart: We have heard that loud and clear from some of those sectors, which have given evidence to the committee about the qualifications, the difficulties that they have and how they are having to adapt or circumvent issues in some ways. Given your trade obligations, what are your real asks as part of the reset?

William Bain: On 23 December, we will publish about 13 recommendations specifically on the reset process. On services, we think that there should be a review and a loosening of the restrictions in annexes 21 and 22. We need more flexibility so that business travellers can go to the other market, advertise their services and secure more clients and customers. That is really important for gaining more services trade. We think that revising some of those problematic restrictions is one tangible example of a thing that both sides could do.

We also support a youth mobility scheme, which is important for dealing with skill shortages in the UK and Scottish labour markets, as well as promoting cultural, educational and economic exchange. Ultimately, the EU and the UK can give a steer to regulators. It was regrettable that we did not get a deal on mutual recognition of architectural qualifications. We need to do better to make sure that that is righted and, to be frank, extended to a range of other professions. A mutual recognition agreement can give an important policy steer, but it also sets a legal basis for more agreements between regulators on professional qualifications in the future.

Neil Bibby (West Scotland) (Lab): Good morning, Mr Bain and Mr Berman. We are talking about the review of the trade and co-operation agreement between the European Union and the United Kingdom, and you have set out areas for the United Kingdom Government to try to address with the European Union. Could you set out any areas where you think the Scottish Government could help businesses to navigate the new arrangements, particularly in relation to emerging sectors such as fintech or the creative industries, whether that involves information, guidance, resourcing or the skills agenda more generally? I realise that many of the key issues are for the UK Government to seek to address, but where can the Scottish Government assist businesses that work in the services industry?

09:15

William Bain: That is a good question. You will be aware that the Scottish Government provides specific forms of support to businesses here, for export promotion and support, which are additional to and separate from those provided by the UK Department for Business and Trade. For example, Scottish Government support was invaluable in helping the Glasgow Chamber of Commerce with its superb trade mission earlier this year in the ASEAN—Association of Southeast Asian Nations—countries, and in the Asia-Pacific region more widely. That involved taking innovative Scottish companies to market their goods and services and win new customers.

That type of effort recognises the value of export promotion. The BCC has just done some work with our insights unit on the issue and found that, if we can increase our exports by 2 per cent, that will have an impact on economic growth of up to 0.7 per cent. Enhancing international trade is not just a good thing in itself; given the improvements in productivity and investment that it brings, it is also good for growth.

The allocation of resources is a matter for members of the Scottish Parliament to decide on, but we would say that enhancing export support will help trade in services. For emerging Scottish companies in the great clusters here—such as those in fintech in Edinburgh, the gaming industry in Dundee, and financial and business services in Edinburgh and Glasgow—additional export support is vital to winning extra business.

Neil Bibby: Mr Berman, do you have any thoughts?

Adam Berman: I certainly agree with that. From the perspective of the energy sector, there are a number of distinctive problems that we face, some of which would be well served simply by the support and influence of the Scottish Government. Often, the problems relate to visas and the movement of people. It is about ensuring that the message comes across loud and clear that we particularly need people with relevant skills for things such as nationally significant clean energy infrastructure projects.

Beyond that, the specific example that springs to mind is an issue that we may well talk more about in this meeting. It is about emissions trading and the carbon border adjustment mechanism, which is a sort of carbon tax that the EU will apply at its borders from 1 January 2026. There will be a significant barrier for businesses across the UK that are trading into the EU after the carbon border adjustment mechanism is implemented. It will be particularly acute for the energy sector, in ways that we can go into later.

The UK emissions trading system is not just a Westminster competency; it is governed by the UK and devolved Administrations through the UK emissions trading scheme authority. It would be really helpful for the Scottish Government, in its role as a key partner in the UK ETS authority, to push towards a solution to that problem, which we believe would be in the form of a linkage between the UK ETS and the EU ETS.

That is an issue where the solution is about both applying the leverage and influence from the Scottish side on the UK Government, and ensuring that a clear voice is heard in Brussels, from different parts of the UK, talking about the importance of alignment on such issues.

Neil Bibby: Thank you for those answers.

Patrick Harvie (Glasgow) (Green): It might not surprise the witnesses that my questions follow on quite well from the points that Mr Berman just made.

You mentioned the idea of a price link between the UK and EU emissions trading schemes. You also talked about skills in relation to clean energy infrastructure, and about multiregion loose volume coupling being the solution to efficient electricity trading, which sounds like a wonderfully geeky subject that I will have to read more about.

Those are current issues. I ask that you look ahead as we consider the other changes that need to happen for us to transition to a sustainable energy system. What in the current arrangements might inhibit that transition? What aspects of a review—whether that is decarbonisation of heat, where the skills and experience of other European countries are decades ahead of that of the UK, whether that is building more transmission connections between the UK and other European countries or whether that is the emergence of something such as green hydrogen, the production and export of which could play a significant role—might help to resolve the issues that we will encounter?

Adam Berman: It is an unavoidable fact that the UK has an intrinsic, physical interconnection with the EU through the pipes and wires that run underneath the North Sea, the Irish Sea and so on, which will become only more important over time, as you have said. It is worth recognising that the electricity trading issue, which affects both UK and Northern European consumers in the form of higher energy costs, not only is the main problem that we face today but is one that will expand over time.

From the energy sector's perspective, the regulatory barriers that we face between the UK and the EU constitute a drag on the UK economy to the tune of about £10 billion, and that number will only increase over time. The more interconnected the infrastructure that we build and the more inefficiency is built into trading arrangements, the higher those divergences will become and the more British consumers will suffer as a result, so there is a real need for urgency on the matter.

We have talked about electricity trading. The next biggest issue is carbon pricing. In the TCA, the UK and EU committed to giving "serious consideration" to linking their emissions trading systems. Frankly, our emissions trading system is a mirror image of the EU's. There have been some small changes since we left the EU, but they were minimal. We are facing a really significant barrier—

Patrick Harvie: Could I break in at this point? Would you go as far as to say that there should not be two separate systems?

Adam Berman: The UK Government made a decision—born out of the political red lines at the time of the Theresa May Government—not to remain part of the EU emissions trading system. All I can say is that the energy sector's original position was that we should absolutely remain in that structure. However, the second best option is to create our own emissions trading system and to link it to the EU's—other linkages have been done round the world, particularly between the EU and Switzerland, so it is a fairly well-trodden path—which would still allow the UK access to most of the levers of control of that system. Inevitably, a relatively high degree of alignment between both sides would need to be in place, too, and there would need to be a negotiation on exactly what that would look like.

That is the problem today. If nothing happens to address it, clean home-grown power from the UK—let us say, wind from the Highlands that ends up being exported into the EU—will face a de facto tax on arrival into the EU as of 2026, because of how the EU carbon border adjustment mechanism works. To the best of our knowledge and understanding, there is no other way to address the issue than ETS linkage. That is the next problem, which will be a feature of 2026, 2027 and 2028.

If we look beyond that—you mentioned heat decarbonisation—one other interesting area that ETS linkage will set us up really nicely for is that the EU is moving toward applying a carbon price on transport and building sectors as well, which it calls ETS2. The UK Government has not decided what to do with such sectors, but ETS linkage—linking the main ETS between the UK and the EU—opens the door to more of a relationship when it comes to heat decarbonisation, which would be a really interesting development.

As we look into the future, the clean energy infrastructure that we really want to build between both sides will be highly complex and interconnected. For example, a wind farm in the North Sea might be connected both to Scotland and Norway; it might even be connected down to Germany. Therefore, we would want there to be highly efficient trade between all sides, with electrons moving around to where the markets are cheapest and everyone benefiting when it is windy and they can make use of cheap electricity.

At the moment, those projects are effectively deemed to be uneconomic because of a combination of electricity trading and the carbon border adjustment mechanism. If we can link our ETS and deal with the electricity trading arrangements, that will open the door to more comprehensive co-operation in the 2030s on clean electricity and on things such as hydrogen, which both fall under the carbon border adjustment mechanism. If we want to realise the full potential of the North Sea, we will need a relatively high degree of alignment on those areas.

Patrick Harvie: That is really helpful; thank you.

Mr Bain, do you have anything to add from the British Chambers of Commerce point of view?

William Bain: We strongly support ETS linkage because we believe that it is important for pan-European investment in energy and for the competitiveness of UK exports, not only in relation to those areas that Adam Berman mentioned but in relation to goods that contain steel, iron, aluminium, fertiliser and cement. The competitiveness of our exports into the EU would be seriously affected if we do not have ETS linkage.

As someone once said, “The clock is ticking.” That is a real priority for next year’s reset negotiations, because a hard deadline is coming in January 2026, when the charging part of the EU CBAM starts. It is also important to put that in the context of alignment with the UK CBAM. There are slight differences, such as the fact that it would not include trade in electricity but would include trade in hydrogen. All those elements must be looked at in the negotiation, and we think that linkage is vital for investment and for export competitiveness.

Stephen Kerr (Central Scotland) (Con): I will ask a question from a layman’s position. Mr Berman, will you describe, in layman’s terms, the dynamics of the electricity market between the UK and the EU? I understand that there have been record levels of imports and exports of electricity in the past couple of years, and you are describing the improvements that you would like to make. Will you elaborate on that for me?

Adam Berman: Of course. Electricity moves from side to side based on need. The economics of that are fairly simple: when there is a higher price in one jurisdiction and a lower price in another, electricity naturally moves to where there is a need and where it can bring prices down.

The problem is that we have moved away from engagement in a set of EU institutions and frameworks. For example, the EU uses a particular trading algorithm called single day-ahead coupling—SDAC—that the UK no longer has access to. Our going through slightly less efficient forms of trade has a cost. We have moved from the implicit trade that happens in the internal energy market of the EU to the more explicit versions of trade that the UK now has to use when trading with the EU. There is a regulatory barrier, with more obligations on traders, and a more complicated mechanism.

That does not mean that electricity will not trade between the two sides, but it is a bit more complicated and expensive to do so. There are two reasons why we should care about that, aside from the immediate costs that we face today.

The first reason is that the UK will become a net exporter of electricity. Things have been the opposite way round—we have been a net importer in recent years—but, as we moved into the 2020s, every forecast said that the UK will be producing a hell of a lot of home-grown, clean energy, which will mainly be from wind and solar. That will be exported at times when we have low demand and, for example, very high wind speeds in the UK. We want to benefit from those export opportunities but, at the moment, the electricity trading arrangements limit the potential for that.

09:30

The second reason is related to the North Sea and the complicated offshore infrastructure, which is almost completely held back by the electricity trading arrangements. Whether those projects can go forward is a pretty binary matter, even with a relatively high degree of, let us say, Government support from the UK and a European partner country.

Therefore, whether we do it today or in 2030, we will have to look at the issue, because it will cause significant problems further down the line, once we move to a much more highly interconnected energy system than we have even today.

Stephen Kerr: I want to ask you about the dynamics of what has happened over the past few years, particularly since the Russian invasion of Ukraine. Energy prices have skyrocketed on the continent and here. The Germans have their particular problems, which we need not go into but of which we are all aware. Is there pressure in the EU for a deal in that area? You are lobbying on this side of the water. Given the energy cost crisis, is the whole of Europe facing pressure to bring about the improvements in the mechanism for trading that you are describing or is it a war of words as usual?

Adam Berman: There is certainly pressure from European industry, and the energy sectors on both sides of the Channel have the same view on the issue. Recently, we and a whole set of major European energy companies sent a letter to the European Commission to outline what we felt was an industry solution to the problem, showing that there is agreement on both sides.

This is the fundamental point that we come down to: like so many areas, although the issue is relatively small—I think that it is important—it is one of many divergences that has a small but incremental cost over time. That means that, from the perspective of Brussels and policy makers in the European Commission or of the Council of the European Union, we inevitably come back to the same discussions on not wanting the UK to cherry-pick solutions. It is entirely reasonable to not want the UK to get access to certain parts of the single market, which, in our case, would be through the internal energy market.

Therefore, yes, there is support for a deal, particularly from some of the northern European countries that are most affected by the situation, and we find support in the Council of the European Union. However, at the moment, I would struggle to say that there is a clear clarion call across Europe for a deal. That is not because it is not seen as important. It is because it affects only northern European countries—they are the only countries that have a physical interconnection with the UK—and because there are issues such as this across every sector, so different European countries are worried about different pieces of the puzzle. I would love it if the European Commission were to say today, “We absolutely want a deal.”

The slight frustration that we have found from the energy sector side is that, although I appreciate that it has not been in place for long, the UK Government has yet to sketch out any demands for a starting point for negotiation. When you do not sketch out your demands, all that happens is that Brussels moves first to sketch out its demands and then frames the terms of reference for the entire negotiation.

Of course I would like Brussels to move further in showing an interest and an appetite for this, because it is a win-win situation for both sides. However,equally, the UK Government has spoken a lot about a reset of relations with the EU, which is wonderful, but it has not provided any detail on what would sit beneath that. I strongly encourage the UK Government to be clear that it wishes to address this area, because, if it does not, Brussels will take that as a sign that the issue is not that important and that there are perhaps other things that the UK wants to deal with rather than electricity trading.

Stephen Kerr: The way that you have described it demonstrates that it is clearly important for the UK and EU member states. I will ask you the question again in order to get a clear understanding. I am thinking about EU member states and particularly those that have been the worst impacted by energy prices. I have a family connection in northern Europe, so I know about their energy bills and what they are having to deal with is horrific. Is there sufficient pressure from member states on the Commission or within the various councils of the Council of the European Union to make it possible for some of those barriers that you have described to be overcome?

Adam Berman: If the UK Government was forcefully pushing on the issue, both in public and behind the scenes, in combination with northern European member states, I think that that would be enough. However, given that the UK is not really making any noises about it in public, Brussels does not quite know how to respond to that, because it is very hard for it to interpret what that means.

In principle, there should be no reason why we cannot find a solution to the issue. The pressure from northern European member states should be enough to allow a deal to be found, but, equally, the UK Government needs to come out and say something. I know that that will be uncomfortable for the UK Government, but, at the end of the day, that is the only way that this will work.

Stephen Kerr: I have a final question for you before I turn to Mr Bain. You mentioned fisheries. Will you weave that into the context to help me to understand the position? Is a deal on fisheries a pretext for any of the other things that we are talking about, or is there something else about fisheries that I do not understand from what you said earlier?

Adam Berman: That is a very good question. When the TCA was being negotiated, the European Commission knew that the UK had asks and wanted things to happen on energy, so it made the explicit decision to link the energy chapters and, in essence, the fisheries bit of the TCA such that, if and when they came up for renegotiation, both would have to be done at the same time, so the UK would have to deal with an issue that it did not really want to discuss along with an issue that it did want to discuss. That was a negotiating tactic—probably quite a good one—from the EU.

We have been encouraging the UK Government to move really quickly on the issue, because there is no reason, in principle, why we have to wait until 2026, when the formal review will happen if there is a renegotiation. At that point, those two negotiations will, by default, go hand in hand. There is simply no escaping that; that is the legal structure of the TCA. We have said to the UK Government that it should try to have the discussions before 2026 so that the negotiations do not get sidetracked by the politics of fisheries. There is every reason to suggest that the UK Government could do that, but it will need to move a little faster than it has done to date, because, otherwise, we will be talking about electricity trading in the context of cod, and I am not sure that that will be helpful to anyone.

Stephen Kerr: The problem is that every report in serious media about Brussels’ position on the review of the agreement mentions the issue of fish as being up front, not behind the scenes. Brussels is up front that a deal on fisheries is a pretext for anything else that is talked about. That will, I suspect, be problematic for the UK Government.

Adam Berman: It probably will be, but we should differentiate between areas within the TCA in which the UK would like to resolve problems and make incremental improvements and areas outside the TCA that require a new deal on X, Y or Z. In order to get a deal on any of those latter, newer areas, the UK will need to enter into a proper, formal negotiation with the EU. That will likely happen after the Prime Minister’s summit with the President of the European Commission, Ursula von der Leyen, early next year. However, on the areas that are already in the TCA, including electricity trading, there is no reason why we have to wait until there is a big reset, a big negotiation or a big summit. Under the TCA, there are mechanisms—in this case, it is the specialised committee on energy; a number of specialised committees fall beneath the TCA—that are designed to resolve issues.

On the electricity trading bit of the TCA, the Commission promised, on its side, to see whether it could make work a rather abstract concept—multiregion loose volume coupling—and it had a number of deadlines by which to try to make that work. The Commission has not met those deadlines; there has been a failure on the European side to make that work. Therefore, I think that it would be absolutely fine for the UK Government to publicly say, “We would like to see whether, over the next six to 12 months, we can come up with a better solution. We will do that through the specialised committee on energy, and the issue is not linked to fisheries. Let’s see how far we can get.” We might not be able to get all the way before 2026, but we might at least reach a minded-to position, with good faith being built up on both sides. From our perspective, that would be a really sensible solution.

A vast political summit would not be required to make that possible. It would simply require the UK Government to say, “We would like to resolve this issue through the specialised committee, and we really look forward to working with European partners on it and to engaging in discussions in good faith.” As you rightly say, there is no reason why we just have to wait until some of those quite political discussions come in 2026. We could act now to resolve some of those issues.

Stephen Kerr: I hope that both sides of the table are listening to your positivity and enthusiasm about how it is possible to bring about an agreement to remove those barriers.

Mr Bain, in your evidence to us this morning, you mentioned youth mobility as a key British Chambers of Commerce ask in the review, and you mentioned a skills shortage. I am a bit confused, if I am honest with you, because the current political debate in the UK is dominated by last year’s net migration figure of a million people coming to this country legally, with skills shortages as a justification for those people entering the UK and living here. What specific skills shortages would a loosening of mobility with the EU address?

William Bain: We are still seeing shortages in areas such as care and hospitality. Those shortages are widely known and reflected by industry groups and they come through in BCC surveys as well. There are clearly areas of the economy where there are gaps and, despite the employment market being tighter than it was a couple of years ago, there are still areas where it is difficult for employers to fill vacancies. Traditionally, one of the ways in which they were able to do so was through short-stay visitors from the EU coming to do those jobs for short periods.

Whatever expression, such as youth experience scheme, is used now, it is important that any scheme that is agreed would cover—yes—a right to work over a short period, but not free movement. The scheme would be time limited and subject to enforcement and removal at the end of that period. Of course, the UK has mobility schemes in operation with a variety of countries, including Australia, as part of our recent free trade agreement, so it is not free movement that we are calling for but a time-limited scheme.

Such schemes are also important in facilitating cultural exchanges, as well as improving the arrangements that we have for school visits. Therefore, a wide range of issues need to be considered as part of such a scheme. It is a priority that our members come back and speak to us about—it is in the top six areas where members would like to see progress, in relation to the wider economic benefits as well as dealing with skills shortages in some geographic areas and economic sectors.

Stephen Kerr: Therefore, the skills shortages issue is a much broader issue than the issue of youth mobility. We have a long-term structural problem in our country when it comes to producing skilled people to fulfil the jobs that need to be done. Is that not a fair comment?

William Bain: Of course—that is very accurate, Mr Kerr. We see innovative ideas in the chambers of commerce network across the UK. The chambers in England, for example, worked with the UK Government on local skills improvement plans, which are all about providing the training and fitting the skills for the local economy in parts of England. Our chambers in Scotland are working very well with the Scottish Government to ensure that skills shortages are addressed.

It is a wider problem, for sure, but a youth exchange scheme is one of the tools that can alleviate it.

Stephen Kerr: Of course, I completely get the stuff about culture and experience that you have raised, but putting it in the context of skills shortages becomes politically problematic, given the nature of the current debate about levels of legal migration into this country.

More broadly, I would like to ask you about what you started off talking about: the economic trends of where services exports are going. In regard to market opportunities, you mentioned that there has been a change of priority from the EU to the rest of the world. You mentioned that there has been 13 per cent growth in services exports from the UK to the rest of the world, and I think that you said that there has been 9 per cent growth in services exports from the UK to the EU? Is that a trend that has been going on for a much longer time than the period since we left the European Union? Can you trace it back to the decade before we left?

09:45

William Bain: Yes, it is fair to say that. The UK's services exports to the US, for example, have been burgeoning over an extended period. We are exporting a lot more services to Asia-Pacific countries, including Singapore.

The picture is changing on the balance of services exports. Traditionally, you would have had people coming to the committee saying, "Yes, it is financial services that are the mainstay." Now, we are seeing substantial growth in business and professional services, such as legal, accounting, architecture and design. There are also business advisory services, which are, predominantly, being provided remotely—in the Americas market and, in particular, in the Asia-Pacific region. That is going to be a key area for the Scottish economy, and we need to have a good export strategy to take those opportunities while they are still there.

Stephen Kerr: What are the roots of the dynamic of exporting more to the rest of the world? You mentioned North America and the United States—why are those markets more attractive to our services companies and individuals to operate in than the EU, or am I reading too much into the growth dynamic and concluding the wrong thing?

William Bain: The percentage of our services exports still going to the EU is still at a significant level—36 per cent. That is a considerable amount, though admittedly less than the percentage for our goods exports.

However, what we have seen in Asia-Pacific countries is a growth in the middle class and a growth in demand for UK services, whether those are business, travel, transport or cultural services—those areas are all driving that increase. We are still seeing an increase in trade and services exports to the EU, but the rates of growth are higher for exports to the US and significant parts of the Asia-Pacific region.

Stephen Kerr: More than anything else, then, is it a function of the growth that is occurring in those markets that explains the difference?

William Bain: Yes. The World Trade Organization's recent publications on the global trade outlook, demonstrate—both for the second half of this year and going into next year—that the growth in exports and global trade demand is coming not from Europe, per se, but from the Asia-Pacific region due to its rising economic output and demand. We do not expect to see that just over the next couple of years; it will be a factor for many years to come. However, it is very likely that the EU will remain our predominant export market for both goods and services for many, many years to come.

Stephen Kerr: I have one last question, which is on something that we have not mentioned at all this morning but which has featured heavily in other committee sessions. I am wondering why it has not come up in this evidence session. It may be because we have not asked about it; it may be because it is not as important an issue in the round as it is made out to be. The issue is the mutual recognition of qualifications. Could you comment on that? How much of what you get back from your members, particularly service sector businesses, about barriers to trade with the EU is to do with mutual recognition of qualifications?

William Bain: Well, Mr Kerr, it is one of the top four asks that businesses from Scotland and across the UK came back with in our survey this summer. Twenty-four per cent of respondees put mutual recognition of qualifications as their first priority for any further liberalisation of trade between the UK and the EU. That is quite a high percentage.

Stephen Kerr: Which service sectors in particular mentioned that?

William Bain: Legal and other professional services, and, I think, business services. You will be aware that there was a proposal to liberalise mutual recognition of architects' qualifications, but that proposal failed, unfortunately. It is clear that that sector is looking for that increased access into the EU market again.

The BCC works very strongly on proposals on mutual recognition with our colleagues from the Law Society on the mobility sub-group of the domestic advisory group, and the legal services community in particular is keen to see that issue resolved and to have more access to the EU market than it currently has.

Stephen Kerr: So, that was number 4. Did you say that number 1 was mobility?

William Bain: Yes, easier movement of personnel.

Stephen Kerr: What are numbers 2 and 3, just out of curiosity?

William Bain: Number 2 is to see a reduction in the VAT red tape on exports to the EU. This refers to the requirement to have a fiscal representative in the EU. If you are using the EU's import one-stop shop, which is its online portal to pay for your import VAT, that extra cost and hassle around the fiscal representative requirement is a big problem for exporters from Great Britain to the EU.

Number 3 relates to the rules of origin on trade and goods in the TCA. Many members this year expressed a desire for the UK to rejoin the regional convention on pan-Euro-Mediterranean preferential rules of origin, which covers a range of other countries in the European neighbourhood, North Africa and the middle east, to allow more flexibility in supply chains and sourcing of goods, while still preserving that zero tariff trade with the EU. Many companies this year are looking to reintegrate the UK into the PEM convention.

Stephen Kerr: You are publishing the report on 23 December—is that correct?

William Bain: We are indeed.

Keith Brown (Clackmannanshire and Dunblane) (SNP): Good morning to the witnesses. I wonder whether I could make a few comments and ask for, in particular, Mr Berman's views on what I have to say. First, the linking of fisheries and energy by the EU seems entirely predictable. It is well aware that UK Governments of various descriptions have, over the past 40 years, shafted the fishing industry because it has been seen as dispensable. If the EU wants more from us, as I am sure it does in relation to fishing, it will tie it into something that we have an ask for, which is energy. That is entirely predictable and sensible from its point of view, but it spells danger for our fishing industry.

At the start of the meeting, Mr Berman, you mentioned the increased prices that we pay for energy in this country as a direct result of Brexit, the very substantial limitations on investment in the North Sea and the opportunities that are being lost day in, day out. I think that you were talking mainly about renewable energy, but it also affects oil and gas. That is a huge issue, especially as we pay some of the highest energy prices not just in Europe but around the world. The cost of energy for consumers in this country compared with those in France is massive. That must be impacted by the two direct effects of Brexit of increased prices and limited investment.

Given that, it surprises me that we have heard a lot about recognition of professional qualifications, which Mr Bain quite rightly talked about, but this is the first I am hearing about the impact on the energy side of the issue. Perhaps that is my omission, but I am not seeing a lot of news on it. I know that we have three major parties that are all happy with Brexit and mainstream media that were basically cheerleaders for Brexit, but despite that, I would have thought that the issue would have hit the news before now. That suggests that people such as you, and possibly the committee, may want to give the issue of electricity trading arrangements a bit more volume, especially because of its impact in Scotland. It might be useful for the committee to write to the UK Government about it. I am surprised that it has not really been at the forefront of anyone's mind—perhaps I am missing something.

I am also a bit sceptical about the UK's ability to get a beneficial deal on the energy changes that you would like there to be, given that, as we have read this week in *The Guardian*, the UK Government is not interested in a mobility scheme or in changing Brexit at all. Polly Toynbee wrote that article, and she is pretty well informed as to what the Labour Government is thinking.

Given that, and your comment about the UK Government not really paying any attention to the issue, it seems that the outlook is pessimistic, unless we can all put our good offices together to bring some pressure to bear—not on the EU, as it will follow its own interests, which it is perfectly entitled to do, but on the UK Government—to make it more of an issue. It would be useful to get your views on that.

Adam Berman: I agree with so much of that. There is an important point to make about fisheries—I am slightly uncomfortable about making it, but it is probably the right thing to say. The fisheries industry is very important, but we need to recognise its size and the size of the energy industry in the UK. The gross value added of the UK's fishing industry is about £0.5 billion annually, and the gross value added of the UK's energy sector is close to £20 billion. The EU has linked those two chapters of the TCA because it understands that the energy sector is a sizeable part of the UK's economy and it knows that the UK has asks in that area. I think that it is very reasonable for the EU to have done that, although it is rather frustrating from the UK's perspective. The EU knows that those are, and will remain, highly political issues.

I agree with you and am also surprised that we have not seen more progress on electricity trading arrangements, given its impact on energy bills. I have certainly noticed a shift in position from the last UK Government to the current Government. Previously, the discussion was sometimes prohibited by ideology. The energy sector's point of view is that we should diverge from and converge with the EU when it is in the best interests of the UK economy to do so. Over the past few months, there has been a shift in tone to something that broadly reflects that position, which the UK Government should be supported in.

However, my criticism is of the overall approach that the UK Government is taking to that reset. It is staying very quiet and secretive about it. I presume that it will issue its demands as part of a big summit, and then it might get into technical negotiations. That has perhaps not gone down the way in which the UK Government would have liked it to have done in Brussels. Officials in Brussels have noticed positive noises and have seen that as positive, but they will have wondered what on earth was going on with the detail that lies beneath it. That is absolutely the case for electricity trading. I could not name a single public announcement from a UK minister—a big speech, or even just an address at a panel event, or something like that—in which a UK minister has said, “Yes, this is something that we would like to address.”

I whole-heartedly agree with you that energy bills in the UK are too high, which is why we are talking about them. We would like to find any measure we can that could be a mechanism to bring down energy costs for consumers, which is why I have also been surprised that electricity trading has not been at the forefront of people’s minds. I hope that the UK Government is doing lots of work on the issue behind the scenes and that it anticipates entering negotiations with the EU at some point next year, but we are a little bit behind where we should be. Certainly, any help that the committee could give to raise the profile of such issues, which are too often forgotten because they are a bit technical, is welcome. It is probably hard for many people to get to grips with all the legal complexities, but, nonetheless, the issue remains important and, as I have said, will only become more important over time as we move to a highly integrated energy system. We will want to be able to benefit from clean electricity at all times of the day, whether it is generated in the UK, Ireland, Norway or Germany. At the moment, the prospect of that is, unfortunately, reduced.

10:00

Keith Brown: I am not saying that what you said about the relative size of the respective GVAs of the fishing and energy sectors is not true, but it is usually what we hear from UK Governments before the fishing industry is sold down the river—excuse the pun—which we do not want to see. Secondly, whether it is around energy bills or inhibitions on investment or the million immigrants that we were told that we would not have but that, lo and behold, we do have—which I do not have a problem with, nor do I have one with attracting more people to fill skills shortages—Brexit has been a bit of a disaster.

My final question—and it will be my final question as, unlike Mr Kerr, I will not ask five further questions after it—is a simple one but might be complicated to answer. You have talked about making the transmission of electricity instantaneous and so on—I forget the adjectives that you used—but, presumably, you would still be able to measure how much you are exporting.

When I did a trade mission to Berlin, I found out that Germany is desperate for more energy—particularly renewable energy—from Scotland, as Mr Kerr mentioned, although it has taken a different route with nuclear to some extent. If you had the perfect scenario where the carbon swapping scheme was implemented and it was pretty instantaneous, can you say, given your expertise in the energy field, whether it is now possible to measure how much is being exported and imported from the UK to the EU? Do you have any indication of the exports from Scotland? I am talking about oil and gas exports as well, because I think that a lot of it is sold on the spot market in Amsterdam. There seems to be no reliable record of how much energy is leaving Scotland, either to serve the rest of the UK or, in turn, being exported from the rest of the UK. Are you aware of any data that would help us in that regard?

Adam Berman: I will probably have to come back to the committee on that. Our national electricity system provider produces good, robust daily information about the balance of imports and exports, but my instinct is that there is complexity on the Scottish side. To the best of my knowledge—although I will double check that and get back to you—there is only one interconnector at the moment between Scotland and anywhere else, and that is the Moyle interconnector between Ayrshire and Northern Ireland. Beyond that, all the other interconnectors that connect into Northern Europe are in England and Wales. There is complexity to the mechanism through which an electron from a Scottish wind farm has ended up in some interconnector in the south of England that heads over to the Netherlands, and it might well be complicated to calculate. Let me find the details and come back to you. It is a great question.

Keith Brown: As I have said, I do not have a further question, but does Mr Bain want to come back on any of the points that have been raised?

William Bain: It is clear that there will need to be a balanced package of measures both in relation to the issues in the TCA that Adam referred to—in which energy and fisheries are included—and in relation to any ancillary agreements that we will be looking to add alongside the TCA. The way in which the EU system operates is that the European Council mandates the European Commission, and negotiating and legal directives are put in place. There will be formal processes there.

UK engagement has been fine. We have had good access to ministers and key officials, and a trade strategy consultation is going on, which is a kind of open source consultation. The UK

Government is very open to hearing ideas on the UK-EU reset, so it is up to business groups such as ourselves to ensure that we are getting the latest data from our members and to formulate and communicate the proposals to committees such as this one and to the UK Government.

Adam Berman: What Will has said is absolutely right, but perhaps I can make one final point. It is well known that the way in which the EU enters into these types of trade negotiations—as it did with the previous free trade agreement, which became the TCA—is that nothing is agreed until everything is agreed. It means that the most difficult part of the package holds the easiest parts of it hostage.

Therefore, what we have been trying to say to the Government is this: look at whether there is anything that you agree on, that is not too political and which does not require vast pools of political capital being spent on either side. Let us take, hypothetically, clean energy. If both sides want to do it, if they have legally binding net zero targets, and if they want cheap, clean and home-grown energy that can provide them with energy security and protection against dictators such as Putin, why not try to get those things done, so that when they enter into that larger package that I think William Bain was talking about, energy is not held hostage to other issues that, frankly, are much more political?

The Convener: I have a final question about mobility and people. Mr Bain, you mentioned a structure very much like the one presented by the EU—that is, a time-limited youth exchange programme that would be visa based. Has there been any discussion within the organisations that you are in touch with on the Scottish Government's priorities with regard to a complete return to Erasmus+ and membership of creative Europe?

William Bain: It was not an issue that was raised by members in the survey, nor has it been raised in discussions that we have had with the UK Government. However, as you have rightly said, it was part of the original EU proposal from April. We will engage with that issue and will want to consult further with our members if it arises in the EU's negotiating directives for any reset negotiations that happen next year.

It is on the radar; we will need to have more discussions with our members to get their concluded positions on it, but clearly we have some important university towns and cities in our membership in Scotland and across the UK, and they recognise the importance of overseas students to funding structures and research. We have also seen the real benefits of the UK being part, once again, of horizon Europe, and we are involved in discussions with the Department for Science, Innovation and Technology as well as other funders and partners. That research benefit is already being felt, and more co-operation with our university sectors is clearly going to be good for the economy in Scotland, the UK and the European Union.

The Convener: I think that you mentioned the complexities arising from some of the differing arrangements between different European countries and what is, or is not, allowable, and the committee, with its culture hat on, has heard very clearly from touring artists about difficulties with some countries not allowing in technical staff, sound engineers and other aspects of the production side of tours, while others do. It just makes things even more complex. So, it was interesting to hear those comments.

We are really looking forward to seeing your report before the end of the year. I thank you both for this morning's really informative and helpful evidence session.

We now move into private to consider further items on our agenda.

10:08

Meeting continued in private until 10:37.

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