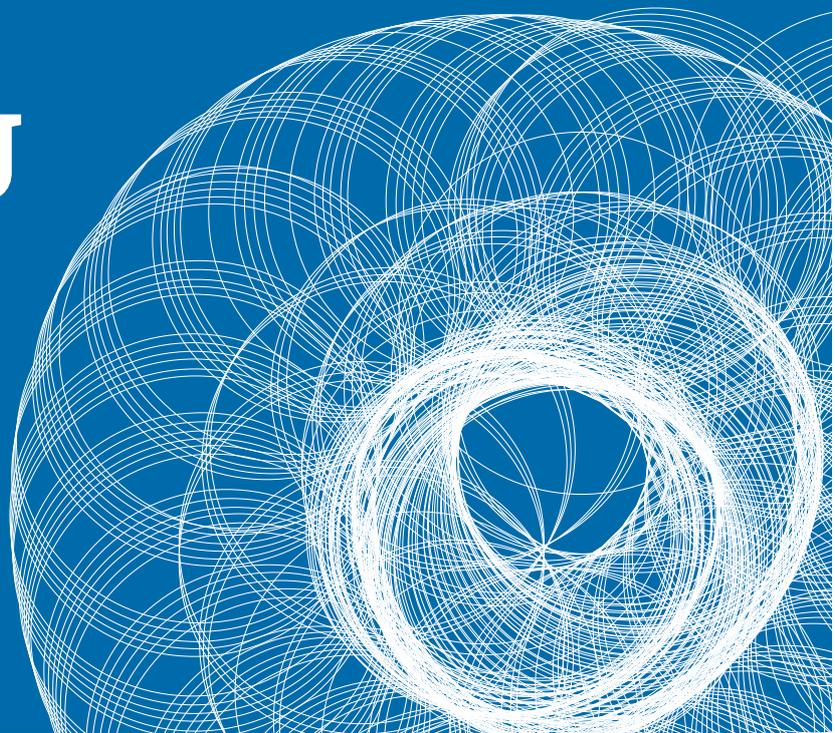


Briefing Paper

Scotland's Trade with the EU

Interconnected
and at Risk



Dominic O'Neill
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About Scotianomics

In the 21st century data is everywhere but it is the analysis that transforms data into valuable, actionable knowledge that is key to success.

Organisations, both in Scotland's private and public sectors, lack access to useful, reliable data and value-added analysis of the kind that most advanced countries take for granted. This creates a hidden but real disadvantage for Scottish business, limits public policy and disrupts the pursuit of shared prosperity.

Scotianomics aims to spark a knowledge revolution and inform the decision-makers on Scotland's economy. We provide cutting-edge intelligence and strategic planning resources so that stakeholders can gain a wide view of the threats and opportunities in the world through our geopolitical, economic and policy analysis, unique historical datasets, risk and opportunity forecasts, Geographic Information System mapping solutions and strategic planning services.

Gordon-MacIntyre Kemp

Director

Executive Summary

- Brexit and the Scottish economy are opposing forces. While the forces that caused Brexit seek to reduce economic links with the EU, the Scottish economy is moving in the opposite direction.
- Politically, Scotland and the rest of the UK are diverging. Scottish public opinion is highly in favour of EU membership, while large sections of voters in the rest of the UK are opposed to Britain's EU membership.
- Since the UK voted to leave the EU in 2016, Scottish exports to the EU have grown more rapidly than with any other region. Between 2016 and 2017, Scotland's exports to the EU increased by 13.3%. In the same period in the UK as a whole, exports to the EU only grew by 1%.
- If tariffs were put into effect between the UK and the EU it would have a particularly negative effect on Scottish trade due to the high level of goods that are exported to the EU.

Introduction

Brexit and the Scottish economy are opposing forces. While the forces that caused Brexit seek to reduce economic links with the EU, the Scottish economy is moving in the opposite direction. This briefing examines the growing political differences in the UK, the economic reasons for them, as well as the implications of Brexit for the Scottish economy.

Post-Referendum Politics in the UK

In the aftermath of the EU elections, it is clear that the UK as a whole is still polarised over Brexit and the future of our relationship with the EU. The pro-Brexit parties received 34.9% of the vote, the anti-Brexit parties received 40% and the two main Westminster political parties, who are committed to making some form of Brexit happening, received 23.1% of the vote.

However, in Scotland it is a clear cut picture, with the pro-EU SNP winning first preference votes in 30 out of Scotland's 32 local authority areas, recording the largest share of the vote of a winning party in any EU nation and increasing its vote share by 9% since the 2014 EU elections. The remaining two council areas were won by the pro-EU Liberal Democrats.

Scotland's Rejection of Brexit: The Single Market is Key

Scotland is a leading exporter – exporting over £6000 of goods per head more than the rest of the UK. One of the key benefits of Scotland's membership of the EU is ease of access to the Single Market.

Since the UK voted to leave the EU in 2016, Scottish exports to the EU have grown more rapidly than with any other region. Based on Export Statistics Scotland's annual report, from 2016 to 2017, Scotland's exports to the EU increased by 13.3%. To put this in perspective, in the same period in the UK as a whole, exports to the EU only grew by 1%. Additionally, Scotland's export growth has been building over time, with international exports growing 44% from 2007 to 2016. The EU is an integral part of these international exports.

Scotland's exports to the EU accounted for 45% of Scotland's total international exports, worth £14.9bn. This places the EU as Scotland's largest international export region. The biggest threats to this trading relationships are tariffs and non-tariff barriers. Brexit will undoubtedly increase both of these.

The Threat of Trade Barriers

Tariffs are the custom duties placed on goods imported into a country, giving locally produced goods a price advantage over foreign produced goods. If tariffs were put into effect between the UK and the EU it would have a particularly negative effect on Scottish trade due to the high level of goods that are exported to the EU. Non-tariff barriers are more complex and arise through differences in regulation and legislation that reduces the level of trade.

For example, Scotland's food and drink exports to the EU are worth £2.2bn per year. These exports could be seriously hindered by Brexit. Tariffs would raise the cost of buying our goods, which would see the competitiveness of our food and drink industry decline. The other negative impact would be additional checks at the border. The EU has strict rules concerning food safety and even though our food standards would be unchanged, the checks and controls for food and drink imports into the EU are not something we currently have to comply with as a member of the EU. This would cause major disruption to the industry and reverse the growth that has been achieved by Scotland in recent years.

The combination of these threats could derail the growth in exports Scotland has experienced. Considering that 4 out of 5 of Scotland's largest international trading partners (Netherlands, France, Germany and Ireland) are EU members, any attempt to

reduce Scotland's access to these markets would have significant negative implications for the economy. Scottish exports to the EU in 2017 were worth just under 10% of GDP. The wider benefits of this trading relationship go over and above the goods and services that the EU buys from us.

The Wider Economic Consequences of Brexit

Recent analysis has shown that an estimated 144,000 Scottish jobs are supported by export demand from the EU. This means that the £14.9bn of goods and services we export to the EU supports close to 5.4% of all employment in Scotland. Additionally, many Scottish businesses rely on goods and services from the EU to supply their businesses. There have already been many stories of businesses stockpiling goods in the event that they are no longer easily available after Brexit. This disruption to supply chains that businesses depend on to manufacture products, as well as the jobs that rely on them, will be at risk.

Conclusions

- Scotland's interconnected relationship with the EU is undeniably beneficial.
- It has resulted in the EU becoming our largest international trading partner and has allowed this trade to continue to grow at a rapid pace.
- There are wider benefits of this trading relationship: the number of jobs that are supported by our exports is a significant proportion of our workforce. Brexit threatens the continued job creation success due to Scotland's trade with the EU.
- It will also deteriorate our interconnected relationship if barriers become the new norm. Brexit will damage Scotland economy and cost people their jobs – how badly and how many will depend on the type of Brexit agreed.