

Briefing Paper

# The Impacts of Possible Brexit Deals for Scotland



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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

- Any type of Brexit would have a negative economic impact on Scotland.
- With 8.4% of the UK population, Scotland also receives 17.5% of all of the EU spending and grants that come to the UK.
- Scotland exports far more per head than any other part of the UK and is the only UK nation or region to have maintained a positive international trade balance on goods. Scotland's economy is also more reliant on skilled EU nationals and has been boosted by record breaking EU related inward investment in recent years.
- 8% of businesses in Scotland stated that they are prepared for Brexit, 74% that they have made some preparations, while 18% said that they are not ready at all.
- The Fraser of Allander Institute, which looked into three different Brexit scenarios finds that Scottish GDP is projected to be 2-5% lower in the long-term than it would have been otherwise.

## Introduction

The 29th of March 2019 was going to be the day the UK leaves the EU. However, Theresa May's deal was voted down for a third time. A new deadline has been set for the 12th of April, meaning extended uncertainty about Brexit and what type of deal the UK government is going to reach.

## The Impact of Brexit

However, when it comes to the impact Brexit is estimated to have one thing is certain; any Brexit would have a negative economic impact on Scotland. Due to the strong performance of the Scottish economy, one might wonder that even though the impact on Scotland is going to be significant would it be smaller than the UK as a whole? Unfortunately, this does not seem to be the case, with 8.4% of the UK population, Scotland also receives 17.5% of all of the EU spending and grants that come to the UK.

Scotland exports far more per head than any other part of the UK and is the only UK nation or region to have maintained a positive international trade balance on goods. Scotland's economy is also more reliant on skilled EU nationals and has been boosted by record breaking EU related inward investment in recent years. So, any form of Brexit has the potential to do more damage to Scotland's economy than across the UK as a whole.

## Brexit and Economic Uncertainty

According to a recent study by Ernest & Young on behalf of the Scottish government, the uncertainty of Brexit is unsurprisingly the major concern of all businesses and trade associations participated in the study. Only 8% of them stated that they are prepared for Brexit, 74% that they have made some preparations, while 18% said that they are not ready at all.

Among the major concerns of the food and drink, chemicals, life sciences and other manufacturing sectors are tariffs and no-tariff barriers on trade, the possibility of higher consumer prices and the need to align with the EU standard in facilitating trade; a concern shared but the financial services, life sciences and creative industries in Scotland. The threat of not being able to access EU funding, is high among agriculture, fisheries and aquaculture, construction and life sciences industries.

The report also points out that there is a number of businesses that are already experiencing the negative impacts of Brexit-related uncertainty, mostly in terms of

delayed investment plans from foreign-owned parent companies, but also in with regards to accessing and attracting talent from the EU. We have discussed the impact of reduced or no EU immigration to Scotland as well as the contribution of EU students to the Scottish economy. However, recent data from the global job-board Monster also shows that the number of workers from the EU actively searching for employment in the UK has dropped by 12.6% year on year since the referendum in 2016.

## The Different Forms of Brexit

Furthermore, a study about Brexit, by the Fraser of Allander Institute, which looked into three different Brexit scenarios finds that Scottish GDP is projected to be 2-5% lower in the long-term than it would have been otherwise. This is mainly due to the expected reduction in trade resulted by any type of Brexit. Meanwhile, according to the report, a Brexit that results in a relationship with the EU that is similar to that of Norway is expected to have a lesser negative effect than that of a Brexit that brings forth a relationship similar with that of Switzerland or a no-deal Brexit.

With regards to the possibility of a no-deal Brexit, there seems to be consensus on both sides, the UK and the EU, about the disastrous impact it would have on the economy. For instance, the Scottish government warns, in a recent report, that a no-deal Brexit represents a major economic risk to Scotland with the potential to generate a major dislocation to the Scottish economy.

The duration of the economic shock a no-deal Brexit would trigger is uncertain, but it is expected to disrupt numerous economic channels. In the worst-case scenario of a prolonged period of shock the Scottish economy may go into recession. The sectors seen as being more vulnerable are the agriculture, and food and fishing sectors, because they tend to have higher levels of EU workers, while they are also subject to EU regulations and licensing requirements. The regions of Shetland, Moray, Orkney, Angus, Aberdeenshire, and Falkirk are the ones that are the most exposed.

## Conclusions

- The members of the UK parliament voted against a no-deal Brexit, as a catastrophic scenario that nobody wants. However, this vote does not eliminate the possibility of a no-deal Brexit, which increases as long as they fail to agree on a specific deal that would allow the UK to leave the EU in, at least, an orderly fashion.
- The form Brexit takes, in terms of how closely integrated the UK remains with the EU, will determine the extent of the damage of Brexit to the Scottish economy.
- The inability of Westminster to handle Brexit is worrisome and even though a people's vote may seem unlikely, it is illogical to say that it would undermine democracy, when the UK parliament has already voted three times in May's deal.