

Scotland Excel

To: Joint Committee

On: 11 December 2020

**Report by:
Chief Executive of Scotland Excel**

Brexit Update Report

1. Introduction

- 1.1 The purpose of this report is to provide the Joint Committee with an update from Scotland Excel in relation to the UK departure from the European Union.

2. Summary

- 2.1 The UK is no longer a member of the European Union (EU). The deadline is fast approaching to agree the rules for the new UK-EU relationship. The changes will affect many areas of life - including trade and immigration - and will start on 1 January 2021. The UK Government has already negotiated a withdrawal agreement; however, its purpose was to set out a process to allow the UK to leave the EU as smoothly as possible - not the terms of the future relationship. The initial agreement covered the following areas: -

- Agreeing a transition period and how it would work
- How to prevent the need for checks along the Irish border
- The UK's financial settlement with the EU

3. Impact for Scotland

- 3.1 Brexit will bring about a period of significant constitutional change and this will have a major bearing on the governance arrangements in Scotland. Not only does this relate to powers being exercised in the UK which are currently managed by the EU, it also has implications for how those returned powers are then managed across the UK, including by the devolved Governments. In addition to the above, the extent of economic recovery in the coming months remains highly uncertain, as new restrictions are introduced, and coronavirus cases fluctuate across Europe and beyond.
- 3.2 The Scottish economy has seen a record fall in output during the first half of 2020 during the national lockdown, however, the ongoing need to manage the spread of coronavirus alongside Brexit implementation suggests there may be uncertainty for economic and social activity alongside the changing scale

and nature of fiscal support, and the pace at which businesses and households (domestically and internationally) can return to pre-pandemic levels of economic activity.

4. Brexit with World Trading Organisation (WTO) Terms

- 4.1 If agreement cannot be reached on a free trade agreement before the end of the Brexit transition period, the UK-EU trading relationship will be governed largely by World Trade Organisation (WTO) rules. The WTO is an international organisation designed primarily to facilitate trading arrangements amongst its 164 members by removing barriers to trade. In relation to goods, the WTO has tended to focus on tariffs (i.e. duties imposed on imported goods). The WTO also tries to reduce and/or remove other less visible trade barriers including quotas, domestic subsidies, non-domestic taxes and "technical barriers to trade" (e.g. national regulatory requirements), which can distort market access. All of these are known collectively as "non-tariff barriers"
- 4.2 In relation to goods, if the UK-EU trading relationship reverts to WTO rules, then UK exports and imports will face tariffs. Although the EU's tariffs on many goods are relatively low, sectors such as food and automotive will be subject to substantial increases. This may well prompt EU customers to switch to other suppliers within the EU Single Market, thus avoiding tariffs altogether but creating shortages and disruption of supply.

5. Disruption to Supply Chains

- 5.1 The coronavirus pandemic has demonstrated to both the UK and devolved Governments the importance of a free-flowing supply chain, and with transition potentially occurring at the same time as the second coronavirus spike, supply chains are at risk.
- 5.2 The automotive, agriculture and chemical sectors are likely to be hit the hardest with both import and export tariffs having an overall impact on pricing. It will become imperative to have responsive options immediately available and councils should also draw upon their learnings from managing the pandemic around the need for agility, contingency planning, inventory management and alternate sources of supply.
- 5.3 The key risks for consideration will include customs and tariffs, systems and data, the legal impact in relation to existing contracts, supply chain hub locations, lead times and any grants or subsidiaries previously obtained from the EU
- 5.4 Scotland Excel have worked closely with the supply base across the framework portfolio to assess the risks associated with Brexit. Suppliers have been surveyed in relation to key areas of risk which include stockpiling, warehousing, availability and continuity of supply, workforce planning, and tariffs.

Reports will be issued to councils during December to update fully across the contract portfolio. Scotland Excel has produced commodity updates and released to Corporate Procurement Manager's across councils and a Scotland Excel Chief Executive report will be sent to all council Chief Executives in early December.

6. In conclusion

- 6.1 In summary, by balancing a response to COVID-19 with a strong focus on the UK's changing position in the global trading environment, councils will be able to future-proof their supply chain strategies. The pandemic has catalysed the need for councils to refocus on their contingency planning strategies, compliance and supply chains. With the landscape becoming increasingly complex and changeable, Scotland Excel will continue to support councils at every opportunity and seek further to appeal to local supply chains during procurement activity. In addition to this, Scotland Excel will increase the knowledge, capacity and access to networks they need to take advantage of, in order to support councils during this uncertain period.

7. Recommendations

Members of the Joint Committee are invited to note the content of this report.