

Finance and Constitution Committee Scotland and the UK Internal Market - Call for views

1. What is the UK internal market?

The food and drink industry is the UK's largest manufacturing sector, contributing £31.1bn to the economy annually and employing 400,000 people. We are a key part of the UK's £110 billion 'farm to fork' food chain. Our industry has a turnover of £104bn, accounting for 19% of total UK manufacturing.

In Scotland, food and drink manufacturing is of high importance with around 44,000 jobs – some 24% of Scotland's total manufacturing workforce.

Many businesses within the Food and Drink manufacturing industry view the UK (and the Republic of Ireland) as an internal single market.

FDF agrees with the Committee summary paper that states that the internal market should be seen as a process and a set of institutions rather than a definition of policy. In addition, a UK internal market would have common regulatory standards and a common trade policy across the devolved nations.

2. How will international treaties, including trade deals, impact on the UK internal market?

Negotiating international treaties will require structures in place for national and devolved nations. In Canada for example, both the provinces and national governments have trade policies and regulations in place.

To ensure that each nation benefits equally from international treaties, prioritising sectors such as food and drink will ensure a more equal spread of economic benefits across the UK and Scotland. A lack of common standards and policies across the UK risks devolved legislation in England, Scotland, Wales or Northern Ireland negatively affecting companies – either those from the affected nation or those selling into it.

Tariffs – High tariffs on particular products will have a greater impact on Scotland than other nations within the UK. We are already seeing the impact of 'trade wars' on key Scottish products – shortbread, salmon and whisky. The UK's trade mandate must be fully cognisant of the significant regional differences in food production and manufacturing.

3. What are the priorities and challenges for Scottish businesses and organisations in operating within a UK internal market?

In "[Global Britain – Trade Policy for a World Class Food, Drink and Agriculture Industry](#)", co-authored by FDF, we recommend priorities for the Government to

ensure a future UK trade policy which will drive growth and promote efficient and sustainable food production as follows:

- **Support value addition and jobs across the UK and devolved nations**

Policy should continue to encourage job creation and value addition in the UK – both in farming and food processing (manufacture). The food industry provides employment indirectly to other industries such as transport and logistics, cold stores, packaging, catering, food service, retail etc.

Devolution has brought great support for Scottish food and drink manufacturers; the Scottish Government has long viewed the Food and Drink industry in Scotland as a priority sector and has provided funding and support to help the industry work towards its ambition of doubling the size of the industry to a £30bn turnover industry in Scotland by 2030.

But devolution also presents some challenges for many manufacturers who see the UK (or at least GB) as a single operating region.

Deposit Return and Extended Producer Responsibility regulations are an example of where the UK and Scottish Governments share the same ambitions – namely to increase the recycling rates and recyclability of packaging – but cannot agree on shared timings or harmonised infrastructure. The unintended consequences of this lack of harmonisation could result in less progress towards carbon and climate change targets.

- **Retain UK's ability to deliver high standards at competitive consumer prices**

Trade policy should ensure the continued availability of high quality, safe food at a range of price points to suit shopper demand across the UK.

- **Encourage sustainable food production, diminish environmental impact.**

Trade policy needs to raise levels of sustainability in food and animal feed production and manufacture and reduce its environmental impact.

Most manufacturing sites in Scotland supply UK-headquartered businesses which have deliveries into Scottish depots as well as English ones or in some cases central distribution hubs that supply both Scotland and elsewhere in the UK. Differing regulatory standards for food manufacturing will create a significant disruption to the current food and drink supply chains. It would mean additional SKUs and labels within the same consignment, adding significant cost for business for additional storage, labels etc. The proliferation of distinct storage locations and additional transport could add to the environmental impact of food and drink products in the UK.

- **Encourage industry innovation and grow exports**

Policy should encourage continued innovation and better support businesses seeking overseas markets for their products.

The Scottish Government must continue to support Scotland Food and Drink—a unique partnership between industry, government, academia and supporting agencies which has helped the sector to grow significantly in both domestic and overseas markets.

In addition, the Government should prioritise trade defence, for example by ensuring a mechanism to implement emergency tariffs is in place to prevent other nations from flooding the UK market with cheap imports.

4. [What institutional structures will be required to administer and enforce the UK internal market? What mechanisms should be available to challenge 'unfair' internal market practices?](#)

The institutional structures that will be required should operate with key principles at their heart including:

1. Clear guidelines as to what would be considered market distortion caused by legislation
2. Incorporation of regulatory impact assessment on market distortion
3. A clear and cheap mechanism for businesses to appeal when they feel that there is a market distortion. The bar should be high enough to stop nugatory complaints, but simple enough to allow even smaller business the opportunity to complain.
4. A resolution mechanism between the four administrations to consider upcoming legislation and lessons learned from appropriate cases. (which is kind of what is said below)

FDF recommends that the devolved nations work together with the UK Government to create an arbitrator for the UK internal market. This could include Scottish, English, Irish and Welsh judges and or an internal market commissioner.

The UK has plans to replicate the [EU market access database \(MADB\)](#) is already underway, there is an opportunity to add functionality to this to make it an internal market database too.

5. [What will be the impact of the UK internal market on devolved powers?](#)

The Scottish parliament will need to consider how devolved powers interact with UK powers to avoid creating a less competitive business environment in Scotland. All bills should have an assessment of their impact on the internal market as part of their regulatory assessment.

6. [What should be the role of the Scottish Parliament in relation to scrutinising the UK internal market?](#)

The Scottish Parliament's role will fundamentally be concerned with consideration of the implications of Scottish Laws on the internal market through their impact statement or regulatory monitoring and evaluation.

Stakeholders can be expected to raise concerns to MSPs and Committees where they detect an impact on the internal market.

In addition the Committee should give some consideration to the need to monitor legislation in other nations where there is the potential for impact on the internal market, and if necessary to make representations to whatever dispute mechanism is agreed.

The Scottish Food and Drink Manufacturing Industry

- Employs around 45,000 people, 25% of the Scottish manufacturing workforce
- Adds £3.8bn GVA to the Scottish economy, 29.7% of Scottish manufacturing value added
- Is Scotland's largest manufacturing sector, accounting for 30% of total manufacturing turnover
- 95% of our 1015 businesses are SMEs

The following Associations actively work with the Food and Drink Federation:

ABIM	Association of Bakery Ingredient Manufacturers
ACFM	Association of Cereal Food Manufacturers
BCA	British Coffee Association
BOBMA	British Oats and Barley Millers Association
BSIA	British Starch Industry Association
BSNA	British Specialist Nutrition Association
CIMA	Cereal Ingredient Manufacturers' Association
EMMA	European Malt Product Manufacturers' Association
FCPPA	Frozen and Chilled Potato Processors Association
FOB	Federation of Bakers
GFIA	Gluten Free Industry Association
PPA	Potato Processors Association
SA	Salt Association
SNACMA	Snack, Nut and Crisp Manufacturers' Association
SSA	Seasoning and Spice Association
UKAMBY	UK Association of Manufacturers of Bakers' Yeast
UKTIA	United Kingdom Tea & Infusions Association Ltd

FDF also delivers specialist sector groups for members:

Biscuit, Cake, Chocolate and Confectionery Group (BCCC)
Frozen Food Group
Ice Cream Committee
Meat Group
Organic Group
Seafood Industry Alliance