Agenda Item	15
Report No	HC/32/18

HIGHLAND COUNCIL

Committee: Highland Council

Date: 6 September 2018

Report Title: Regional and rural development policies post Brexit

Report By: Director of Development and Infrastructure

1 Purpose/Executive Summary

1.1 This Report presents for Members consideration a number of regional and rural development policy statements to inform Council lobbying post Brexit.

2. Recommendations

2.1 Members are asked to consider and approve Appendices 1-4 as policy statements to inform Council lobbying post Brexit.

3. Context

3.1 In June 2016, shortly after the referendum decision to leave the European Union, Members considered and noted a number of issues arising which had potential implications for the Highland economy and the Council as a major employer. Since this time updates have been provided to the Environment, Development and Infrastructure Committee on a number of European issues and Council considered a specific report on workforce planning, one aspect of which related to non UK EU workers.

3.2 The Council has taken all opportunities presented to identify to the Scottish and UK Governments, the potential implications in Highland arising from BREXIT, including:

- European and External Relations Committee, Scottish Parliament, September 2016;
- Economy, Jobs & Fair Works Committee, Scottish Parliament, November 2016 and April 2018;
- Culture, Tourism, Europe and External Relations Committee, Scottish Parliament, August 2017; and
- Meetings with Lord Duncan, Parliamentary Under Secretary of State in the Scotland Office to discuss Brexit from a UK Government perspective as it relates to the Highlands & Islands in May & August 2018

3.3 To further this work and in continued conjunction with partners in the Highlands and Islands European Partnership, a Regional Policy briefing paper was produced and widely distributed in June 2018 to all Highlands and Islands MSPs, MPs, Scotland's MEPs, the Convenors of three Scottish Parliament Committees, as well as Scottish and UK Governments.

3.4 In addition, the Council, working with partner local authorities in the Highlands and Islands, has prepared three briefing papers on Inward Migration, Access to Markets and Agriculture, Crofting and Land Management.

4. Regional and rural development policies

4.1 UK, Scottish and European regional and rural development policies are integrally linked. As the influence of European policy diminishes pre and post Brexit, and also established policy that recognises and seeks to address the economic circumstances of Highland, there is a need to ensure that Scottish and UK policy does likewise. This requires work to ensure that the challenges of living and working in the region are identified, and that the case for investment and support is made to enable the region to realise its full potential.

4.2 In this context it is considered that regional policy; inward migration, access to markets and agriculture crofting and land management, are priority issues to be progressed. Policy papers on each are attached in Appendices 1-4. These papers usefully set out the specific implications arising and the proposed policy response required. They are presented to Council to consider and approve as policy statements to inform Council lobbying activity going forward.

5. BREXIT Working Group

5.1 At its meeting on 28 June 2018, the Highland Council agreed to set up a Brexit Working Group and to host a Brexit summit for appropriate Highland stakeholders.

5.2 Given the current status of the negotiations over the UK's withdrawal from the EU and the level of uncertainly over the terms of such a withdrawal agreement, it may be appropriate to schedule the Brexit summit when there is more clarity. This would enable the summit to discuss the implications arising from the negotiated agreement and help inform what planning and actions business and organisations would need to undertake. Current planning assumptions are that the withdrawal agreement will be finalised at the EU Leaders summit on 18 October 2018, suggesting that the Council's Brexit summit is held shortly thereafter. However, this timetable may need to change should negotiations continue beyond that date.

5.3 It is therefore proposed that the Brexit Working Group consider the most opportune time for scheduling the summit and planning the focus of the summit. The policy papers as discussed above, will aid this work.

6. UK Government's preparations for a no deal scenario

6.1 On 23 August 2018 the UK Government published the first 25 (of 80 in total) papers providing guidance covering a wide range of sectors should the UK leave the EU without agreement ('no deal').

"A 'no deal' scenario is one where the UK leaves the EU and becomes a third country at 11pm GMT on 29 March 2019 without a Withdrawal Agreement and framework for a future relationship in place between the UK and the EU. "

The papers as published provide some guidance on how each sector is likely to be impacted by 'no deal', what preparations should be made and what provisions for the immediate future the UK Government are proposing. Whilst any further information on Brexit is welcome, the papers currently published provide very little new information for individual sectors although they do collect in one place many of the already published and agreed actions. For example, the EU funding programmes under contract by 29 March 2019 will be honoured by the UK Treasury (as already notified) and State Aid regulations will be continued into UK Law (as per the UK withdrawal Bill) with the UK Authorities becoming the lead body.

6.2 However, it is clear is that these documents have tried formalising, through a consistent approach, the intentions of the UK Government to continue the same legislative and policy approaches in most sectors as already exists in the EU. There are a few sectors where some very specific provisions will need to be made to continue trade and of course there is a recognition that with 'no deal' there is likely to be increased administration for any cross border transactions that will impact on Highland Businesses. There are some very helpful links provided along with some clear guidelines on what steps organisations may wish to start taking if they want to have future transactions with EU organisations.

A link to UK Government web page where the papers and further information can be found is:
https://www.gov.uk/government/collections/how-to-prepare-if-the-uk-leaves-the-eu-with-no-deal#importing-and-exporting

7. Implications

7.1 European policy and associated funding programmes have helped transform Highland as a place to live, work and visit. Successor policy and programmes whether introduced at a UK or Scottish level, need to recognise the specific challenges experienced, to respond to the opportunities presented and to enable Highland to positively contribute. The implications of not doing so are wide ranging and adverse, constraining the future prospects of Highland.

Designation: Director of Development and Infrastructure

Date: 27 August 2018

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Appendix 1
Agriculture, Crofting and Land Management

Summary

Land in the Highlands and Islands is the primary asset upon which rural communities and economies depend. It underpins the tourism industry and brings quality goods to the market in the form of food and drink, whilst delivering a host of ecosystem services which are recognised and of importance both nationally and internationally.

Brexit poses uncertainty to farming and wider rural development on a number of fronts:

- Uncertainty about the scale of the agriculture and rural development budget post Brexit.
- The extent of autonomy the Scottish Government will have over all aspects of future agriculture policy
- The nature of future trade deals with the EU and others

Extensive livestock grazing (the predominant land use across Highland) is highly vulnerable to these potential changes, particularly price reductions, removal of income support and changes in agricultural policy.

Current Situation

Agriculture across Highland is incredibly diverse ranging from productive arable and intensive livestock units in the east to extensive hill sheep and suckler cow grazing and part time crofting concentrated in north and west Highland. Unlike other areas in Scotland/UK most farming in Highland operates under some form of production or biophysical constraint. This is due to remoteness, which leads to substantial increased costs, and to the constraints of poor climate and upland, often mountainous, terrain, which restricts income. This means that for most farmers and crofters low intensity production is the norm and without support this extensive agriculture system is likely to fail.

The agricultural industry is therefore highly dependent on the current largely EU sponsored support framework to survive.

Post BREXIT

Most recent studies on how Brexit will affect agriculture in the UK, predict poor outcomes for those parts of the industry that are net exporters. The predictions for sheep production in particular are the worst in most trading scenarios and those for beef production, subject to the trading arrangements entered into, could be equally poor. It is anticipated that there will be significant falls in farm gate prices.

Continuing agricultural support is therefore essential to sustain sheep and beef production. Therefore any post-Brexit agricultural support reduction in the UK would be felt most severely in the marginal farming areas.

The land managed by crofters and farmers is vast, and the way in which it has been managed has given rise to areas of significant public importance in respect of species, habitats and landscapes including nationally important carbon sinks. Highland contains 43% of Scotland’s High Nature Value land, supporting 75% of Scotland’s/40% of the UK’s priority species and over 75% of the UK priority habitats. The historic production orientated support provided through the Common Agriculture Policy arguably has not effectively rewarded public goods, although more recently there has been a shift towards supporting woodland and the environment. There is an opportunity for post Brexit agricultural policy to focus on supporting an agricultural system that protects these fragile and important lands.

Developing a Framework of Measures to Support Agriculture in Highland
The UK and Scottish Governments need to accept that the distinctive environmental and cultural characteristics of Highland, along with the exposure of its dominant land use (extensive beef and sheep grazing) to Brexit induced price pressures, provide a compelling case for distinctive and targeted policy interventions.

While the scope for appropriate policy support may be constrained by external factors, mitigating Brexit impacts requires both income support to maintain active and viable land management plus more targeted support for providing specific public goods/value.

<u>Income Support</u>

1. It is essential in Highland to retain a basic level of income support targeted at the most vulnerable farming areas. This should be along the general lines of the current Basic Payment Scheme and Less Favoured Areas Support Scheme.
2. A UK/Scottish version of the Areas of Natural Constraint scheme needs to be brought in to replace the Less Favoured Areas Support Scheme.
3. Any income support programme must include higher payments on smaller units and then a tapered system of lower payments and/or payment caps on any additional hectarage.
4. In addition consideration should also be given to maintaining coupled payments schemes such as the Beef Calf Scheme and the Sheep Scheme, to target income support to the most vulnerable farms.

<u>Public Goods/Value</u>

1. A scheme of outcome focused specific environmental measures should be in place to protect nationally important species, habitats and landscapes, recognising that the environment and natural resources are assets that contribute significantly to regional and national prosperity,
2. Any reduction or lack of support will impact negatively on a range of unique and internationally important environmentally and cultural public goods maintained by extensive and small scale agriculture/ crofting.

Appendix 2
Inward Migration

Summary
Scotland and more particularly the Highlands and Islands are differentially dependent on migration to the rest of the UK, not least because of its geographical situation and some of the challenges that this brings. These challenges include distance from markets and key centres of population that can reduce the attractiveness of the area as a place to set up business or to move to for employment. This also has led to younger people leaving the area for education and / or employment opportunities. Population projections indicate that with its ageing population and declining working age population, the Highland economy needs to attract labour.

It is recognised that post Brexit the free movement of labour which has benefitted the Highland economy is unlikely to continue. It is considered critical that any future migration policy must be responsive to Highland needs. In particular it must help address the demographic challenges facing Highland and the impact on the Highland workforce and economy.

The Highlands – a region that welcomes inward migration
Following decades of population decline, Highland has seen a return to population growth although differences still exist between the more buoyant areas such as the Inner Moray Firth area and more peripheral parts of Highland, where populations remain static or even decline.

In recent years, most of the Highland population increase has been due to net in-migration. National Insurance registrations can be used to show the origin of overseas migrants and for 2016 these showed that 86% of those in Highland were from EU countries (the equivalent for Scotland as a whole is 74%). If these previous trends were to continue - i.e. there were no Brexit related effects - net migration is projected to remain positive, whereas natural change is projected to be negative. Any changes to migration policy that reduced inward migration in future would therefore be expected to lead to an overall decline in the Highland population.

As well as affecting overall population levels inward migration also helps address demographic imbalances. Mid-2017 population estimates for Scotland show all Highlands and Islands local authority areas having a greater proportion of over 65s than the Scottish average. In addition, all Highlands & Islands Local Authority areas are projected to see decreases in their working age populations in the next 20 years. In recent years inward migration has helped address this because inward migrants, particularly those from the EU, tend to be younger but also because these migrants support the natural birth rate. For example, in Highland latest (2016) figures show that of the 2150 births, 211 (9.8%) were to non-UK EU mothers.

These migrants are also an important part of the Highland economy with some 77% in employment. Although on average EU migrants tend to be better qualified than UK nationals and some do work in high skilled jobs including public sector roles such as doctors and nurses, many others fill otherwise difficult to fill lower skilled positions. Particular sectors where this is the case are tourism (the area's most significant industry) and the food and drink sector including fish harvesting and processing and food processing. Not only are these sectors key to the local economy their products are major UK exports that contribute wider economic and financial benefits to the whole of the UK, for example through excise duty.

Migrant workers are also critical to small businesses which make up the majority of Highland businesses. A survey undertaken by the Federation of Small Businesses illustrated the disproportionate importance of migrant workers to Highland businesses. Across the UK, 20% of businesses employed 1 or more migrants from the EU; in Scotland the proportion was 25% while in Highland it was 41%.

If the number of EU migrants is restricted and migrants from elsewhere have to fit set criteria there is a concern that Highland may be unable to recruit the workforce it requires. Of particular concern is the fact that earnings thresholds are commonly used as part of the approval criteria for migrants to be allowed to live and work in the UK. This disadvantages areas such as the Highlands and Islands which generally haves lower wage rates than other parts of the UK.

What does future migration policy need to deliver for Highland?

Any future migration policy needs to be able to attract people to live and work in Highland. An effective and responsive migration policy will enable the region to achieve its potential and make a full contribution towards Scottish and UK economic growth.

In particular future migration policy needs to avoid a “one size fits all” approach but instead should recognise and respond to regional disparity. This in turn would improve regional competitiveness, promote economic growth, address issues such as demographic challenges and help to sustain fragile communities. Recognition of the positive impacts that migration can have on individual communities, particularly those in remote areas is essential in retaining community capacity and resilience as well as ensuring continued provision of services such as health and education.

Characteristics of a future migration Policy

In the H&I’s this regionally responsive migration policy needs to:

- encourage people of working age population to come to Highland.
- be responsive/flexible to sectoral labour challenges facing the Highland economy.

Appendix 3
Access to EU Markets

Summary

Highland together with the other parts of the Highlands and Islands, is a region of significant economic potential, particularly in sectors such as tourism, energy, fishing, aquaculture, food and drink. The region has enjoyed close links with the EU for more than 4 decades, benefitting from access to European markets, which in turn has enabled businesses to make a positive contribution to wider prosperity in Scotland and the UK. In many ways the Highlands and Islands can be seen as a success story and continued access to EU markets will be critical to maintaining an upward trajectory, realising new opportunities and fulfilling potential.

The importance and value of access to EU markets is significant and any future access post Brexit should:

- preserve fair competition and maintain consumers' confidence in Highland products including through Geographical Indicators
- avoid border tariffs
- avoid processing delay and related administration costs
- is as seamless as possible

Exports

Established industries such as whisky and aquaculture are ranked first and second in the UK's food and drink exports. Over half of all Scotland's distilleries are based in the Highlands and Islands and this is a growth industry with several new distilleries in the planning. In addition 70% of all UK gin is produced in Scotland with 142 separate brands currently on offer. The Highlands and Islands contribute 53 of these brands and global sales of gin are up 4% year on year. Gin is the seventh biggest UK food and drink export.

The Highlands and Islands is the third largest salmon producer in the world accounting for 94% of EU production with exports around 172,000 tonnes globally of which nearly 40% heads to the EU. It is worth noting that a significant portion of fish farms in Scotland are owned by Norwegian companies and the current access to the European single market is advantageous from a Norwegian perspective in relation to salmon exports. The current import tariff rate for Norwegian salmon to the EU is 2% but Norway is in the European Economic Area (EEA). Out-with the EEA the current import tariff to the EU is 8%.

Fishing is a key sector, with Highlands and Islands landings valued at £264 million which is 52% of the Scottish total. This includes 12,735 tonnes of shellfish valued at £37million landed at Highland ports. In addition, Scottish vessels landed 160,000 tonnes of sea fish and shellfish with a corresponding value of £133 million in EEA countries (Norway, Denmark, Netherlands and Spain). Europe is the leading export destination for Highlands and Islands fish and seafood.

Scotch Whisky, Beef and Lamb and Scottish Farmed and Wild Salmon are products with the European Union's Protected Designated Origin status or a Protected Geographical Indication. These designations afford each product protections and are seen as assets for the trade of high-added-value food and drink.

The region is among the best in the world for marine energy potential and the opportunities here are widespread with 10% of Europe's wave and up to 25% of its tidal resources. In terms of capitalising on wind energy, the Highlands and Islands are well placed to benefit as Scotland is home to around 25 per cent of the whole European offshore wind resource. The European energy market is heavily influenced by an EU regulatory framework. If the Highlands and Islands energy sector is to continue to grow its EU market share there will need to be continued market access as well as some element of adherence to EU regulations, policy goals and targets.

Given the economy's dependence on external markets, the UK's withdrawal from the EU will clearly have significant implications for the area and across key sectors. Future access to EU markets, and markets that have free trade agreements with the EU, must ensure that any negative impacts are minimised.

Any additional burdens such as differing product standards, tariffs and customs bureaucracy could impact the sales and competitiveness of chilled products such as seafood which have a short life. This in turn could lead to a decrease in product quality and in some cases make existing markets unviable. This will have an impact on costs, efficiencies and time competitiveness which will impact on exports. It would also mean that the growth potential for aquaculture export market diversification is stifled.

From a simple geographical perspective access to the EU markets is important to many key sectors, as these cannot be easily replaced by more distant markets. If post Brexit there is more complex, time-consuming and costly trading conditions, this will make exports less competitive and some current markets unviable.

Future EU Market Access for the Highlands

Membership of the EU including access to its markets has helped with costs, efficiencies, time competitiveness and tariffs. Any future market access framework post Brexit must:

(i) recognise the particular challenges that Highland businesses face when exporting
(ii) ensure the continued contribution Highland exporting businesses bring to wider economic growth at the Scottish and UK levels.

Any future trading arrangements entered into post Brexit must minimise adverse impacts on the region's exports, enabling exporting businesses to remain competitive whilst maintaining consumer confidence. It must avoid tariffs, processing delays and additional costs.

There needs to be recognition given and continued product protection provided for high-added-value food and drink products. This requires a continuance of the existing protections and quality assurance given by Protected Designated Origin and Protected Geographical Indication status.

Appendix 4
Regional Policy

Summary

Over the past three decades EU Regional Policy has helped transform the economic and social wellbeing of Highland and the wider Highlands and Islands region. It has enabled investment in transport and digital connectivity; business growth, community development, research capacity and skills, helping to develop the region's first university. It has addressed low and sparse population, peripherality, insularity and complex geography, delivering population growth, business success and vibrant communities. As we look to the future, new opportunities are emerging, but familiar challenges remain. If Highland is to enjoy prosperity and fulfil its potential and contribution to Scotland's success, a new regional policy is needed. This regional policy needs to be:

- nationally aligned and regionally responsive, focusing on regional competitiveness and socio economic inclusion
- long term and strategic in nature, with resources commensurate with the scale of challenge and opportunity
- regionally responsive and flexible, driven by the involvement of local partners in development, delivery and evaluation
- aligned with wider delivery mechanisms and, in particular, UK / Scottish Rural Policy

Regional Policy

The Highlands and Islands is unique within the UK and its mix of economic, social and cultural assets presents both opportunities and challenges. It requires concerted and co-ordinated efforts from a wide range of stakeholders to catalyse development across the whole of the region. Success to date has been achieved by ensuring that regional policy is responsive to the challenges faced and is focused on regional opportunities to bring about a shared prosperity.

Future regional policy needs to empower the region to contribute to UK and Scottish economic growth, while recognising permanent and long term challenges. Undoubtedly, EU Regional Policy and funding have had a major impact in terms of reducing social and economic disparities. Looking forward, there are new opportunities for greater autonomy in determining the region's priorities, whether through investment from the Shared Prosperity Fund currently proposed by the UK government or any other domestic regional policy measures and mechanisms.

Characteristics of Future Regional Policy

The characteristics of future UK/Scottish regional policy should be:

- Focused on improving regional competitiveness and inclusion, that recognises and responds to regional disparity.
- Focused on regions with the greatest challenges. Implicit in this approach is that regional policy is selective – not all regions will benefit to the same degree. Consideration needs to be given to the spatial scale and definition of selected regions.
- Regions defined by clear and objective criteria.
- Funding should be available over the long term at a level commensurate with the scale of challenge and opportunity, rather than short term, one off allocations of funding

- Flexible and responsive, with a high degree of input from regional stakeholders, to address the specific regional challenges and opportunities in the region.
- Developed and delivered with mechanisms that are simple, streamlined and, as far as possible, align with wider delivery structures.
- Closely aligned with UK / Scottish Agriculture and Rural Policy bringing together the two most significant place based development policies.

It is important that lessons learned from our collective experience of EU programmes are captured and inform the development and delivery of successor domestic programmes.