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**Report Highlights:**

This report provides a summary of the history of Scottish devolution, and the process of passing legislation in the Scottish parliament. It includes details on trade, agricultural production and further opportunities.

## **Exchange Rate- 1GBP=1.39USD**

### **Facts about Scotland**

Scotland is one of the four nations which constitutes the United Kingdom (UK), the others are England, Wales and Northern Ireland. The majority of Scotland's population is located in the central belt (Glasgow, Stirling, Perth, and Edinburgh) and in three coastal cities (Dundee, Aberdeen, and Inverness). Much of Scotland's land is actively managed for economic return through farming, forestry or energy production.

Scotland's Gross Domestic Product (GDP) is estimated at \$251.5 billion and until the COVID pandemic had been growing year on year. There are around 350,000 private sector enterprises operating in Scotland and over 98 percent of these are classified as small to medium sized. In recent years the Scottish Government (SG) has renewed its focus on encouraging Foreign Direct Investment in Scotland and views the Climate Crisis, declared in 2019, as an opportunity to leverage further investment.

Total exports from Scotland were worth \$118.5 billion in 2018, 60 percent of which went to the rest of the UK, 21 percent to the rest of the world and 19 percent to the European Union (EU). Large amounts of exports to the rest of the UK are in the form of financial services and energy. Agricultural products typically exported direct to the EU were seed potatoes, whisky, beef, lamb, and seafood. Exports of food and drink had been growing but not at the rates expected in the Scottish Food and Drinks Ambition 2030 campaign. In light of Brexit and Covid Scotland's exports are unlikely to meet their expected 2020 and 2021 levels.

In 2018, the United States was Scotland's largest international export destination, with a value of \$7.7 billion however, this will have reduced with the tariffs on Whisky, Shortbread and Cashmere.

### **Government and Politics**

#### **Devolution- How it came about, what was the situation before, what does it mean?**

The 1707 Acts of Union dissolved the Parliaments of England and Scotland and established a Parliament of Great Britain. The Acts made the provision for the protection and retention of distinct legal and social institutions, mainly Scots Law and the Church of Scotland.

Devolution is about the transfer of power by a central government to local or regional administrations. There have been different forms of devolution in the UK for decades and it is common in other parts of the world. Throughout the 1800s there were several events of administrative devolution which meant education, agriculture, and health policy could be different in Scotland than in England. This was covered in the role of Secretary of State for Scotland.

In the UK there are distinct legislatures and governments in Scotland, Wales, and Northern Ireland, but importantly not England, which has a more localized form of devolution. These legislatures and governments have powers over a range of policy areas which had previously been with the UK Government.

Each of the devolved legislatures (parliaments) has its own unique devolution settlement, for Scotland this was established in 1998 under The Scotland Act and has been revised occasionally to provide additional powers.

Before devolution all legislation was made by the UK parliament and any variations for Scotland, Wales or Northern Ireland were brought forward by the Secretaries of State for each country. Under the Labour Government of 1997, Prime Minister Tony Blair committed to devolution for Scotland, which was

subsequently followed by devolution for Wales. Devolution has resulted in Scotland having unique policy tailored to the specific situations it faces.

### **UK Government Role in Scotland**

The UK Government has the authority to make legislation that includes Scotland when that legislation is on a reserved matter.

#### **Policy areas reserved to the UK Government are:**

- The constitution
- Foreign Affairs
- Defense and national security
- Nationality, immigration and asylum
- Macroeconomics and fiscal matters
- Financial services and pensions regulation
- International development and trade
- Elections to UK Parliaments
- Setting the national minimum wage
- Competition and intellectual property law
- Employment law
- Energy
- Aspects of cross-boarder rail
- Genetics, surrogacy, medicines approval and embryology
- The civil service

The Sewel Convention applies when the UK Parliament legislates on a matter within the devolved competence of the Scottish Parliament. The Sewel Convention was established in 1998, as an unwritten part of the UK constitution. Under the terms of the convention, the UK parliament will “not normally” legislate on devolved policy areas without the relevant devolved legislature granting a legislative consent motion.

In 2001, a Memorandum of Understanding (MoU) between the UK Government and devolved administrations in Scotland, Wales and Northern Ireland was agreed; it was recently updated in 2013. The MoU sets out the principles that support relations between the four nations and puts the emphasis on the principles of good communication, consultation, and cooperation. The MoU also has a number of Concordats (agreements) between the UK Government and devolved administrations. These recognize the interests of the latter in international relations as the policy is reserved to the UK government. Following the UK’s exit from the EU the UK government and devolved administrations are undertaking a review of intergovernmental relations, including the MoU.

The MoU created the Joint Ministerial Committee (JMC), a committee structure for intergovernmental relations. Its purpose is to enable Ministers for the UK Government and the devolved administrations to engage effectively with each other. The terms of reference are:

- To consider non-devolved matters which impact on devolved responsibilities, and devolved matters which impact on non-devolved responsibilities;

- Where the UK Government and the devolved administration agree, to consider devolved matters if it is beneficial to discuss their respective treatment in different parts of the UK;
- To keep intergovernmental arrangements under review
- To consider disputes between the administrations.

The UK Government recently created a Union Unit within the Cabinet Office to promote the benefits of the UK in an attempt to reduce the support for independence in Scotland. The Unit has had some issues with establishing how the UK government should approach the issue. In February 2021, the leader of the Unit changed twice following internal disagreements between the team. It is now operating without a leader until PM Johnson appoints someone. This suggests that the UK government is struggling to decide a strategy to strengthen the Union. Political sources suggest that the Unit could be replaced with a Cabinet sub-committee, with politicians rather than special advisors leading the work.

### **Allocation of Budget**

The Barnett formula is used by the UK Treasury to calculate the annual block grants for the Scottish government. In 2019/20 the Barnett block grant amounted to \$45 billion in Scotland. The Covid pandemic resulted in several changes to the UK budget; however, every spending announcement made in response to Covid has included funding for Scotland using the Barnett formula.

The Barnett formula calculates devolved budgets by using the previous year's budget as a starting point, and then adjusting it based on increases or decreases in comparable spending per person in England. For example, if spending on healthcare in England increases by \$139 million, the Scottish government's budget would increase by \$13.5 million as Scotland's population is 9.7 percent of England's.

An advantage of this formula is that it helps depoliticize the process of setting devolved budgets, removing the need for annual negotiations between UK Treasury and the devolved administrations. It also ensures relative stability and predictability for devolved budgets, as each year's budget uses the previous year's budget as a starting point. In addition, devolved administrations have the autonomy to choose their own spending priorities (although separate grants are given for resource and capital spending).

Aspects of how the formula operates remain open to interpretation. For example, the UK and devolved governments have disagreed in the past on whether spending on regeneration projects linked to the 2012 Olympics should be classified as England-only spending – which would result in additional funding for the devolved nations – or UK-wide spending – resulting in no additional devolved funding. Currently, the UK Treasury exercises full discretion over this process, with no obligation to transparently publish its calculations. The Treasury can also choose to bypass the Barnett formula entirely, as it did for the \$1.39 billion funding package for Northern Ireland that was negotiated as part of the Conservative-DUP supply and confidence agreement after the 2017 general election. The Scottish and Welsh governments objected to the fact that they would not also receive more funding as a result; however, there was no formal mechanism to challenge this decision. The power to bypass the Barnett formula has been further established in the [UK Internal Market Act](#). This Act included a power for the UK government to invest money in any part of the UK even if the policy area was devolved. The power to do this existed in unwritten conventions, also known as Henry VIII powers, and a selection of historic acts. The clauses in the Internal Market Act was viewed as controversial by the Scottish Government but was largely overlooked as the act was created due to the clause that would allow UK Government to break international law. A clause that was ultimately removed during Brexit negotiations.

## **Scotland Office**

The Office of the Secretary of State for Scotland is the UK Government's Office for Scotland. Its role is to: strengthen and sustain the union; act as Scotland's voice in the UK Government; champion the UK Government in Scotland. Historically, the Scotland Office would have significant involvement in budget allocation. Its current focus is in strengthening the union and arguing for great UK investment. The current Secretary of State for Scotland, Alistair Jack, is a close ally and friend of PM Johnson. This gives him significant influence on UK policy and he has been instrumental in achieving several major changes to government policy to better suit Scotland.

## **UK Parliament- Members of Parliament and House of Lords**

Under devolution, Scotland is represented by 59 Members of Parliament (MPs) in the House of Commons of the United Kingdom elected from territory-based Scottish constituencies, out of a total of 650 MPs in the House of Commons. Various members (Peers) of the House of Lords represent Scottish political parties.

Scottish MPs are included in the allocation of seats on parliamentary committees, there is also a specific Scottish Affairs Committee. Membership of the Scottish Affairs Committee is proportional to the parties represented by the 59 MPs from Scotland.

In the current UK Parliament there are: 49 MPs from the Scottish National Party; 6 MPs from the Scottish Conservatives; 4 MPs from the Scottish Liberal Democrats; 1 MP from Scottish Labour; and one independent. There is no specific list of Scottish members of the House of Lords but there are many members with a Scottish interest.

The UK Parliament also runs All Part Parliamentary Groups on a range of topics. Groups can be formed on any topic if several MPs or Peers support the creation of a group.

## **Scottish Government**

The Scottish Government is led by a First Minister who may, with the approval of Scottish Parliament, appoint Cabinet Secretaries (Senior Ministers), Ministers (Junior Ministers) and Law Officers to lead devolved portfolios.

### **Structure of Scottish Government**

Head of Government- First Minister (FM) Nicola Sturgeon

Cabinet- FM and 11 Cabinet Secretaries

Permanent Secretaries- 1 Permanent Secretary, Leslie Evans

Departments- 6 Director Generals and over 40 Directorates

Number of civil servants- over 17,000

The Scottish Government has its headquarters in Edinburgh, with a further 11,500 staff working in other bodies across Scotland. Civil Servants working for the Scottish government and its agencies are members of the UK Civil Service, who are headed up by a single Permanent Secretary and are bound to serve Scottish Ministers.

## **Policy areas devolved to Scotland**

- Health and social services
- Education, training and skills
- Local government and councils
- Housing
- Economic development
- Agriculture, forestry and fisheries
- Environment and planning
- Transport
- Tourism, sport, culture and heritage
- Fire and rescue services
- Water and flood defense
- Justice and policing
- Charity law
- Stamp duty and land tax
- Licensing of onshore oil and gas extraction
- Some income tax powers, including the ability to set different rates and thresholds
- Some social security elements

## **Scottish Parliament- Members of Scottish Parliament (MSPs)**

The Scottish Parliament sits in Holyrood, Edinburgh, and is made up of a single chamber with 129 Members of the Scottish Parliament (MSPs). They are elected on four-year terms through a hybrid voting system of mixed-member proportional representation.

The system used for Scottish Parliament general elections is a mixed member system comprising a first-past-the-post component, under which seats are allocated in single member constituencies, and a proportional representation (PR) component based on regional party lists. These two elements are then linked through a formula known as the d'Hondt method or system. This electoral system is known as the Additional Member System (AMS). Part 1 of the Scotland Act 1998 sets out the process by which Members are elected to the Scottish Parliament. Under AMS, each voter has two votes. The first is used to vote for a named candidate for a geographically defined single member constituency. There are 73 constituencies, and candidates are elected via the same first-past-the-post system which is used for the UK Parliament elections. The second vote is used to elect an 'additional' member. This vote is cast for a political party or an independent candidate. There are 8 regions and 7 candidates are elected from each. In total, therefore, 56 'list' or 'regional' members are elected. Each person in Scotland is represented by 1 constituency and 7 regional Members of the Scottish Parliament (MSPs). The regional vote is intended to make representation in the Parliament more proportional in relation to the share of the vote, taking into account the size of the regional vote for each party (or independent candidate) and the number of constituency seats won by each party (or independent candidate) in that region.

## **How Legislation is Made?**

The Scottish Parliament makes laws on matters it has been given responsibility for by the UK Parliament at Westminster. If a new law is needed on one of these matters, or an existing law needs to be changed, a bill will be introduced to the Scottish Parliament.

A law that affects the public across Scotland can be introduced by any Member of the Scottish Parliament (MSP). Most bills are government bills, introduced by a Cabinet Secretary or Minister. Bills introduced by MSPs who are not part of the Scottish Government are known as members' bills.

The Parliament examines bills, mostly in committees, with one committee taking the lead. This is known as scrutiny. However, it is the full Parliament that has the final say and decides whether or not a bill should become law.

Before it can become a law, a bill has to pass through three main stages in the Parliament. Stage one involves both a relevant committee and the parliamentary chamber. The committee will consider the general principles of the bill and gathers evidence from relevant stakeholders and the public, it then issues a report. This report is presented to the parliamentary chamber and there is a debate, followed by a vote. If the vote is passed then the bill moves to Stage two. During Stage two, the relevant parliamentary committee considers the detail of the bill and typically holds several evidence gathering sessions with invited experts. The committee then proposes and votes on amendments to the bill. The final stage of a bill is Stage three. The Scottish Parliament will debate the bill and votes to make further amendments; MSPs then vote on whether to pass the bill. If the bill is passed, it will then go for Royal Assent which is when the Queen must sign the bill.

There are two committees in the Scottish Parliament that meet regularly to discuss rural matters, these are: Rural Economy and Connectivity; and ,Environment, Climate Change and Rural Affairs. The Scottish Parliament also has several cross-party groups, these are similar to the UK All Party Parliamentary Groups. The meetings run by these groups can be attended by the public, and organizations with an interest in the topic of discussion.

### **Independence Movement**

In 2014 Scotland held a referendum on independence, the final result was 55.3 percent No and 44.7 percent Yes. Despite this, the subject of independence has not gone away. Many supporters argue that this vote was held under the assumption that the UK would remain in the European Union therefore, it should be held again now that Brexit has happened. Polls for a second independence referendum have consistently returned figures that support Scottish independence. The late February 2021 polls show the gap has narrowed to a 50 percent even split. The ongoing investigation into the handling of complaints against former First Minister, Alex Salmond, has begun to impact the polls for independence and the next Scottish Election. The UK Government is expected to use this change in polls to increase its efforts to promote the strength of the union to Scottish voters.

### **Trade**

As set out in the MoU, international relations is the responsibility of the UK government and UK parliament. However, the UK government recognizes that the devolved administrations will have an interest in international policy makings, especially as devolved administrations may need to implement agreements. The Foreign and Commonwealth Office therefore briefs devolved Ministers and officials when necessary and considers their priorities and overseas concerns.

Trade is a complex matter as there is significant policy overlap. Trade promotion is carried out at a UK level but also by each devolved administration, whereas trade policy is a reserved matter, though trade agreements cover areas which intersect with devolved policy-areas such as agriculture. There is an increasing amount of collaboration overseas as the devolved administrations set up Trade and Investment Hubs, in UK government posts, and joint Trade Missions encourage investment throughout the UK.

## **New Trade Vision- The Scottish Government**

The [Trade Vision](#) sets out the Scottish Government's trade principles of Inclusive Growth, Wellbeing, Sustainability, Net Zero and Good Governance. These principles are rooted in Scotland's National Performance Framework and will underpin the trading and investment relationships the Scottish Government wants for Scotland. The vision document provides several key asks of the UK government and requests that the Scottish government have a greater role in influencing UK trade policy. This position has also been raised as the current UK Trade Bill continues to be scrutinized in the UK parliament. Several members of the House of Lords have put forward amendments that would give the devolved administrations more opportunity to feed in to the creation of trade positions. To date these amendments have been unsuccessful.

## **Devolved Policy Divergence**

In matters of devolved policy there is an expectation that there will be divergence with other policy throughout the UK. As part of the European Union there was an overarching framework on the creation and implementation of policy that limited the amount of divergence possible. The UK Internal Market Act now provides that check and policy shouldn't be created if it will result in internal market distortion. The new Internal Market Act was controversial as it was created largely without consultation with devolved administrations. At the same time Scottish Parliament passed an EU Withdrawal Act which provided Scottish Government with the powers to present EU policy developments to the Scottish Parliament for a vote if it was felt that policy was appropriate for Scotland. There was criticism at the time that this might result in Scotland waiting for policy to be made in the EU rather than introducing policy in Scotland as required. To date this act has not been used.

## **Facts about the Agriculture Sector.**

Some 80 percent of Scotland's land mass is under agricultural production, making the industry the single biggest determinant of the landscape of Scotland.

Scotland's food and drink industry was identified in [Scotland's Economic Strategy](#) as one of the growth sectors that Scotland can build on its existing comparative advantage, and increase productivity and growth. The Scottish food and drink industry includes; agriculture, seafood, aquaculture, food manufacturing, and drink manufacturing. The food and drink manufacturing sector is important to Scotland's workforce, and is a significant proportion of manufacturing exports. The production of Scotch whisky and other spirit drinks is important to the Scottish economy. The agricultural industry provides raw ingredients for the Scottish food and drink industry and is a major supplier of raw materials to the UK industry.

The Food & Drink growth sector is defined by the Standard Industrialization Classification (SIC) 2007 codes:

01 – Crop and Animal Production, Hunting and Related Service Activities

03 – Fishing and Aquaculture

10 – Manufacture of Food Products

11 – Manufacture of Beverages

Food and drink is Scotland's largest non-energy goods export. Spirits make up the largest part of Scotland's food and drink industry, making up 30 percent of the UK's drinks manufacturing industry, with UK Scotch whisky exports worth around \$7 billion per year. Fisheries and aquaculture are key sectors for Scotland, seafood

accounts for 57 percent of Scotland's overall food exports with a value of \$1.3 billion in 2019. Farmed Scottish salmon is the UK's number one food export.

## **Production**

Scottish agriculture produces a wide range of products: beef, lamb, dairy, pork, grains, potatoes, vegetables, fish, wood, and soft fruit. In 2020, the number of cattle in Scotland continued to decline. The long term trend shows the number of dairy cows remaining relatively stable, while the number of beef cows continuing to fall. The area used to grow vegetables, excluding potatoes, for human consumption grew by 13 percent. The area used to grow vegetables for livestock feed remained relatively stable.

In 2020, a sharp fall in winter planted crops due to wet weather conditions in autumn and winter was followed by an increase in spring planting. The overall area for growing cereals and oilseeds was similar to 2019. The total workforce on agricultural holdings remained relatively stable at 66,700 people.

Scottish agriculture is heavily influenced by the weather, the northern climate can result in failed crops and difficulty in rearing livestock. This has been further impacted by climate change and has resulted in an overall decrease in areas planted with winter crops.

Over the past year, the total soft fruit growing areas increased by seven per cent. The estimated total area was 2,200 hectares. This is 14 percent higher than the ten-year average. Strawberries are the most popular grown fruit, followed by blackcurrants and raspberries. Most fruit is grown under cover in either glasshouses or walk-in plastic structures called 'Poly-tunnels'. This allows for a much longer growing season and almost 77 percent was grown this way in 2020. The area used to grow strawberries, blackcurrants and other soft fruits, such as blueberries and tomatoes, increased. The area used to grow raspberries, which require the most skilled pickers, continued to fall. The reduction in availability of migrant workers has made it difficult to pick high value soft fruit crops.

Total cattle numbers have steadily declined to a new 60 year low. In 2020, there were 1.71 million cattle in Scotland, a one percent drop from 2019. Cattle numbers have been trending down since a peak in 1974 when there were 2.78 million cattle. After the 2018 winter storm, known as the “Beast from the East”, the total number of sheep continued to recover, increasing by one percent to 6.72 million sheep. This is slightly below the ten-year average. The number of ewes and other sheep has remained relatively stable over the past ten years. The number of lambs has been more volatile.

## **Processing**

There has been a sustained reduction in livestock processing capacity in Scotland; there is now only one abattoir capable of handling pigs which has a negative impact on pig farmers. Due to commercially sensitive data, it is difficult to estimate how many livestock animals reared in Scotland are slaughtered in England. However, this was a significant enough issue for the red meat levy to be a significant topic when the UK [Agriculture Act](#) was being introduced. The majority of Scottish produce is exported to England.

## **Consumption**

### **Imports and Exports**

Total exports from the Food and Drink growth sector were \$16 billion in 2018, accounting for 13.6 percent of Scotland's total exports. Exports from this sector increased by 5.8 percent during 2019 (latest available figures).

Exports to the rest of the UK stood at \$6.3 billion in 2018 and accounted for 39.4 percent of total Food and Drink exports. International exports to the EU stood at \$3.7 billion (23.1 percent) and international exports to non-EU countries stood at \$6.0 billion (37.4 percent). These figures are expected to be lower for 2020 as a result of the 25 percent tariffs on high value single malt whisky.

Aquaculture in Scotland is diverse, it includes: salmon farming and other finfish species; the production of mussels and oysters; and the harvesting of seaweed. It contributes over \$2.5 billion annually to Scotland's economy.

In 2019, 42 percent of goods imported into Scotland were from the EU and worth \$13.8 billion. The top five countries Scotland imports from outside the EU has remained unchanged in the last five years. Norway has led Scottish imports every year between 2013 and 2018, the United States became Scotland's number one importing partner in 2019, with Norway falling to third behind China.

### **Labelling**

In the new [Agriculture \(Retained EU Law & Data\) \(Scotland\) Act](#), passed in 2020, the Scottish government has the power to have different labeling requirements compared to the rest of the UK. This is potentially an issue for U.S. exporters; however, under the UK Internal Market Act products that are imported through an English port only need to meet English labelling laws to then be sold in Scotland. The practicalities of this new law have not been challenged yet and there is currently no policy divergence. The risk that there could be divergence could create an issue so we will watch the situation closely.

### **How could this change in the future?**

Scotland has a stable population with an ambition to grow further, it is unlikely that there will be a decline in demand for food imports anytime soon. However, there is a growing part of the Scottish consumer base that is vocal in its support of locally produced sustainable food. How practical this is remains to be seen but the Scottish government does not expect imports to reduce. There is instead a clear focus on adding value to food and drink produced in Scotland for export, as a small country it will be unable to feed itself without imports so these are expected to grow.

### **US Opportunities**

Scotland imports a lot of products from the United States, there is no reason to expect this to reduce. There is some consumer concern on the issue of food standards which will need to be continually challenged. During the debates for both the UK and Scottish Agriculture Acts, Scottish MPs and MSPs were vocal on their concern for substandard imports. MPs and MSPs regularly cited US production methods as a negative example to justify their arguments. This should not be allowed to go unchecked. Scotland has a strong focus on climate change and achieving net-zero emissions in the drafting of new and future legislation, this presents an opportunity for U.S. exporters to highlight their climate, environmental, and sustainable credentials.

### **Attachments:**

No Attachments.