
NORTH AYRSHIRE COUNCIL

9 March 2021

Audit and Scrutiny Committee

Title:	UK withdrawal from the European Union (Brexit) Update report
Purpose:	To provide an update on the current position regarding the UK's withdrawal from the European Union on 31 December 2020
Recommendation:	It is recommended that the Committee note the current position in respect of the UK's withdrawal from the European Union.

1. Executive Summary

- 1.1 This report provides an update on the UK's withdrawal from the European Union. While the agreement of a trade deal with the EU removes most immediate risks of a no-deal, particularly around tariffs, and immediate impacts on North Ayrshire have been limited, there remains a danger that EU-exit compounds and deepens the longer-term economic impacts of COVID.

2. Background

- 2.1 On 24 December 2020 a deal was agreed between the UK Government and the EU. While the key terms of the treaty were set out in the previous report to the Committee, the following paragraphs provide further information.
- 2.2 The EU and UK agreed a number of principles intended to provide a 'level playing field' in the way that UK and EU businesses are regulated. The most important features are:
- competition law regulation based on principles very similar to EU competition law;
 - state subsidy regulation based on principles very similar to EU state aid law;
 - employment rights not to be reduced from current levels in a way that impacts on trade;

- environmental protection not to be reduced from current levels in a way that impacts on trade.

If either party goes further in imposing higher standards of protection in these areas that impacts on trade and investment, while the other does not, it can adopt 'rebalancing measures' in respect of the other party. This should mean that the other party does not gain a competitive market advantage from the 'uneven playing field' if it fails to match the other's increasing regulatory standards.

2.3 The agreement provides for EU and UK authorities to cooperate in a number of other areas:

- facilitating customs arrangements where possible;
- recognition and enforcement of registered intellectual property rights;
- access to public procurement;
- cooperation between authorities on energy trade arrangements, and a more detailed Nuclear Cooperation Agreement;
- agreement not to place new restrictions on digital trade between UK and EU;
- agreement not to place new restrictions on access to telecoms markets.
- law enforcement and judicial cooperation (but not direct access to EU criminal databases, and the European Arrest Warrant is being replaced by a looser form of Rendition),
- security of information
- cyber security and health security, and
- Covid-19 cooperation

2.4 The agreement does not provide for the continued access of UK financial services providers to EU markets. This is still subject to discussions that will continue in 2021 on potential EU decisions on the equivalence of UK financial services regulation.

2.5 New UK policy announcements to review existing EU derived rules such as Procurement and Employment rights and the UK Shared Prosperity Fund have either taken place or are expected to be made shortly. COSLA have been engaged in discussions about the latter.

2.6 In relation to the transfer of personal data, while the agreement provided a four-month transitional period from 1 January permitting the continued transfer of personal data from the EU to the UK, on 19 February, the European Commission announced that it had formally launched the procedure to adopt two adequacy decisions for data transfers to the UK. This hopefully clears the way for the continued transfer of personal data.

- 2.7 UK and EU citizens who established EU free movement rights before 31 December 2020 retain them, if they have registered their settled status under the schemes set up by the UK or EU by 30 June 2021. While there are no immediate issues, a concern is that as a result of COVID, many EU workers appear to have returned to the EU. When lockdown eases and the economy picks-up it may be difficult to recruit, particularly in lower paid areas traditionally reliant on EU workers, such as the hospitality and the care sector.
- 2.8 Trade in Northern Ireland is governed by the Northern Ireland Protocol to the UK-EU Withdrawal Agreement. The Protocol provides for Northern Ireland to form part of the EU's single market, meaning that the impact of most of the provisions on trade in goods will relate to trade between Great Britain and Northern Ireland, rather than Northern Ireland and the EU. This has given rise to a number of issues including the widely publicised and swiftly revoked decision by the EU regarding cross-border transfer of vaccines. There have been issues relating to lorry shipments not having adequate paperwork on arrival at Cairnryan. Recent press coverage has reported that the Scottish Government is preparing to create a new customs checkpoint in Dumfries and Galloway.
- 2.9 In relation to the import and export of goods, this is the first ever EU zero tariff, zero quota deal with another trading partner and is the largest bilateral trade deal in the world (by volume of goods). Customs procedures will continue to be simplified as the UK and EU agree and recognise their respective trusted trader schemes. It should however be noted that the absence of tariffs or quotas applies only for goods meeting the agreement's rules of origin. Therefore, businesses must prove their products fulfil all necessary 'rules of origin' requirements. For example, at least 55% of the materials making up a car must originate from the UK or EU for it to be imported tariff-free. Businesses dependent on international supply chains will need to assess the impact for them of the rules of origin.
- 2.10 In relation to border control, increased friction at the border means that businesses will need to adapt, particularly where they are reliant on speed of delivery. The delays are likely to be a long-term feature of trade, with peaks in January-February 2021 as the new arrangements bed in, and in July 2021 when the UK's transitional arrangements end. A recently published survey of 350 supply chain managers found that two out of three had experienced delays of "at least two to three days" getting goods into the UK.

- 2.11 The most obvious issues to date have been around exporting fish and seafood. The problems seem to be largely associated with the Hubs and the complicated documentation required of business. Discussions continue to resolve the problems and there are signs of the process in Scotland settling down. Compensation has been introduced by the UK Government for lost business.
- 2.12 In relation to state aid, the UK Government published guidance on 31 December 2020 and a consultation was launched on 5 February. COSLA have also been holding detailed discussions with Scottish and UK officials on the new domestic state aid arrangements, the UK Shared Prosperity Fund, common frameworks such as procurement, and the new statutory requirement for Scottish ministers to consult Local Government whenever they wish to keep pace with EU targets.
- 2.13 In relation to the impacts on North Ayrshire Council, to date these have been limited, partly because we have few exporters in the seafood sector.
- 2.14 The conclusions of the previous report are still pertinent. In the short term, greater certainty about the UK's relationship with the EU is likely to release delayed investment. However, in the longer term the new relationship is expected to lead to a reduction in GDP of around 4% compared to remaining in the European Union, according to the Office for Budget Responsibility. Therefore, long-term economic impact remains the key risk. This needs to be considered alongside the economic impacts of COVID-19.

3. Proposals

- 3.1 The Committee is asked to note the current position.

4. Implications/Socio-economic Duty

Financial

- 4.1 Officers continue to monitor the impact of the EU Withdrawal process on the Council's budget position.

Human Resources

- 4.2 There are no human resource implications arising from this report, other than the issues of organisational capacity referred to in the report.

Legal

- 4.3 There are no legal implications of this report.

Equality/Socio-economic

- 4.4 There are no impacts of this report. However, the UK Government has indicated its intention to 'modernise' and depart from the terms of the European Convention of Human Rights.

Environmental and Sustainability

- 4.5 Any Environmental risks appear to have lessened as a result of the Deal

Key Priorities

- 4.6 These terms of the Deal and the Internal Market Bill impact on nearly every area of the Council and on all of the priorities.

Community Wealth Building

- 4.7 The internal market proposals have the potential to significantly restrict the Council's ability to make social policy tailored to the needs of its communities. This includes community wealth building.

5. Consultation

- 5.1 Officers from all services were previously consulted in assessing the risks from Eu-exit.

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Background Papers