

Scotland's Vision for Trade









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Our Programme for Government commitment:

We will publish our **vision for trade**, that sets out our principles and our values for the trading relationships we want Scotland to have in the future. This vision will underpin how we take forward implementation of our three cornerstone international economy plans and crucially will be used to influence the approach the UK Government takes in developing trade agreements with other countries and blocs. It will reflect the Scottish Government's aims of fair work, inclusive growth, supporting the wellbeing of people and communities and of course, making the transition to net zero as well as including a set of indicators which future trade-related decisions – both import and export related – can be tested against.



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Ministerial Forward



In our Programme for Government for this year, we committed to developing and publishing a Trade Vision for Scotland and I am delighted to introduce that Vision to you here. At its heart, Scotland's Vision for Trade sets out the principles and values for the trading relationships we want our country to have, now and in the future.

We want Scotland to be a successful trading nation but we also want to be known as much for how we trade as what we trade.

This Vision is all the more timely because it is being published during an unprecedented period of disruption and uncertainty. Scotland's economy is currently experiencing significant shocks from Brexit and COVID but the Trade Vision is designed not simply as a reaction to current circumstances, nor is it a reaction to the trade policies of the current UK Government.

What it does seek to do is set out a coherent approach to our trade relationships. An approach that better reflects the country we want to be and the trading relationships we want to have with other nations.

As a government we have taken, and will continue to take, definitive steps and actions to encourage and improve our trading performance because we recognise the important role that trade has in increasing economic growth and living standards for the people of Scotland.

The way a country trades and makes trade-related decisions reveals much about that country.

The nature and complexity of modern trading arrangements means that their impacts are experienced far and wide and affect the interests and daily lives of Scotland's businesses and citizens – not least, on food, on jobs, and on the environment. Trade-related decisions have important and far-reaching implications for current and future generations.

That is why Scotland's Vision for Trade is for the longer term and explains how the Scottish Government will consider and reach a position on future trade decisions.

So we want to do all we can to ensure that these decisions are taken in a consistent and coherent manner, underpinned by strong and clear ambitions and values, to support wider government objectives.

Scotland wants to trade based on key principles of inclusive growth, wellbeing, sustainability, a just transition to net zero and good governance. This document explains how we will do that and the approach outlined will frame our international plans now and into the future.

We know that it is businesses that trade, but to avoid them doing so in a vacuum, it is important for governments to set the tone to encourage value based economic development, here and in other countries and regions. The Scottish Government wants our businesses to adopt our values and then to work with businesses that align with those values.

Scotland's Vision for Trade makes no apology for setting our nation high standards on key issues such as working conditions, provenance, and in ways which help to address some of the world's biggest issues, including human rights, modern slavery and the climate emergency.

We also set out the sort of trading partner we as a government want to be – collaborative, inclusive and innovative. Of course, actions speak louder than words so our Vision also sets out the key drivers and levers that we will use to achieve progress.

By developing and publishing Scotland's Vision on Trade we are setting out our stall for the future, openly, transparently and unapologetically setting high standards for ourselves and for others, and on how we want to measure and be judged against that vision. We are clear about the kind of country we want to be and want to be seen as being, with strong values in place to guide how we do business around the world, so that people, businesses and other governments know who we are and what we represent as a nation.

A handwritten signature in black ink, appearing to read 'Ivan McKee', with a long horizontal flourish extending to the right.

Ivan McKee MSP

Minister for Trade, Innovation and Public Finance

Executive Summary

“Trade is not separate from the values and the reputation that a country wants to project internationally. Trade, in many respects, should reflect our values. There should be ethics attached to any country’s trading profile.”

First Minister, September 2020.

Scotland’s Vision for Trade

Scotland wants to trade based on our principles of inclusive growth, wellbeing, sustainability, a just transition to net zero and good governance.

This Vision for Trade sets out how those principles underpin the trading and investment relationships we want Scotland to have now and in the future, including how we implement our three cornerstone international economy plans on exports, investment, and capital. It articulates the approach that the Scottish Government wants to take in developing future trading arrangements.

Businesses trade. Governments create the terms of trade and affect the market dynamics. Our Vision for Trade sets out how, in partnership with businesses, we can together create the right trading environment for a wellbeing economy.

This document articulates our key principles and how these relate to Scotland’s distinct interests and priorities and our place in the global trading environment. The Scottish Government has consistently made the case for a more effective role in the development of future UK trade policy and this position is reiterated here. The document concludes with a commitment to engage with individuals, businesses, academics and other organisations in Scotland and globally on our approach to trade and how this will shape future trade-related decisions.

We cannot know exactly what decisions will need to be taken, now or in the future, in the complex world of international trade relationships. What we can do is set out the guiding principles that we will use to weigh up decisions on trade, some of which may create tensions between our economic, social and environmental aims. Finding the right path through this complexity, particularly at a time when the nature of the UK’s trading relationships is uncertain and changing, will not be easy, but we will always be guided by our principles and will consistently use these principles to hold ourselves to account.

Our five trade principles



**Inclusive
Growth**



Wellbeing



Sustainability



**Net
Zero**



**Good
Governance**

...are applied to today's eleven biggest trade challenges for...



Scotland's Economy

1. Influencing the trading environment – goods, services and investment
2. Digital trade
3. Cooperation on regulation while regulating in the public interest
4. Global Value Chains



Scotland's People

5. Fair work and the winners and losers from international trade
6. Supporting public services through trade
7. Balancing cost, value and protections for consumers



The planet

8. Climate, nature and trade
9. Coherence of trade with international development outcomes
10. Multilateral trading system and dispute settlement
11. Scotland's role as a trading partner

Trade profoundly impacts the lives of all of Scotland's citizens – our food, our jobs, our environment. In turn, the way that Scotland and Scottish businesses trade with partners around the world has implications that reach beyond our borders. In developing our Vision for Trade, the Scottish Government recognises the need to take a **principled approach** to navigate the complexity of the trading environment.

Scotland's five trade principles

This Vision for Trade sets out how, in partnership with businesses, the Scottish Government can create the right trading environment for a **wellbeing economy** for Scotland. The Vision sets out the **five trade principles** that will underpin the trading and investment relationships we want Scotland to have now and in the future, including how we implement our three cornerstone international economy plans on exports, investment and capital:

1. **Inclusive Growth:** Trade should drive economic development, provide good quality jobs, improve quality of life and reduce inequality.
2. **Wellbeing:** Increased wellbeing is the core purpose of our National Performance Framework and trade has a role to play in delivering on this.
3. **Sustainability:** Trade decisions must be guided by economic, social and environmental sustainability and the interdependencies between these.
4. **Net Zero:** Trade policy should increase progress towards our target to reduce Scotland's emissions of all greenhouse gases to net zero by 2045.
5. **Good Governance:** In our decisions on trade we will respect good governance and the international rules-based system at all times.

Our Vision for Trade applies these principles to the major trade issues currently facing our **economy, people, and the planet**. Governments have a range of levers available to direct, manage, and shape international trade flows and their impacts. A range of trade and non-trade-related levers can advance Scotland's interests and our wider economic, social and environmental governmental aims.

Economy: Our aim is for Scotland's economy to grow and to be globally competitive, entrepreneurial, inclusive and sustainable.

The Scottish Government will work to change the terms of trade, using our five principles to drive our priorities. We will work to improve market access for Scottish businesses, considering how we can reduce the barriers they face to international trade and to maximise our competitive advantages in goods and services. Given its increasing significance, we have placed a particular emphasis on how we can take advantage of digital trade, balancing the risks and opportunities it presents for our citizens. We will take action to grow our high-wage, high value-added, productive economy. Our focus on our principles underpins our regulation and endeavours to get the most out of the globalised economy for Scotland.

Our available levers include:

- Driving a coherent and strategic approach to addressing market access barriers beyond Free Trade Agreements – to open up the trading environment for business, alongside improving Free Trade Agreement utilisation.
- Taking steps to improve the trading environment in support of Scotland's Export Growth, Inward Investment and Capital Investment plans, such as supporting regulator-to-regulator agreements.
- Ensuring decisions relating to the Digital Strategy for Scotland are inclusive of digital trade priorities, such as developments on the tech ecosystem, AI strategy for Scotland and Digital Boost.

People: Our aim for Scotland's people is to increase wellbeing and opportunity, while reducing inequality.

We are committed to taking advantage of the benefits that trade liberalisation can bring for people, but we recognise that globalisation and trade bring challenges that must be managed and addressed. The Scottish Government will gather evidence to better understand the differential impacts of trade across our society and our economy. We will use our analysis of the effects of trade on the lives of our citizens to take forward our fair work agenda. We will work to ensure that trade policy benefits public service delivery and that our public services are protected, especially the provision of healthcare.

- Developing an evidence base on the differential impacts of trade; policies on mitigation of differential impacts; and taking steps to consider impacts of trade decisions, shocks and trends on people and options to mitigate them.
- Taking steps to consider trade's impacts within labour market, education, skills and regional development policies and applying trade principles in trade-related funding for business, particularly related to fair work.
- Taking forward consumer consultation and research (e.g. through engaging universities) and ways to better inform consumers about trade.
- Maintaining the right to regulate on public health, regulating in accordance with the precautionary principle to meet key priorities outcomes on health and social care and the protection of public health.

Planet: Our aim for the planet is to contribute to addressing global challenges, such as tackling the climate and nature crises, reducing global inequalities and building international cooperation.

In the context of the global climate crisis, the Scottish Government will use trade as a lever to achieve climate targets and improve our international environmental impact. We will seek to align our position on trade with that of the EU and to strengthen the multilateral, rules-based trading system. By operating as a good global citizen and trading partner, we will respect international law, support human rights and seek to build international relationships on trade that support developing nations and address global inequality.

- Engaging with the UK Government and international partners on the issue of Fossil Fuel Subsidy Reform and ending all Scottish Government overseas trade support and promotion activities solely focused on fossil fuel goods and services.
- Proactively promoting our trade principles internationally and playing an active and visible role on the global stage on issues that matter to Scotland, for example through engagement with World Trade Organization (WTO) committees.
- Building global trade relationships with like-minded countries, organisations and businesses based on our trade principles.

Our Vision for Trade also sets out the Scottish Government's asks of the UK Government and reiterates the case for Scotland's role in UK Trade Policy

The UK's approach to trade has pushed the Scottish Government out of key decisions, despite our expertise in Scotland's areas of interest. In current circumstances, and now that the direction of travel of the UK Government is clear, the Scottish Government's call for a comprehensive, formal role for devolved administrations and legislatures is even more important. Our top 11 asks for the UK Government are:

Top 11 asks for UK Government



Economy

- 1. Market access:** Create an open trading landscape for Scottish businesses; engage more regularly with the Scottish Government and its agencies to ensure a coordinated approach to market access work.
- 2. Goods and services:** Prioritise building on the Trade and Cooperation Agreement with the EU. Seek tariff liberalisation but take a reasoned and nuanced approach. Reduce Technical Barriers to Trade for business. Focus on improving market access for services beyond Free Trade Agreements (FTAs) and on smaller, more specific deals.
- 3. Digital trade:** Prioritise building on the UK's Trade and Cooperation Agreement with the EU. Balance economic and social priorities in trade deal positions on data flows, emerging tech, Intellectual Property (IP), online consumer protection and e-commerce.
- 4. Regulation:** Commit to regulating in line with the precautionary principle to prevent environmental harm and maintain high regulatory standards in areas such as food safety, energy, animal welfare, and climate.



People

- 5. Differential impacts and fair work:** Collect detailed disaggregated data on impacts of trade policy on different groups, share with the Scottish Government, and mitigate any undesired effects of FTAs or other trade decisions through increased funding to support affected sectors or localities. Publish full sustainability impact assessments of trade and labour, with binding commitments on mitigating impacts at home and abroad. Labour standards should be included or preserved in FTAs.
- 6. NHS:** Shield the NHS in Scotland from any risk of enforced privatisation, competition or fragmentation in trade agreements, either by design or due to a failure to identify unintended consequences, recognising that it is organised on different principles from those in operation in England.
- 7. Consumers:** Recognise the voice and interests of consumers in the UK's Trade Policy, with consumers consulted. Consumer interests should have a specific chapter in every Free Trade Agreement. Impact Assessments of Free Trade Agreements should systematically consider consumers, taking into account regionality, socio-economic status, gender and ethnicity amongst other factors.



Planet

8. Climate: Join ACCTS negotiations and ensure all FTAs link trade and climate change through the following actions:

- Compliance with the Paris Agreement should be a ‘red line’.
- Net zero and environmental commitments should be at the forefront of ex-ante impact assessment, including emissions and indirect land-use change, for instance deforestation, and this text should be subject to formal dispute resolution.
- Innovative and robust text on the environment should be included in FTAs.
- Liberalisation of trade in environmental goods and services should be a key offensive interest.
- Flexibilities should be provided to Least Developed Countries in line with the Paris Agreement.

9. Developing countries: When the UK Government liberalises tariffs, unilaterally or through an FTA, the impact on developing countries must be assessed and published. Degradation of developing country preferences and margins should be avoided. Use its position in multilateral fora to advance the interests of developing countries, and protect against moves to restrict or limit their preferential rights.

10. World Trade Organization: Involve the Scottish Government in UK WTO delegations (e.g. where matters falling in devolved policy areas are in question); engage with the Scottish Government on any specific trade concerns raised at the WTO that relate to, impact on, or are otherwise relevant to Scotland. Ensure the Scottish Government is given a meaningful and substantive role in the preparation and conduct of disputes to which the UK is a party, where the matters in dispute are ones that engage with or impact on or threaten Scottish interests (or are otherwise relevant to Scotland).

11. Human rights: Compliance with fundamental human rights and international law should be a red line for the initiation of FTA negotiations with any partner and human rights should be embedded in all aspects of trade policy.

What next?

Listening to the voices of individuals, businesses, academics and other organisations in Scotland and globally on trade policy is a priority for the Scottish Government and this Vision for Trade acts as our call for an ongoing and open dialogue on trade policy.

The progress of the Vision for Trade will be monitored through:

- a set of indicators used to test future trade-related policy and decisions, including those of the UK Government, based on the five trade principles.
- a set of indicators to track outcomes for the interests of particular sectors of the Scottish economy, businesses, consumers and individuals. These will be refined over time through stakeholder and public engagement.

This progress will be reported in an Annual Trade Policy Review produced by the Scottish Government.

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Scotland's Place in Global Trade

The Benefits of Trade

The growth in international trade has contributed to a rapid increase in growth and living standards globally. This has been true throughout human history, but particularly in the last 50 years.¹ Countries engaging in international trade benefit from faster growth and increased productivity, with higher incomes for workers. Companies which trade internationally tend to be more innovative, productive and competitive. Exporters typically pay higher wages than non-exporters, reflecting their ability to leverage economies of scale and realise productive gains.²

Consumers, especially low-income households, also generally benefit from increased trade as they are able to access cheaper and more varied goods and services.³ Recent trends toward protectionism run the risk of undermining the positive impacts that trade can deliver.

Scotland will continue to speak out for free trade and against protectionism. We are clear however that standing against protectionism is compatible with continuing to legitimately regulate in the public interest, balancing economic, social and environmental aims.

Championing Scotland's trade interests does not prevent Scotland from considering how the impacts of trade are experienced by different people, in different sectors and across different geographies. There is substantial evidence that increased openness to trade can have a differentiated impact and create "winners" and "losers" within countries.⁴ Trade policy needs to be pursued and implemented with maturity and using a holistic approach to ensure inclusive outcomes.

Taking action to ensure coherence between trade and climate and environmental objectives, in the context of supporting free trade, will also be necessary if we are to meet our ambitious net zero targets and if our exports are to continue to draw value from their Scottish provenance, by protecting and enhancing our natural assets. By taking a principled approach to trade, we are committed to trade being a lever in delivering sustainable, inclusive growth in line with the National Performance Framework.

- 1 A. Frankel and D. Romer (1999) Does Trade Cause Growth? https://eml.berkeley.edu/~dromer/papers/AER_June99.pdf and E. Ortiz-Ospina and D. Beltekian (2018) Trade and Globalization <https://ourworldindata.org/trade-and-globalization>
- 2 Organisation for Economic Co-operation and Development (2012) Policy Priorities for International Trade and Jobs, Chapter 1: Trade and Employment in a Fast-Changing World <https://www.oecd.org/site/tadicite/50286917.pdf>
- 3 European Commission Chief Economist Note (2015) Consumer benefits from EU trade liberalisation: How much did we save since the Uruguay Round? https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156619.pdf
- 4 D Rodrik (2011) The Globalization Paradox: Democracy and the Future of the World Economy <https://dodrik.scholar.harvard.edu/publications/globalization-paradox-democracy-and-future-world-economy/>; P.R Krugman (2008) Trade and Wages, Reconsidered https://www.brookings.edu/wp-content/uploads/2008/03/2008a_bpea_krugman.pdf; and D. Autor et.al (2020) The China Trade Shock – Studying the Impact of China's Rise on Workers, Firms, and Markets <https://chinashock.info/>

Overview of the Scottish Economy – interface with trade



Trade is a significant part of the Scottish economy. International exports of goods and services from Scotland in 2018 – excluding oil and gas – were worth £33.8bn,⁵ equivalent to 20.8% of Scotland's Gross Domestic Product (GDP)⁶ and £1 in every £10 spent by consumers is on imports. Our export growth plan, 'A Trading Nation' sets out the detailed actions we are taking to support Scotland's businesses to increase the level of their exports.

Of the £33.8 billion total international exports in 2018, an estimated £16.1 billion were to countries within the European Union (EU) and 8 of our top 10 export markets in 2018 are EEA countries. The importance of the EU as an export destination is partly due to the gravity effect – the propensity to trade with countries that are geographically close – but also the frictionless trade that had existed as a result of our membership of the Single Market and Customs Union. Despite the increased barriers to our trade with Europe as a consequence of the UK-EU new relationship, Europe will remain a significant trading partner for Scotland.

Services dominate the Scottish economy, contributing 75% of Scotland's GVA in 2018. In 2018, over £12.2 billion of Scottish services were exported internationally, which is 36% of all international exports. While goods made up a larger share of exports in 2018 and tariffs often make the headlines on international trade, the importance of trade in services to modern trade flows cannot be overstated – in Scotland the value of services exports has grown by over 60% in ten years.

Scotland has long been renowned for its expertise in engineering and manufacturing, with manufacturing employing 169,000 people in 2019. Industrial goods represent 31% of Scottish international exports, and include sectors such as chemical sciences (including refined petroleum), advanced manufacturing, manufacture of computer, electronic and optical products and transport equipment.

The food and drink industry is a major contributor to Scotland's economy, contributing £5.6 billion in GVA to the Scottish economy in 2018, and employs around 122,000 people in 17,500 businesses, primarily across rural and remote parts of Scotland. 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% of the UK's drinks manufacturing industry, with UK Scotch whisky exports worth around £5 billion per year. Fisheries and aquaculture are key sectors for Scotland, with seafood accounting for 57% of Scotland's overall food exports with a value of £918 million. Farmed Scottish salmon is the UK's number one food export.

Scotland is the top destination in the UK for foreign direct investment outside London, with Edinburgh, Glasgow and Aberdeen appearing in the top 10 UK cities. Inward investors constitute 3% of Scotland's businesses, yet are responsible for 34% of employment and account for 77% of Scottish exports (£24.2bn).

Our Inward Investment Plan 'Shaping Scotland's Economy' sets out the detailed actions we are taking to increase the contribution inward investment can make to building a strong inclusive wellbeing economy in Scotland.

⁵ Scottish Government (2020) Export Statistics Scotland 2018 <https://www.gov.scot/publications/export-stats-scotland-2018/>

⁶ Scottish Government (May 2019) GDP Quarterly National Accounts, Scotland, 2018 Quarter 4 <https://www.gov.scot/publications/gdp-quarterly-national-accounts-for-scotland-2018-q4/>

Trade Trends and Developments

Scotland is committed to sustainable inclusive growth and delivering a wellbeing economy through our international trade agenda. To do so effectively we need to take into consideration global trade trends and developments, the impacts of the UK Government's trade priorities – including the reality of leaving the EU Single Market and Customs Union – and the impacts of COVID-19.

Global trade trends are shifting trade priorities and bringing new challenges.

Global trade had been growing at a faster pace than global annual economic growth,⁷ prior to the onset of COVID-19 and its impacts, with trade in services expanding faster than goods.⁸ However, at the same time, the World Trade Organization (WTO) and rules-based multilateral trading system are being challenged by a rise in global trade tensions, protectionism and a stagnation in the conclusion of multilateral agreements, leading to a resurgence in bilateral and plurilateral agreements. Economic fragmentation is emerging, with the distribution of global economic and political power shifting, reduced levels of cooperation and dominance of rivalries that are disrupting the rules-based global trading system.

Trade is also being transformed by technology-driven advances in automation and the digital economy, driving a significant growth in cross-border trade in services, which can be increasingly remotely delivered, as well as a rise in e-commerce. While negotiations on e-commerce are currently underway at the WTO, these developments risk outpacing global governance structures.

Transformations of emerging economies are creating opportunities for partnership but can also increase risks related to labour and environmental standards.

The impact of climate change and the global transition to a net zero emissions economy will impact trade, including changing the nature of goods and services in demand, altering trade routes and changing policy priorities. There is a complex interaction between emissions and trade, including the link to transport emissions. While more efficient than other modes of transport, maritime shipping would be the world's sixth biggest greenhouse gas emitter if it were a country. However local production does not necessarily mean more environmentally friendly production. While the Paris Agreement does not address the link between trade and climate, there are growing efforts from like-minded countries to bring coherence to the trade and climate agenda through plurilateral initiatives, such as the Agreement on Climate Change, Trade and Sustainability.⁹

There is also growing evidence of the crisis in our natural world, with trade a factor in facilitating unsustainable levels of consumption and production. In 2019 a landmark global assessment¹⁰ concluded that the health of the planet's ecosystems is declining at a rate unprecedented in human history, with a million species at risk of extinction. Tackling the global nature crisis has implications for international trade, including ensuring the commodities we import in Scotland have a sustainable environmental footprint.

7 World Trade Organization (2019) The future of services trade https://www.wto.org/english/res_e/booksp_e/01_wtr19_0_e.pdf

8 United Nations Conference on Trade and Development (2018) Key Statistics and Trends in Trade Policy https://unctad.org/system/files/official-document/ditctab2019d1_en.pdf

9 New Zealand Government (September 2019) <https://www.beehive.govt.nz/release/new-zealand-leading-trade-agreement-driving-action-climate-change-and-environment>

10 Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (2019) Global Assessment Report <https://ipbes.net/global-assessment>

EU exit and the UK Government's negotiation of Free Trade Agreements (FTAs) with the rest of the world are rapidly shifting the nature of the UK's trading relationships.

The UK leaving the European Union comes at a time of uncertainty in international trade. No longer having access to the benefits of the Single Market increases barriers to trade at a time when supply and demand are already limited by the impacts of COVID-19, and threatens our recovery from COVID-19's economic impacts. The new trading relationship with the EU negotiated by the UK Government will impact disproportionately on certain sectors across the UK, with the Scottish seafood and aquaculture industry clearly suffering.

The terms of EU exit and the outcome of the UK Government's negotiation of bilateral and plurilateral trade agreements with other countries will create a significant shift in the nature of trading relationships for the UK and Scotland, as the UK Government attempts to shift market access priorities away from the EU and towards the rest of the world. The EU's willingness to continue to trade with the UK and facilitate access to the world's largest Single Market will be strongly informed by the extent to which the UK and the devolved administrations diverge from common environmental, social and labour standards.

Scotland does not support this shift away from the EU given the importance of a country's trade with its nearest developed neighbours, especially those with shared values, and neither does the economic evidence. The exit of the UK from the EU will see Scotland's GDP 6.1% lower by 2030 than it would have been with full EU membership.¹¹

COVID-19 has exposed trade to new challenges or has accelerated pre-existing trends.

The COVID-19 pandemic has exposed world trade to changes in levels of demand for goods and services, international supply chain disruption and labour market disruption.¹² As a result, the WTO is currently forecasting a 9.2% decline in the volume of world merchandise trade for 2020, followed by a 7.2% rise in 2021.¹³ Global trade did not return to its pre-financial crisis growth path after 2007-08 and may not post-COVID-19, with its simultaneous demand and supply shock. Keeping trade open will continue to be crucial to ensure the supply of essential products, including those needed to protect health and to support industries that are heavily integrated into global supply chains, which are an inherent aspect of modern industrial economies.

COVID-19 has accelerated pre-existing trends, such as increased digitalisation, and brought new challenges, for example to global supply networks and services, largely insulated from previous downturns. COVID-19 also risks disproportionately affecting the economically and socially vulnerable – the young, women, low earners and marginalised groups – which has the potential to exacerbate any differential impacts of trade.¹⁴

To manage the risk of any future crises, it is crucial we learn from recent experience. International cooperation, global knowledge sharing, and supply chain resilience and diversification are all critical to driving a sustainable inclusive [economic recovery](#).

11 Scottish Government (2018) Scotland's Place in Europe: People, Jobs and Investment <https://www.gov.scot/publications/scotlands-place-europe-people-jobs-investment/pages/4/>

12 Scottish Government (April 2020) State of the Economy <https://www.gov.scot/publications/state-economy-april-2020/pages/6/>

13 WTO (October 2020) 2020 Press Release: Trade shows signs of rebound from COVID-19, recovery still uncertain https://www.wto.org/english/news_e/pres20_e/pr862_e.htm

14 Resolution Foundation (2020) Jobs, jobs, jobs: evaluating the effects of the current economic crisis on the UK labour market <https://www.resolutionfoundation.org/publications/jobs-jobs-jobs/>

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Our Trade Principles

The way we trade and conduct ourselves internationally tells us a lot about who we are as a country. As the First Minister said in September 2020 “Trade is not separate from the values and the reputation that a country wants to project internationally. Trade, in many respects, should reflect our values. There should be ethics attached to any country’s trading profile.”

Having an effective and responsible trade policy helps governments to project an identity, providing a compass point to plot a route through often competing choices and to ensure coherence across a wide range of policy issues.

Our National Performance Framework prioritises sustainable, inclusive growth and wellbeing and affords equal importance to economic, environmental and social progress. In line with that approach, our equalities and climate change targets, and the five key red lines¹⁵ we articulated for the US Free Trade Agreement (FTA) negotiations in March 2020, the following five core principles will inform our approach to trade policy:



Inclusive Growth

Trade should generate inclusive growth for all. GDP growth alone is not our aim, rather our aim is to use trade to drive economic development, provide good quality jobs, quality of life and reduce inequality. We will identify and engage with those negatively impacted by trade to support them in mitigating trade’s adverse effects or in taking advantage of its opportunities.



Wellbeing

Our National Performance Framework sets out the kind of Scotland we want to see with increased wellbeing as a core purpose. Trade can affect diverse elements of our daily lives from the quality of jobs to our natural environment. By trading based on our principles, we will promote wellbeing for individuals, businesses and wider society.



Sustainability

Trade decisions must be guided by economic, social and environmental sustainability and their interdependencies. Our trade policy will strike a balance between the short and long term – being open to free trade but supportive of fair trade. Some Scottish trade and investment flows depend on the Scottish brand or are built on our natural assets and maintaining the global standing of Scottish provenance will depend on our continued efforts to tackle the climate and nature crises.

¹⁵ Scottish Government (March 2020) Press release on US-UK FTA negotiations
<https://www.gov.scot/news/reckless-approach-to-us-trade-talks/>



Net Zero

Trade policy should operate as a lever to drive progress towards our climate change targets and a just transition to net zero emissions. While the interaction between trade and emissions is not clear-cut, it is clear that there is a need for increased coherence of international trade with environmental and climate change objectives.



Good Governance

In our decisions on trade we will respect and promote Good Governance at all times. We will consistently support effective global governance related to trade and its impacts. Scotland will operate as a good global citizen, building global trade relationships with like-minded countries and operating in accordance with the rule of law, with transparency and accountability and in a way that supports and promotes human rights.

A Vision for Trade

Based on these principles, this Vision for Trade therefore takes a strategic and holistic approach to trade policy. Taking into account global trends in trade, the Vision adopts a principles-based approach to identifying our trade and broader economic, social, and environmental objectives, and considering how we can support the achievement of those objectives through our trade policy, while balancing and mitigating conflicting priorities.

This document sets out the guiding principles by which we will judge our own trade policy decisions and contribute to those of the UK Government and of our international partners, and how those principles translate into our specific trade policy aims. Our export growth plan '*A Trading Nation*' details Scotland's competitive advantages, priority markets and sectors. Our Inward Investment and Capital Investment plans articulate our values and opportunity areas for investment. The Vision for Trade seeks to build the right trading conditions which facilitate implementation of operational trade and investment plans and allow us to put our values into practice.

While responsibility for foreign affairs, including international relations and the regulation of international trade, is currently reserved to the UK Parliament and Government, there are important exceptions to this. In particular, the Scottish Parliament and Scottish Ministers are responsible for observing and implementing international and ECHR obligations relating to devolved matters. More generally, the broad and increasing scope of modern trade agreements means that their content cuts across a range of reserved and devolved policy areas.

To bring the principles to life, in Section 3 – *Scotland's distinct voice in trade* – we set out eleven of today's key challenges related to trade and detail a range of levers that could be used to meet these challenges. Some of these sit with the Scottish Government while others currently lie with the UK Government.

Although the focus of the UK Government to date has been primarily on the roll-over of EU trade deals with third countries in an attempt to lessen the impact of Brexit, with some efforts to negotiate additional preferential trading agreements, bilateral trade negotiations alone do not constitute a comprehensive trade strategy. Governments have a range of levers available to direct, manage, and shape international trade flows and their impacts. These can be levers that are trade-related, trade-impacting or that address the impacts of trade. These include:

- Free Trade Agreements and World Trade Organization (WTO) negotiations, together with developments in other forums with interactions with trade (e.g. Multilateral Environmental Agreements).
- Bilateral discussions or agreements that are not part of trade agreements (e.g. between regulators or in specific sectors).
- Domestic policy and regulation with an interaction with the trading environment, which can be directly trade-related (e.g. sanitary and phyto-sanitary (SPS) measures), trade-impacting (e.g. environment and climate policy), or address the impacts of trade (e.g. labour and skills policies).
- Economic or commercial diplomacy, trade promotion and market development assistance.
- Litigation under domestic law, existing international agreements or via the WTO.

In isolation, trade policy cannot achieve the Scottish Government's economic, social and environmental objectives. It must be accompanied by wider policies to maximise the benefits of trade liberalisation, while identifying and addressing any adverse or undesired effects of trade shocks and trends. That is why this Vision for Trade examines in particular the intersections between different areas of policy and makes the case for consideration of trade and its impacts in a wide range of policy areas, as well as for the consideration of non-trade objectives within trade policy.

Looking at a range of trade and non-trade-related levers to advance Scotland's interests and linking these to wider economic, social and environmental governmental aims can help us consider the strategic role of trade in our economy and society more broadly. This allows us to consider how to achieve our trade objectives in a way that supports and amplifies our other economic, social and environmental priorities. That is important now – to inform our response to the impact of the UK's exit from the EU and COVID-19 – and to guide our decisions in the future. While some of these levers are currently reserved to the UK Government, e.g. reducing tariffs and quotas unilaterally or through FTAs, others are devolved to Scotland, such as trade promotion and environmental policy.

The Scottish Government levers that we set out in the Vision for Trade are the tools that we can draw on as we navigate the complex trading environment – capturing the range of functions that are covered within trade policy. We focus on today's biggest trade challenges as an illustration, but this is not exhaustive of all aspects of trade and so not all potential levers are included. The global trading environment will shift over time and with it the key trade challenges, so new or different levers may be needed.

We recognise the range of trade-related levers that are currently reserved to the UK Government but, by setting out how we think the UK Government should use these levers, we aim to guide them to act in a way that is supportive of Scotland's economy, people and the planet.

Building on our publication of *Scotland's role in the development of future UK trade arrangements*, the Scottish Government, and others, have made a strong case for a formal and comprehensive role for devolved administrations in the development of future UK trade arrangements.¹⁶ Despite the obvious strength of that case, we have been frustrated by a lack of meaningful engagement from the UK Government on any aspect of those arrangements, particularly around the development of FTAs or the terms of our exit from the EU. The UK Government has failed to respond to Scotland's clear and distinct positions in negotiations of FTAs to date, including in relation to the US FTA. As FTAs provide preferential access to Scotland's markets, they should be reserved for countries who are willing to make certain social and environmental commitments.¹⁷ The Scottish Government's red lines should be respected: protecting our public services; protecting our environment and positively contributing to achieving our net zero target; as a minimum maintaining alignment with EU standards; building a fairer society, reducing inequality and improving economic wellbeing through inclusive economic growth; being a good global citizen; and helping to raise standards through trade.

Pursuing a more strategic and comprehensive approach to trade policy is supported by the evidence. Apart from the work done to roll over existing EU FTAs with third countries to simply protect, at best, the level of market access the UK enjoyed as a member of the EU, the UK Government has focused heavily on ad hoc FTAs to reach its trade goals and as a medium for expressing its trade priorities. However, even when measured solely on the impact on GDP, the benefits of the new FTAs they are pursuing are questionable. For example, the Department for International Trade's own estimates anticipate only a 0.1% increase in GDP over 15 years from an FTA with the US. In contrast, we estimate that trading with the EU on FTA terms will lead to 6.1% lower growth in Scotland's GDP by 2030, compared to remaining in the Single Market. Add in the potential risks to important sectors, standards and protections inherent in some of those negotiations, and it is clear that the UK Government will need to look far beyond new FTAs to a broader range of tools in order to conduct a successful trade policy.

Our Trade Policy Principles

Trade can help us to achieve wider policy goals, but it can also introduce tensions between those goals, for example between increasing trade and achieving environmental targets. It is the role of governments to address those tensions, to ensure coherence in all of its policy objectives, and in this example, to ensure trade supports Scotland and our partners, including the EU, to meet ambitious environmental targets.

Having a set of core principles, by which we will judge all interventions and actions in relation to trade, can help us resolve and mitigate those tensions.

Our five core principles can be used to meet key challenges for our **economy**, **people** and **planet** – which is further detailed in [Section 3 – Scotland's Distinct Voice on Trade](#).

¹⁶ Scottish Government (2018) *Scotland's role in the development of future UK trade arrangements*
<https://www.gov.scot/publications/scotlands-role-development-future-uk-trade-arrangements/>

¹⁷ European Commission (2018) *Feedback and way forward on improving the implementation and enforcement of Trade and Sustainable Development chapters in EU Free Trade Agreements*
https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf



Inclusive Growth

Trade should generate inclusive growth for all.

Overall, trade is positive and makes us more competitive. It can drive higher wages, increase consumer choice and lower prices. However, there is substantial evidence that increased openness to trade can create “winners” and “losers” in relation to sectors, regions or specific demographic characteristics. The shock to the economy and to international trade flows as a result of COVID-19, coupled with the UK’s exit from the EU, has highlighted the potential for such differential impacts.

We want to drive economic development which provides good quality jobs, enhances the quality of life of all of our citizens, and is compatible with a just transition to a net zero, sustainable economy. To achieve this, GDP growth alone can never be our sole aim.

Inclusive growth is therefore a core principle at the centre of our trade priorities. This means ensuring we identify and engage with *all* those impacted by trade and trade deals, and prevent or address these impacts by supporting sectors, communities and individuals negatively affected by economic shifts resulting from global developments and trade policy.

As part of this, and in line with the principles of a Just Transition,¹⁸ Scotland will promote fair work through its trading relationships and trade policy, by supporting high labour standards at home and abroad, with fair work at their heart. Trade policy should improve conditions and drive up standards for all workers and every business, regardless of size. There are a range of policy measures that can be taken to actively mitigate adverse or undesired effects of trade shocks and trends, such as place-based or skills based measures.

Our Vision for Trade includes social enterprises which we cover under the term “business” throughout this document. Social enterprises often lead the way in their contribution to a wellbeing economy. Our aim is that social enterprises will become widely accepted as an increasingly just, democratic and inclusive way of doing business.

¹⁸ “Plan, invest and implement a transition to environmentally and socially sustainable jobs, sectors and economies, building on Scotland’s economic and workforce strengths and potential; create opportunities to develop resource efficient and sustainable economic approaches, which help address inequality and poverty; design and deliver low carbon investment and infrastructure, and make all possible efforts to create decent, fair and high value work, in a way which does not negatively affect the current workforce and overall economy.” Scottish Government (2020) Just Transition Commission <https://www.gov.scot/groups/just-transition-commission/>



Wellbeing

Wellbeing is a critical measure of success for trade policy.

Just as the success of an economy cannot simply be measured by its size in terms of GDP, the success of international trade should not simply be measured by its volume.












Trade drives improvements in living standards and generates higher incomes for workers, but trade decisions also have the potential to impact negatively on wellbeing – for example, they can impact our communities by moving employment away from local areas, our health by affecting our public services or decreasing our food quality, or our environment.

Our trade policy will strike a balance between driving competitiveness and ensuring that changes to the economy as a result of trade promote wellbeing and avoid provoking social or economic dislocation or increasing inequality.

Understanding the many connections between trade and wellbeing requires us to look in detail at how trade can impact individuals and interact with their ability to live healthy and fulfilled lives.

Our National Performance Framework (NPF) helps to guide us in supporting wellbeing through trade across all the National Outcomes. The following table puts this principle of wellbeing into practice by setting out how trade is connected to individual and collective wellbeing, as well as how businesses benefit from and contribute to these connections. This takes the form of a set of aspirational statements related to each outcome of our National Performance Framework, which is Scotland's Wellbeing framework.

Trade and everyday life: how trade contributes to individual and collective wellbeing

NPF outcome	As an individual...	As a business...	As Scotland...
Economy 	The economic growth that comes from international trade benefits me, such as access to good value products and fulfilling work, but I also know this doesn't come at the expense of other social and environmental issues that matter to me.	We benefit from access to a positive international trading environment and operate in a way that contributes to inclusive and sustainable trade.	International trade makes our economy more competitive, inclusive and sustainable.
Education 	My education and skills allow me to take advantage of opportunities from international trade.	In trading internationally we benefit from a well-educated and skilled workforce.	Our excellence in teaching, learning and innovation positions us to trade internationally.
Health 	I know my health matters and is part of Scotland's trade priorities.	In trading internationally we benefit from a healthy and active workforce and there are opportunities from trade for our life sciences and biotechnology industries.	International trade helps us to live long and healthy lives and does not damage our public services.
Environment 	I benefit from a healthy environment and trade gives me more options to make environmentally sustainable choices.	We can maximise our competitive advantages in environmental goods and services internationally and protecting and enhancing our natural assets increases the international value of our products.	The way we trade internationally advances climate and environmental outcomes and encourages sustainable production and consumption.
Fair Work and Business 	My job is fulfilling and fairly paid and I feel empowered and supported in the face of economic shifts as a result of international trade, such as access to retraining opportunities.	We are empowered and supported to take advantage of the opportunities from international trade, while prioritising fair work for our employees and for everyone who contributes to our business, at home or internationally.	The way we trade internationally improves our access to fair work and high quality jobs and supports fair access to opportunities globally.
Human Rights 	I know that my human rights and those of others are part of Scotland's trade priorities.	Our respect for human rights is part of our value in international trade and we expect high human rights standards from those we work with internationally.	Our international trade policy is firmly grounded in our commitment to respect, protect and fulfil human rights.
International 	My voice is heard on Scotland's global role in trade.	We are part of an international trading community and our voices are heard on trade.	We make a positive contribution to the global trading environment.
Communities 	I see my community's wealth developing and growing around me and it benefits from international relationships and innovations.	Through trading internationally we bring benefits to our communities, which support us in turn as employees and consumers.	Our communities and local supply chains are enhanced by innovations from international trade.
Culture 	My life is enriched by being able to access international art and culture and I have opportunities to share my own culture internationally.	We benefit from the international trade opportunities brought by creative and cultural exchanges and opened up by cultural diplomacy.	Our culture is more diverse as a result of international trade and we use cultural diplomacy to promote Scotland as a trading partner.
Poverty 	I have equal access to the economic opportunities from international trade and access to goods and services at competitive prices.	We contribute to opportunities for all through the resources we build from our access to international trade.	The wealth and opportunities from international trade are more equally shared amongst us, while we also seek to contribute to reducing global poverty.
Children and Young People 	International trade creates more opportunities for me to realise my potential.	We contribute to opportunities for children and young people through the resources we build from our access to international trade.	Our children and young people benefit from international trade, and we ensure our trade does not support child labour in our trading partners.



Sustainability

Trade decisions must be guided by economic, social and environmental sustainability.

Our aims for Scotland's economy, people and the planet, are driven by an approach to sustainability whereby all trade policy decisions will be assessed against economic, social and environmental outcomes. Our approach will be guided by the concept of sustainable development, and Scotland's commitment to delivering the UN's Sustainable Development Goals.¹⁹

As outlined above, trade can be an important economic, social and environmental lever to achieving our wider governmental goals, but there can be tensions between these goals. The increasing scope of modern trade agreements means they cover broader economic, social and environmental areas and so their consequences can be increasingly uncertain and far-reaching. Short term market access gains therefore need to be assessed carefully against longer term goals. For example, regulations and standards may be seen as protectionist, restricting trade unnecessarily, but can be vital in order to achieve legitimate policy goals which contribute to our social and environmental wellbeing and global citizenship.

Our approach is supportive of the EU's model of Sustainability Impact Assessments and also aligns with the WTO's rules-based system and its exemptions under the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade In Services (GATS) to protect human, animal or plant life or health, or the conservation of exhaustible natural resources.

Concepts of free trade and protectionism, globalism and localism can often be pitted against each other. However, these are often artificial distinctions and a balance can be found by supporting free trade, while continuing to support local supply chains – such as through our Good Food Nation ambitions and Supply Chain Development Programmes – taking action to support those who might lose out from international trade decisions, and aligning trade with environmental ambitions.

Our Vision for Trade aims to strike this balance, guided by the principle of sustainability. It also takes account of the interdependencies between our economic, social and environmental goals. For example, the importance to our economy and society of the health of our planet's natural systems, and the resources and services they provide, is clear: decisions over short and long-term goals for trade must take account of these interdependencies, and of Scotland's responsibilities towards other countries and future generations.

¹⁹ United Nations (2015) Sustainable Development Goals <https://sdgs.un.org/goals>

We will continue to support and promote fair trade – by situating trade within this wider model of social, economic and environmental balance – to drive better trading conditions for marginalised producers and workers globally. We will also strive to ensure that our approach to trade supports a shift towards more sustainable consumption and production. Tackling the global climate and nature crises will require transformative changes to the economies and societies of countries around the world, particularly of wealthy nations like Scotland.²⁰ Our new Environment Strategy²¹ sets out Scotland’s commitment to playing our full part in tackling these crises. Our approach to international trade must help to support these ambitions.



Net zero

Trade policy should operate as a lever to drive progress towards net zero targets.

The World Trade Organization (WTO), EU and others are taking forward a number of important initiatives to advance environmental and climate change cooperation through trade measures. However, the current global trade regime often does not naturally operate in synergy with climate policies.

The interaction between emissions, the environment and trade is a complex one. For example, we need to consider not just transportation and the number of times a product crosses borders, but the environmental impact of goods at every stage of their life cycle. Local production does not necessarily mean a product is more environmentally friendly, especially if that production is itself dependent on imports. The impact of supply chains on natural resources, ecosystems and the wider environment needs to be considered alongside emissions.

It is therefore imperative that all governments consider how to reinforce and ensure the coherence of international trade with environmental and climate change objectives.

Using our domestic levers, we are supporting Scottish businesses to go greener and be competitive in growing low-carbon markets. As such, trade support should be aligned to a just transition to net zero.

Our strengths in climate-related technology and renewable energy will also be shared globally through trade and form part of the solution to climate change.

20 Intergovernmental Panel on Climate Change (2018) Special report on the implications of global warming of 1.5°C <https://www.ipcc.ch/sr15/>; and Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (2019) Global Assessment Report <https://ipbes.net/global-assessment>.

21 Scottish Government (2020) Environment Strategy for Scotland: Vision and Outcomes <https://www.gov.scot/publications/environment-strategy-scotland-vision-outcomes/>



Good Governance

In our decisions on trade we will respect Good Governance at all times.

We are all entitled to fundamental rights and freedoms which are recognised in international law. The Scottish Government is committed to an inclusive Scotland that protects, respects, promotes and implements internationally recognised human rights. We have a strong and enduring commitment to securing and supporting democracy, the rule of law and human rights in other parts of the world.

Strong global governance is essential in order to provide collective solutions to transnational challenges.²² Effective global governance can only be achieved with effective international cooperation. The rules-based system of the WTO is a core part of this, driving up standards in good governance globally. International cooperation can be further enhanced through higher levels of cooperation with like-minded partners on shared policy objectives, as is the case within the EU. Operating in line with this principle also means that we will consistently support rules-based international trade and other transnational developments which support effective global governance related to trade and its impacts. Within bilateral or plurilateral Free Trade Agreements, we will consistently make the case for effective governance, implementation and cooperation.

We will apply Good Governance to our international trade decisions, acting always in accordance with the rule of law, with transparency and accountability. This principle will also guide our trade-related policy decisions to counter illicit behaviours and encourage responsible taxpayer behaviour.

Our priority will be to be a good global citizen, building global trade relationships with like-minded countries in support of free and fair trade, rather than pursuing purely transactional relationships.

The rules of trade must be fair for all. We see the value in making shared policy commitments to ensure businesses from one country cannot gain an unfair advantage because of low regulation related to environmental protection (including climate change), social and labour protection, subsidies and competition.

²² United Nations Committee for Development Policy (2014) Global governance and global rules for development in the post-2015 era https://www.un.org/en/development/desa/policy/cdp/cdp_publications/2014cdppolicynote.pdf

3

Scotland's Distinct Voice on Trade

The following section considers eleven major trade issues currently facing our **economy**, **people**, and the **planet**, and how we might apply our five principles in addressing them. Looking at each in turn we examine the key issues related to trade, before providing Scotland's response and identifying what levers the Scottish Government could use and what we are asking from the UK Government.



3.1 Economy

Our aim is for Scotland's economy to grow and to be globally competitive, entrepreneurial, inclusive and sustainable. We have identified four key trade-related questions that we see as central to ensuring trade policy contributes to this aim.

1. How can Scotland best influence the trading environment to maximise its competitive advantages in goods and services and stimulate investment so trade is a lever for growing Scotland's economy?

- Scotland supports free and fair trade that works for all and stands against protectionism.
- EU trade is paramount and is our priority, as our closest and largest international export market.
- The Scottish Government will take action in partnership with business to improve market access beyond Free Trade Agreements.

2. How can Scotland best take advantage of the acceleration of digital trade, considering Scotland's competitive advantages, but also potential social impacts and risks?

- Digital trade must balance economic and social considerations, upholding data protection and digital rights.
- We will take advantage of opportunities from digital trade while boosting the international recognition of Scotland as an ethical digital nation.

3. With trade covering an ever-broader range of policy issues, what balance can Scotland find between maximising the benefits of trade by reducing regulatory divergence, whilst regulating in the public interest?

- Scotland wants to trade based on high regulatory standards to protect consumers and enable producers to champion Scottish provenance.
- We are seeking opportunities for regulatory cooperation with like-minded trading partners.
- Scotland is committed to proportionate regulation in accordance with the precautionary principle, prioritising public interests and reducing harm.

4. How does Scotland position itself in Global Value Chains in the face of trends in globalisation?

- Scotland is building a high-wage, high value-added, high productivity economy that is focused on premium products and services.
- Scotland supports domestic supply chains while balancing this with active participation in diversified Global Value Chains.

3.1.1 Influencing the trading environment: goods, services and investment

*How can Scotland best influence the trading environment to maximise its **competitive advantages** in goods and services and stimulate investment so that trade is a lever for growing Scotland's economy?*

Key issues:

The trading environment is changing for goods and services: Leaving the EU Single Market has resulted in increased trade barriers and complexity for traders. The EU is the largest market for Scotland's industrial, manufactured goods exports and was the destination for approximately 42% of Scotland's services exports in 2018. The EU also accounts for around 39% of Scotland's total overseas food and drink exports, a major contributor to Scotland's economy and Scotland's largest non-energy export. The introduction of non-tariff barriers to trade will make exports less competitive and will likely reduce the volume of trade, with food and drink, chemicals, life sciences and high-value manufacturing the most vulnerable goods sectors in Scotland. The most significant barriers to trade in services for Scottish businesses had been removed or addressed in the EU Single Market and the majority of these – such as visa and work permit free mobility and comprehensive Mutual Recognition of Professional Qualifications – are not replicated in the UK's new Trade and Cooperation Agreement with the EU.

Any barriers to trade will also represent challenges for Scotland's imports: for example approximately 30% of the food eaten in the UK is imported from the EU. In addition, any disruption to trade could impact Scotland's manufacturing sectors such as the manufacture of computer and electronic products; electrical equipment; machinery; and transport equipment, that are particularly reliant on imports as part of their supply chain.

Scotland's export growth plan, *A Trading Nation*, identifies goods and services sectors where Scotland has a competitive advantage, such as food and drink; advanced manufacturing; life and chemical sciences; creative industries; sustainable tourism; energy; and financial & business services. Barriers and opportunities in the trading environment will influence opportunities to maximise these competitive advantages.

Tariff liberalisation through trade agreements can improve the trading environment for exports and can also impact domestic sectors either by lowering the costs of inputs or increasing competition: In recent years the global trade policy landscape has seen heightened tensions play out through tariffs, such as tariffs on US-China trade and the US Section 232 Tariffs on Steel and Aluminium. Tariff liberalisation can improve the trading environment and increase trade flows, including those negotiated through FTAs. However, there can be impacts on domestic sectors and wider differential impacts on groups and regions within countries. Phasing in liberalisation over time can also allow for sectors to adjust and avoid sudden trade shocks.

Non-tariff barriers are the major systemic brake on trade in goods: Although tariffs are still an important barrier affecting certain sectors and countries, WTO studies have found non-tariff barriers more than twice as restrictive as tariffs and non-tariff barriers on average were equivalent to 12% tariffs.²³ Many such barriers reach deep into domestic policy and separating legitimate regulation from protectionism can be a challenge. In the case of trade with the EU, separate regulatory frameworks represent a serious risk to the competitiveness of Scottish companies: barriers to trade such as the absence of a mutual recognition agreement, which recognises the competence of UK conformity assessment bodies, or the lack of a data sharing agreement for our chemicals industry will duplicate processes, hindering market access and increasing costs.

The most common trade barriers business will face when trading goods internationally will be: tariffs; customs barriers at the border; rules of origin or import licensing requirements; technical barriers to trade such as testing, labelling or certification requirements; and sanitary and phyto-sanitary measures (SPS). Globally there has been an increase in barriers to trade, which has been linked to a rise in protectionism, which can have a profound effect on trade flows.²⁴ These barriers can be at the border, such as tariffs and administrative procedures, or 'behind the border' measures that affect products after importation, such as unjustified technical barriers to trade.

23 Institute for Government (2021) Non-tariff barriers explainer
<https://www.instituteforgovernment.org.uk/explainers/non-tariff-barriers>

24 European Commission (2019) Report on Trade and Investment barriers
https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc_158789.pdf

Barriers to trade in services typically arise from domestic regulation in other countries: The experience of FTAs is that they only reduce some of these barriers.²⁵ In the General Agreement on Trade in Services (GATS), the WTO identified four modes of services trade – cross border trade in services (Mode 1); travel to the service supplier (Mode 2); commercial presence (Mode 3); and travel by the supplier (Mode 4). Domestic regulation determines how a service can be delivered, and has generally been established for domestic policy purposes (such as setting standards and legal accountability) rather than to control trade. However, domestic regulations can affect the provision of a service, even when the general liberalisation of trade in services has been agreed. For example, Mode 1 can be affected by requirements for a commercial presence, Mode 3 can be hindered by nationality rules for board members and Mode 4 by immigration and business travel rules. Greater international cooperation on domestic regulatory measures is considered by the WTO as one way to harness the potential of services trade.²⁶ The OECD compiles an index of the level of restrictiveness of services markets in different parts of the world. The index looks at restrictions on foreign entry, restrictions on the movement of people, other discriminatory measures, as well as barriers to competition and regulatory transparency. These restrictions often are not covered in an FTA, but are most effectively addressed within the EU Single Market, within which on average, members face a quarter of the restrictions faced by non-members.²⁷ Under the UK's Trade and Cooperation Agreement with the EU, the greatest impact is on highly regulated services, and on businesses which have used freedom of movement and EU establishment rules to occasionally export services on a cross-border basis.

While multi-lateral and bilateral agreements can increase market access for goods and services, there remain barriers to trade that are not, or are only partially, addressed through agreements: These include differences or gaps in regulations and their implementation. While FTAs set the terms of trade at a macro-level, market access barriers still exist at a micro-level between countries with an FTA, as well as between those without an FTA. Market access barriers are measures or procedures faced by businesses exporting overseas which restrict trade. They include procedural and administrative barriers, such as certification requirements for customs shipments, as well as longer term structural impediments to trade, including legal and regulatory issues around taxation and intellectual property. Overcoming these trade barriers and increasing market access can help existing exporters to increase their trade to that market, attract new companies to export, and build resilience in supply chains.

25 TheCityUK (2020) International Trade Agreements and UK Immigration Policy: a Practical Blueprint for Evolution <https://www.thecityuk.com/assets/2020/Reports/cfe0ef1b16/International-trade-agreements-and-UK-immigration-policy-a-practical-blueprint-for-evolution.pdf>

26 World Trade Organization (2019) The future of services trade https://www.wto.org/english/res_e/booksp_e/01_wtr19_0_e.pdf

27 OECD (2019) Services Trade Restrictiveness Index <https://stats.oecd.org/Index.aspx?DataSetCode=STRI>

Evidence suggests that the economic benefits of removing market access barriers far exceed those conferred by FTAs. UK Government analysis shows that liberalising market access barriers could boost British exports as a whole by £75 billion per year.²⁸ This is far more significant than the expected benefits of any FTA. For example, UK Government analysis shows a UK-US FTA could increase trade between both countries by only £15.3 billion over a 15 year period.²⁹

SMEs are under-represented in international trade: SMEs account for a small proportion of exports relative to their share of overall activity and employment. 3% of the business population in Scotland export and 60% of Scottish exports are delivered by just 100 businesses.³⁰ This is also not unusual in an international context: it is recognised that exporting is not for everyone and many businesses in Scotland are well served by the domestic market. However, where there is ambition and the opportunity to export, and a product or service that is in demand internationally, exporting can be a significant way to grow a business. SMEs may face greater challenges in exporting due to fewer resources and greater challenges in addressing complex regulatory requirements. It can also be linked to the 'digital divide' with fewer smaller firms adopting digital technologies which serves to constrain their development and growth, including their access to international markets. SMEs are also disproportionately impacted by shocks such as the COVID-19 pandemic. While there is an increasing trend for including SME provisions in FTAs, many of these measures could be achieved through trade facilitation support and international cooperation. Trade agreements can bring benefits to SMEs, however the administrative requirements in taking up the advantageous terms of a Free Trade Agreement can act as a barrier and there is mixed evidence on the utilisation rates of FTAs.

A particularly under-represented group within SMEs and international trade are social enterprises, which in Scotland support more than 80,000 jobs and contributed £2.3bn (Gross Value Added) to the Scottish economy in 2019.³¹ These social enterprises trade for the common good and largely do so in a way consistent with the shared principles and characteristics set out in the Voluntary Code of Practice for Social Enterprises in Scotland.³²

Intellectual Property (IP) can be a key barrier to trade if not adequately protected, however its promotion can also have negative impacts on individuals and public services: IP assets can be protected through laws governing patents, trademarks, copyright, registered and unregistered designs, trade secrets and geographic indications. They are an important way to protect companies' innovations. However, developments on IP also can impact the rights of individuals. In relation to [public services](#), the expansion of Intellectual Property provisions can put health services at risk through drug price increases.

28 UK Government Department for International Trade (September 2020) Trade barriers removed to boost business <https://www.wired-gov.net/wg/news.nsf/articles/Trade+barriers+removed+to+boost+business+24092020151000>

29 UK Government Department for International Trade (March 2020) The UK's Approach to Trade Negotiations with the US <https://www.gov.uk/government/publications/the-uks-approach-to-trade-negotiations-with-the-us>

30 [Scotland: a trading nation – gov.scot \(www.gov.scot\)](#) Scottish Government (2019) Scotland: A Trading Nation

31 Social Enterprise in Scotland (2019) Census <https://socialenterprise-census.org.uk/>

32 Voluntary Code of Practice for Social Enterprise in Scotland (2019) www.se-code.net

Investment and trade are mutually reinforcing: Trade and investment facilitate knowledge transfer, boost innovation and productivity and can complement each other, with trading relationships key to attracting inward investment. This is relevant to prospective investors, who may consider, for example, access to components and raw materials for manufacturing, personnel, and customers and clients in overseas markets. Businesses with export growth potential are more likely to be attractive to capital investors and similarly securing additional financing can allow businesses to increase exports. Inward investors constitute 3% of Scotland's businesses, yet are responsible for 34% of employment and account for 77% of Scottish exports (£24.2bn). FDI flows can see production moved closer to demand (e.g. setting up local production in a third country close to a consumer base), which reduces cross-border trade, but has other advantages for global growth and productivity.

Scotland's response:

Scotland supports free and fair trade that works for all and stands against protectionism.

EU trade is paramount and is our priority, as our closest and largest international export market.

The Scottish Government will take action in partnership with business to improve market access beyond FTAs.

The Scottish Government will make every effort to remove barriers in the trading environment that Scottish businesses face when engaging in international trade.

An example of a market access barrier we would like to see addressed in other countries concerns the regulation of seafood imports. Seafood is Scotland's second largest export, sold to over 100 countries. From farmed seafood, shellfish to whitefish, over 60 species are landed in Scotland. The export value for Scottish Seafood was £1020m in 2019, and this has almost doubled over the past decade. However, some countries do not recognise Scotland's food safety standards for seafood imports, despite scientific equivalence between shellfish safety controls. We would like to see mutual recognition of food safety conditions to improve the trading environment for these products.

The EU, as a like-minded trading partner as well as our closest and largest export market, will be our priority for improving trading conditions, building on the terms of the UK's Trade and Cooperation Agreement with the EU. As part of this we will continue to push the UK Government to remove non-tariff barriers to trade in goods and services by building on the Trade and Cooperation Agreement. It is also important to maintain the ability to align with developments in EU law, where beneficial for Scotland. The UK Withdrawal from the European Union (Continuity) (Scotland) Bill, passed by the Scottish Parliament on 22 December 2020, will help Scotland continue to benefit from high European standards.

Membership of the EU Single Market ensured free trade secure in the knowledge that underlying environmental and labour standards were shared. However in negotiations with other FTA partners, it is important that the consequences of tariff liberalisation on Scotland's economy are assessed and mitigated where they negatively impact Scottish businesses or consumers. The UK Government's pursuit of FTA concessions to secure agreements must not have a disproportionate adverse effect on Scotland. For example, tariffs on agricultural products are traditionally far higher, so a balance needs to be struck between retaining these tariffs and the offer the UK Government can make to secure market access in other countries. We should not allow our producers to be undercut by those not meeting our high standards.

Scottish services have benefited from the EU Single Market removing restrictions to cross-border trade in services. The Scottish Government's position is that increased liberalisation of international trade in services should be prioritised. This may be more effectively delivered by going beyond FTAs, and by addressing market access, regulatory requirements, and restrictions on the movement of people. However this liberalisation cannot be without limits and should not impinge on regulation to meet public policy objectives.

We must also ensure that Scotland is able to meet future workforce demands, including attracting talent internationally and from the rest of the UK. Scotland does not currently have control of migration policy. We will, however, promote Scotland as a great place to live and work through our TalentScotland initiative and Moving To Scotland resource. We are also able to influence UK migration policy to pursue Scottish Government policy of creating a bespoke, humane migration system for Scotland that better reflects its needs and aspirations.

Scottish Government levers to improve the trading environment:

The ongoing delivery of [A Trading Nation](#), Scotland's Export Growth Plan, promotes Scottish exports in target markets where we have competitive advantage and targets provision of support to Scottish businesses to increase exports.

[Shaping Scotland's Economy: Scotland's Inward Investment Plan](#) and its priority actions to make Scotland a leading destination for inward investment will boost Scotland's trade performance, with the potential to increase exports by £2.1bn over two decades.

Scotland's Capital Investment Plan sets out our strategy for mobilising private investment, reinforcing the need for us to pivot more towards ethical and green investment. This approach is mirrored in this Vision for Trade.

The following levers are also available to influence the trading environment so the necessary conditions for export growth are in place.

Levers to take action to remove market access barriers for Scottish businesses:

1. Building relationships and linkages between government and business, including mapping stakeholders and identifying the most efficient channels for information sharing.

2. Identifying market access barriers by gathering data, market intelligence, and insights on barriers. Scottish Government offices and SDI will continue to help identify barriers to Scottish exports, including reporting barriers to DIT and conducting research in key markets and geographies, and raising awareness of the UK Digital Market Access Service database across businesses, so that companies and trade bodies themselves can report barriers using appropriate channels. As part of this, we will also seek to collect information on what levers have been used to successfully overcome market access barriers, developing a market access barriers policy toolkit.
3. Assessing and prioritising reported market access barriers, based on priorities set out in [A Trading Nation](#) and this Vision. Examples of barriers we can work to address include: the recognition of health certifications on live food products moving to other markets; seeking a Geographical Indication of Origin (GI) on behalf of a Scottish product; or clarifying and harmonising requirements around e-commerce licensing and data protection.
4. Taking action to remove prioritised market access barriers. Market access action plans will be developed with the UK Government and the Scottish Government's overseas network where appropriate, leveraging our in-market sector specialists as well as diplomatic action. These plans would determine the most appropriate means of overcoming each trade barrier, with reference to the trade levers available to the Scottish Government and where partnership working with the UK Government is needed. For example this can be done through building economic relationships with trading partners and their business communities to reduce trade barriers in priority countries through ministerial engagement, regulatory cooperation and capitalising on our international Scottish Government and SDI footprint.

Levers to improve the trading environment for goods and services:

1. Adapting the UK's freeport model to apply Scotland's values and priorities to it. In Scotland, freeport operators and companies operating within these zones will therefore be responsible for upholding high standards, putting into practice our fair work principles and working towards a just transition to net zero.
2. Promoting Scotland as a place to live and work by engaging with VisitScotland's business events Policy Driven Model. This aims to enhance Scotland's reputation as a good place to live, work, study, invest or visit, by promoting the benefits of business events as catalysts for social and economic change.
3. Continuing existing initiatives like TalentScotland which already help Scottish businesses grow through accessing international talent with specialised skills, therefore helping to increase their competitiveness in global markets.

4. Developing relationships with Scottish and UK service regulators and trade bodies to help articulate, understand and build capacity to address barriers to trade, as well as supporting them in developing relationships with their international counterparts. This could include developing regulator-to-regulator agreements in highly regulated service sectors such as accountancy, legal services and architecture, e.g. on MRPQ, local presence and board nationality. The Institute of Chartered Accountants Scotland agreement with the US equivalent on MRPQ, and the accountancy EU common content approach, could be templates for this. This will ensure mutually beneficial discussions lead to real improvements, especially in the trading environment for service providers.
5. Working with stakeholders, including trade groups and SMEs, to identify barriers to trade in services that could be overcome through regulator-to-regulator agreement, and working with Scottish and UK regulators to identify key sectors and assist these discussions (for example, through facilitation, our international network or the provision of economic data). Effective sharing of information with sectoral bodies (such as Scottish Financial Enterprise, the Institute of Chartered Accountants Scotland, Law Society Scotland and the Institute of Biomedical Science Scotland) can also ensure we act in the best interests of business. This could include establishing a Scottish services trade forum, bringing together business, trade bodies, government and academia to advise the Scottish Government.
6. Building relationships with devolved, regional and provincial governments, such as individual states in the USA, and using these relationships to promote trading opportunities for services. These relationships could lead to the signing of MoUs based on shared goals, or to sectoral-specific agreements in areas where regulation is a devolved competence (e.g. legal services) or where Scotland has a particular interest in a non-regulated service. Economic cooperation agreements on non-regulated or less regulated service sectors could be discussed, following the model of Scotland's MoU with the Government of California on climate change.

Levers to improve the trading environment in support of investment priorities and investment levers that can improve the trading environment for goods and services:

1. Supporting the objectives of the Inward Investment Plan and its nine opportunity areas: Energy Transition; the Decarbonisation of Transport; Software & IT; Digital Financial Services; Digital Business Services; Space; Healthtech; Transformation of Chemical Industries; and Food and Drink Innovation. In particular taking a coordinated approach to reviewing the regulatory environment as a lever to support both trade and investment objectives. The Inward Investment Plan has, for example, identified opportunities to identify and resolve particular obstacles in key sectors which would also align with trade objectives. For example, in health technology, Scotland has a significant strength in a single collated NHS data set and ensuring that access to this is simple and safe, with proper data safeguards, would be a major incentive for investment in the health tech sector.

2. Supporting the objectives of the Capital Investment Plan, which aims to increase capital flows into Scotland's economy.
3. Supporting regulatory stability to encourage high quality investment into Scotland by maintaining alignment with EU regulation, focusing on effective and proportionate regulation and robust enforcement to ensure businesses are held to high standards and consumers are protected.
4. Reviewing trade market access barriers that could create barriers for investors and using this intelligence to support implementation of the Inward Investment Plan.

What Scottish Government calls on UK Government to do:

- Use its global influence to create an open trading landscape for Scottish businesses, removing barriers to trade.
- Ensure information on Scottish priorities is used to influence regulations in priority sectors through the Foreign, Commonwealth and Development Office's 'Regulatory Diplomacy' initiative.
- Engage more regularly with the Scottish Government and its agencies to ensure a coordinated approach to work on market access, including as a minimum a 6-monthly ministerial discussion on market access barrier priorities and progress. Use the DIT hub in Edinburgh in a way that complements the local export assistance already offered: to provide better access to export finance for Scottish firms, and set up stronger links to DIT's overseas networks (particularly where there is no SDI presence). The UK Government should report to the Scottish Government on barriers for Scottish businesses which are being prioritised or have been addressed to ensure coordination with our ministerial efforts.
- Make the Digital Market Access Service database as accessible for Scottish Government and agencies as possible. When releasing information from the Digital Market Access Service publicly, the UK Government should strike a balance that avoids infringing on commercial sensitivities while being useful to export businesses.
- Engage in the WTO initiative on Friends of Micro, Small and Medium-Sized Enterprises (MSMEs) and the OECD Digital for SMEs Global Initiative (D4SME) and ensure Scottish Government involvement in this to ensure the specific interests of Scottish SMEs are identified and addressed.
- Develop bilateral agreements with countries, through FTAs or otherwise, to facilitate market access for SMEs in line with key Scottish markets and opportunities – e.g. MoU between the US and the EU.

- Make it easier to attract and retain foreign workers through a revised visa regime, by making changes to the Permitted Paid Engagement (PPE); an expanded youth mobility route and the adoption by FTA partners of “a standard set of principles governing how visa applications are submitted”.³³ In addition, the Scottish Shortage Occupation List should be agreed in partnership with Scottish ministers.
- Allow Scotland to control its own immigration policy tailored to our specific needs as is the case for sub-national legislatures in other jurisdictions, including Australia and Canada.

For **goods**:

- Prioritise building on the Trade and Cooperation Agreement with the EU in a way which upholds high standards.
- Seek additional agreements with the EU to increase market access and to promote trade in goods, including bilateral deals such as Mutual Recognition Agreements (MRAs) for key sectors. This should include:
 - An MRA with the EU setting provisions for conformity assessment bodies to test for each other’s requirements.
 - An MRA which mutually recognises and accepts batch testing certificates for our life sciences sector.
 - A data sharing agreement between EU and UK authorities for our chemicals sector. Not having an agreement on data sharing will require UK companies to negotiate access to underlying data at significant cost, and risk repeating testing.
- Seek tariff liberalisation but take a reasoned and nuanced approach given that sudden liberalisation can be damaging to sectors, regions and livelihoods. Liberalisation must depend on equivalent high standards. Ensure the impacts on Scotland of any concessions to negotiating partners have been fully assessed and mitigated, and that work is undertaken with the Scottish Government and industry in Scotland to allow time to prepare and transition to changes.
- Recognise the role that international standards play in enabling trade and international competitiveness, as a cornerstone of the WTO rules-based trading system, simplifying and facilitating regulatory compliance.
- Address Technical Barriers to Trade (TBT) for business, including by:
 - Adhering to global rules and principles that prevent unnecessary barriers to trade such as the WTO’s agreement on Technical Barriers to Trade, which has established a common baseline understanding of good regulatory practice when developing and implementing such measures, and a means for bringing disputes against other members for imposing unreasonable barriers.

³³ This is in line with the recommendations of the CityUK and EY: TheCityUK (2020) International Trade Agreements and UK Immigration Policy: a Practical Blueprint for Evolution <https://www.thecityuk.com/assets/2020/Reports/cfe0ef1b16/International-trade-agreements-and-UK-immigration-policy-a-practical-blueprint-for-evolution.pdf>

- Addressing Technical Barriers to Trade that impact Scottish businesses by engaging through WTO committees such as the WTO Council for Trade in Goods.
- Including a dedicated chapter on Technical Barriers to Trade in FTA negotiations with any partner, which goes beyond obligations in the WTO Technical Barriers to Trade agreement. Such obligations should relate to transparency; procedures for assessing conformity; recognition of conformity assessment results; and sharing information. It is also important that future FTAs focus on specific sectors where barriers to trade are complicated such as pharmaceuticals and chemicals.

For **services**:

- Build on the UK's Trade and Cooperation Agreement with the EU, given its limited provisions on trade in services.
- Ensure comprehensive information is available to business on trade with the EU e.g. easy access to information on work permit, mobility, MRPQ and market access restrictions in each country. Ensuring Scotland's voice is heard, including as part of formal governance structures created by the Trade and Cooperation Agreement.
- Focus on improving market access for services beyond FTAs. For example, an FTA with the USA, Scotland's largest single country export market, may do little or nothing to alleviate barriers to trade in services such as mobility restrictions, US State-level regulations and the recognition of qualifications. The UK Government should prioritise improved terms of trade which matter for our competitiveness over the signing of an agreement.
- Focus on smaller, more specific deals which can rapidly improve terms of trade either where the sector is regulated at a UK level or where there are shared interests across the nations of the UK; e.g. UK–Australia "fintech bridge" – which enables FinTech firms to access legal, regulatory and practical advice about trading between the two countries. Agreements like this could be replicated with other countries and in other sectors such as research and development; life sciences; and energy services.
- Within FTA negotiations, the UKG should go beyond General Agreement on Trade in Services (GATS) and include mechanisms to enable regional and sub-state regulatory discussions, while protecting the right to regulate. Ambitious provisions for the Mutual Recognition of Professional Qualifications and business mobility should be agreed. Rethinking rules related to local presence in the context of the shift to digital trade should be a priority (i.e. consideration of what constitutes a local presence).
- In any FTA, seek removal of restrictions on the total number of contractual service suppliers and independent professionals granted entry, in the form of numerical quotas or the requirement of an economic needs test.

- Develop a business mobility framework in line with the recommendations made by The CityUK and EY in their report “International Trade Agreements and UK Immigration Policy: A Practical Blueprint for Evolution”.³⁴
- Where an FTA has been agreed and a supervisory committee established, the UK Government should involve devolved administrations in discussions. Services should be given high priority for ongoing discussions.

For **intellectual property**:

- In addition to maintaining the existing UK IP framework and ensuring that the new UK regime for Geographical Indications (GIs) maintains the levels of protection previously afforded by the EU regime, the UK Government should negotiate trade agreements which enable Scottish businesses and individuals to protect their IP in overseas markets by ensuring recognition of key intellectual property rights. Trade deals should include provisions to ensure Scottish GIs are recognised. Provisions to strengthen the availability of effective enforcement mechanisms should be included.

For **investment**:

- UK negotiations to secure positive outcomes for Scottish investors should be aligned with priorities set out in Scotland's Inward Investment Plan.
- Legislate on the structure and longevity of green energy incentives, e.g. Feed In Tariffs, and the costs of connecting new and dispersed energy developments to the grid in order to support investment into Scotland's energy transition, as set out in our Inward Investment Plan.

³⁴ TheCityUK (2020) International Trade Agreements and UK Immigration Policy: a Practical Blueprint for Evolution <https://www.thecityuk.com/assets/2020/Reports/cfe0ef1b16/International-trade-agreements-and-UK-immigration-policy-a-practical-blueprint-for-evolution.pdf>

3.1.2 Digital trade: balancing economic and social considerations

How can Scotland best take advantage of the acceleration of digital trade, considering Scotland's competitive advantages, but also potential social impacts and risks?

Key issues:

Acceleration of global trend of digitalisation: Digital trade covers all trade that is digitally ordered or digitally delivered, including e-commerce of goods and services and digitally delivered services.³⁵ It involves all goods and services sectors, including the Digital, Technology and Media sector. The digitalisation of trade is increasing: this has further accelerated as a result of COVID-19 – businesses have incurred costs in shifting to a digital model, which may lead to permanent changes. As a service-based economy, this can provide opportunities for Scotland.³⁶ For instance online learning and training has grown significantly as a result of the restrictions in place arising from the pandemic. Edtech and learntech are examples of sectors where there are increasing opportunities for show-casing and developing Scottish digital services.

There are economic opportunities from digital trade but these can be accompanied by risks: Digital trade growth can reduce costs – e.g. making digital service delivery the same cost domestically and internationally; potentially reduce emissions – for example where it leads to less travel; and increase SME access. The adoption of technologies increases productivity. Digital adoption can improve the productivity of a business in many ways, including the automation of processes; improved resilience; e-commerce opportunities; and smarter analysis of company generated data.

However, global developments on digital trade have a close interaction with domestic digital regulation and there are risks related to digital rights, the regulation of data privacy, and dependencies on foreign online platforms. Developments on Intellectual Property in relation to data and digital, for example, have a bearing on the ethics of data processing but also on protection of companies innovations.

Cross-border data movement, storage and use are central to digital trade, but raise ethical questions: Movement of data is necessary for digital transactions to occur, however the use of data and digital technology raises important ethical and regulatory questions on personal privacy and digital security.

35 OECD, WTO, World Bank (2020) Handbook on Measuring Digital Trade:

<https://www.oecd.org/sdd/its/Handbook-on-Measuring-Digital-Trade-Version-1.pdf>

36 Federation of Small Businesses (2020) Finding Our Feet: Scottish small businesses and the coronavirus crisis <https://www.fsb.org.uk/resource-report/finding-our-feet.htm> this reports that a fifth of Small to Medium Enterprises (SMEs) in Scotland had adopted new digital technologies during the pandemic.

International trade governance is out of pace with developments in digital trade: While there has been recent progress at the WTO in plurilateral e-commerce negotiations,³⁷ in the absence of progress at a multilateral level there have been different responses from policy makers to the growth in digital trade, leading to a proliferation of regulatory regimes.³⁸ This is reflected, for example, in different approaches to digital taxation in the absence of coordinated solutions. Finding the right balance between commercial openness and protection of digital rights is a global challenge.

Digital intermediary platforms are a key driver of digital trade, but also a potential disruptor of economies: There is also a risk of increased dependencies on foreign online platforms as a result of the shift to digital.³⁹ The OECD, the WTO and the World Bank also refer to “non-monetary international transactions,”⁴⁰ which includes digital services delivered at zero cost – such as access to social networking platforms in exchange for personal data. There is a nascent area of work on measuring transactions in non-monetary data in the same way that monetary transactions are tracked. This is of key concern for policy makers, who may need to regulate in this area to ensure digital rights are protected.

Scotland's response:

Digital trade must balance economic and social considerations, upholding data protection and digital rights.

We will take advantage of opportunities from digital trade while boosting the international recognition of Scotland as an ethical digital nation.

A Trading Nation identifies competitive advantages for Scotland in digital, tech, media and e-commerce. Scotland's approach to digital trade will aim to maximise these advantages, enabling more digital trade in both goods and services through market openness and aiming to reduce restrictions to digital services.

However, our approach to digital trade will take a digital rights-based approach rooted in our priority of establishing an ethical digital nation. This means that any developments on digital trade must balance the demand to sustain the economy, whilst safeguarding social and environmental wellbeing. We need to ensure that digital services operate to high ethical standards to protect personal privacy; give people control of their personal information; and ensure transparency.

Scotland's approach to digital trade is aligned with the proposed new Digital Strategy for Scotland, focused on adapting to the pace and scale of digital transformation.⁴¹ The strategy includes Scottish businesses embracing the economic opportunities of digital technology; supporting international success and innovation in the technology sector; and positioning Scotland as open, ethical and working with others to meet new moral, environmental, regulatory and security concerns.

37 WTO (December 2020) News release: E-commerce co-convenors release update on the negotiations, welcome encouraging progress https://www.wto.org/english/news_e/news20_e/ecom_14dec20_e.htm

38 Y., Roelfsema, H., Rizal, Y.D., Stephenson, S., Tu, X., Van der Marel, E., Yagci, M. (2020). “Digital Technologies, Services and the Fourth Industrial Revolution”, Jean Monnet TIIISA Network Working Paper no. 2020-02, 14 April 2020. <https://iit.adelaide.edu.au/ua/media/564/TIISA%20Working%20Paper%202020.02%20ver3%5B3%5D.pdf>

39 International Trade Committee Inquiry: The COVID-19 Pandemic and International Trade Evidence submitted by the UK Trade Policy Observatory (UKTPO), Sussex University <https://committees.parliament.uk/writtenevidence/2487/pdf/>

40 OECD, WTO, World Bank (2020) Handbook on Measuring Digital Trade: <https://www.oecd.org/sdd/its/Handbook-on-Measuring-Digital-Trade-Version-1.pdf>

41 Scottish Government (2020) Renewing Scotland's full potential in a digital world: consultation paper <https://www.gov.scot/publications/renewing-scotlands-full-potential-digital-world/>

There are clear links between taking advantage of the opportunities of digital trade and digital infrastructure, innovation, skills and connectivity, which are the necessary foundations for a country open to digital trade. The proposed Digital Strategy for Scotland includes these – by aiming to enhance the quality and resilience of networks; further invest in international connectivity; develop data centre capacity; and support digital adoption and skills. In particular, it sets out our digital economy ambitions and increased investment to support SMEs to adopt digital technologies. Digital adoption will play an important part in improving Scotland’s long-term productivity; creating new trading opportunities; supporting wage growth; and future-proofing its economy.

The Logan Review of the Scottish tech ecosystem, commissioned by the Scottish Government, along with recommendations on how to develop a world-class tech sector, also sets out how our tech ecosystem can be improved to give Scotland the best possible chance of generating a stronger pipeline of successful, scalable businesses.⁴² Achieving a healthy technology sector through implementing these recommendations is essential to digital trade, as it is a sector that is highly likely to be trading digitally, but also that acts as an enabler of digital trade and facilitates the digitisation of other sectors.

Scotland’s AI Strategy is due to be launched in 2021. Based on public consultation, this envisages a distinctive Scottish approach that respects the rights of the individual and provides a pathway to recourse. The rigour associated with this approach in turn supports trust in, and adoption of, AI technologies. This is aligned with our digital trade ambitions – respecting first and foremost the rights of the individual, while identifying options to increase market access for emerging technology.

Given the importance of the EU market, the Scottish Government prioritises continued market access to the EU Digital Single Market. As such the Scottish Government is opposed to any moves to facilitate the free flow of data that would prevent alignment with the EU’s high standards of data protection. There are interactions, notably related to onward transfers, between EU data flows to the UK and data flows from the UK to the rest of the world. Maintaining an ongoing data adequacy assessment with the EU, which is a priority for the Scottish Government, will depend on the careful management of these interactions, whether through the International Data Transfers Framework, or through provisions in Free Trade Agreements.

Scottish Government levers on digital trade:

1. Forming a community of practice on trade barriers to e-commerce, for example in interaction with the Scottish Government’s Trade Board’s sub-group on e-commerce. This could include identifying e-commerce market access barriers, prioritising and addressing these with a joined-up approach with non-digital barriers to e-commerce. Types of market access barriers for e-commerce include: imposing quotas or import duties on e-commerce sales; delays in implementation or introduction of e-commerce legislation; limited delivery options; complex regulations for online payment; e-commerce licence requirements; data protection; and IP protection.

⁴² Scottish Government (2020) Scottish technology ecosystem review
<https://www.gov.scot/publications/scottish-technology-ecosystem-review/>

2. Increasing access to information and support for businesses to maximise opportunities from FTA provisions related to digital trade. For example, the proposed new Digital Strategy for Scotland sets out a plan to provide increased expert support to SMEs, through the Digital Boost programme. There is an opportunity to add support on digital trade to the offer, aimed at navigating the barriers to the EU post-Digital Single Market and how to take advantage of digital provisions within FTAs.
3. In working towards an innovation ecosystem and implementing the recommendations of the Logan Review, strategic investments are planned in organisations and activities to support start-ups to succeed. This can be a lever in support of digital trade objectives by identifying digital trade priorities as part of these investments – e.g. using knowledge-sharing as part of the planned Eco-system Fund to build connections with other countries and facilitate market access for our technology industry.
4. Exploring interactions between digital trade and the AI Strategy for Scotland by identifying existing AI market access barriers and opportunities. There is the potential to build a programme of international engagement and for Scotland to join international bodies – with the possibility of using this membership to influence the development of global AI policy and norms to benefit Scotland's position as a trade partner.
5. Engaging in partnership with our Enterprise Agencies and with key organisations, such as CENSIS, Scotland's Innovation Centre for Internet of Things technologies; the Scotland 5G Centre, Scotland's national hub for accelerating the deployment and adoption of 5G; CivTech®, our public sector technology incubator; The Data Lab; ScotlandIS; Technology Scotland; Fintech Scotland; Universities; and the digital technologies industry, to identify the trading conditions needed to export new products, processes and services.
6. Identifying opportunities to set out how digital trade can support an ethical digital nation. Our proposed Digital Strategy for Scotland plans for Scotland to be recognised internationally as an ethical digital nation and to engage with citizen groups, regulators, companies, academics and other governments at a global level on issues such as cyber security, AI and the regulation of technology. In so doing, we will explore options to collaborate on our global priorities related to digital trade and our expectations for global digital trade governance.
7. Conducting further research on digital intermediary platforms and their role in digital trade, as well as non-monetary trade flows, and reviewing potential risks of increased dependencies on foreign owned platforms and the interaction between their practices and trade – such as questions around fair remuneration of use of creators' IP by platforms.

8. Ensuring coherence between our digital trade objectives and the objectives of the Inward Investment Plan, which aims to invest in Scotland's digital infrastructure and increase the number of people in Scotland with advanced digital skills from 4,000 – 10,000 per year to create a strong credible proposition for Scotland to market internationally. For example, while digital services pose a challenge to models of governance, ownership of, and use of data, the Inward Investment Plan identifies that establishing ground rules around what that looks like in practice (e.g. a 'stamp of approval' for data-led products and services developed in Scotland), is needed to meet both digital trade and investment objectives.

What Scottish Government calls on UK Government to do:

Prioritise building on the Trade and Cooperation Agreement with the EU, which removes many advantages of membership of the Digital Single Market, including:

- Maximising the reduction of the compliance burden for businesses in accessing the Digital Single Market by taking steps to reduce regulatory barriers and local presence or representation requirements.
- Prioritising maintaining an ongoing data adequacy assessment with the EU and not agreeing to provisions in trade agreements with non-EU countries which could put this at risk.
- Building on cooperation on Emerging Technology with the EU and ensuring the UK is not shut out of this market through its approach to regulation or any provisions agreed in trade agreements with non-EU countries which could put this at risk.

In Free Trade Agreements and multi-lateral e-commerce agreements prioritise positions on: data flows; emerging tech; intellectual property; online consumer protection/online harms; and supporting a positive environment for e-commerce.

- **Data flows:** Develop an international transfers regime that facilitates data flows balanced with strong data protection. Any FTA must not prevent future action to maintain and establish data protection safeguards, or to align with those of the EU. Ensure full consideration of social impact of FTAs on digital rights and digital inclusion.
- **Emerging technology:** Retain policy authority for future regulation related to digital and AI developments.
- **Intellectual Property:** Consider social and economic impacts and maintain balance between protection of IP and consumer rights, such as transparency of decision making and prevention of discrimination.
- **Online consumer protection and online harms:** Scotland is a fair and ethical digital nation and market access priorities must be balanced with our priority to protect people in Scotland from online harms.
- **E-commerce:** Support the conditions for e-commerce through reduced market access barriers.
- **Telecoms:** Support Scotland's priorities for enabling Infrastructure for digital trade, including international data connections.

3.1.3 Regulation: seeking opportunities for regulatory cooperation whilst regulating in the public interest

With trade covering an ever-broader range of policy issues, what balance can Scotland find between maximising the benefits of trade by reducing regulatory divergence, whilst regulating in the public interest?

Key issues:

Differences in regulation can occur as a result of legitimate differences in public policy objectives. Regulation is a tool for government to influence choice and behaviour to further a broad range of public policy objectives across economic development, health and wellbeing, environmental protection, climate, labour and fair work and education among others. Governments often seek opportunities for regulatory cooperation with like-minded trading partners because countries that adhere to similar regulatory approaches are more likely to arrive at and support similar rules.

Trade agreements often allow for divergence in regulation, but there is also a risk of “regulatory chill”, whereby governments may be deterred from regulating in the public interest so as to avoid potential disputes with trading partners, which can potentially limit the scope for governments to achieve public policy objectives.

It is simplistic to assume that deregulation is necessary to encourage trade or investment. Scotland’s success in trading with other countries is based on its reputation for high quality and high standards. This is demonstrated by high inward investment levels in Scotland under the UK’s participation in the EU Internal Market – often seen as the gold-standard for regulation, which makes a distinct and significant impact on Scotland’s economy. For the last seven years, Scotland has secured the most inward investment projects of any UK nation or region outside of London.⁴³

Yet, **differences in regulation can also act as a barrier to trade** and according to the OECD,⁴⁴ the internationalisation of rules is increasingly at the heart of the trade debate. WTO studies⁴⁵ from 2009 and 2012 found non-tariff barriers such as regulatory divergence were equivalent to 12% tariffs, contributing more than twice as much as tariffs to restricting access to international markets. Governments around the world have sought to maximise the benefits of global trade by eliminating unnecessary regulatory divergences. However, recent trends towards regulatory sovereignty, such as the UK’s exit from the EU and protectionist measures introduced in a number of countries as part of their response to the COVID-19 pandemic, evidence a changing regulatory landscape, with barriers to frictionless trade on the rise.

Regulatory differences can be costly for traders, irrespective of cause, and can also occur as a consequence of the failure of governments and regulators to consider the international environment when developing policy. This amounts to a missed opportunity to eliminate costs to consumers and businesses of adapting products, production and labelling to comply with different rules.

43 Scottish Government (2020) Shaping Scotland’s Economy: Scotland’s Inward Investment Plan <https://www.gov.scot/publications/shaping-scotlands-economy-scotlands-inward-investment-plan>

44 OECD (2013) International Regulatory Co-operation: Rules for a Global World [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=GOV/RPC\(2012\)8/REV1&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=GOV/RPC(2012)8/REV1&docLanguage=En)

45 Institute for Government (2021) Non-tariff barriers explainer <https://www.instituteforgovernment.org.uk/explainers/non-tariff-barriers>

For example, members of the EU's Single Market benefit from shared regulatory frameworks. In Scotland's largest industrial goods export sector, chemical sciences, 85% of exports are to the EU. Leaving REACH, the EU's regulatory framework for chemicals, will result in costs to business of duplicated registration requirements and the cost of negotiating access to data held by consortia of EU companies.⁴⁶ Furthermore, if the UK's REACH framework chooses to diverge from regulations in EU REACH, this could increase costs to business further. Similarly, divergence by the UK from the planned EU regulatory framework for Artificial Intelligence products and services could also create barriers.

Outside of the EU, an example of regulatory barriers reducing market access are those faced by the Scotch Whisky industry which can limit access to markets: these include Export Certification, company registration and labelling.⁴⁷

Setting out shared policy commitments with like-minded countries supports a positive trading environment: Trade agreements often contain shared policies or rules on factors affecting the cost of production of goods. These rules can prevent cheaper goods, produced to lower environmental and labour standards, entering a market and damaging domestic trade in goods produced to higher standards. This means that imports cannot gain an unfair advantage over domestically-produced goods because of deregulation or incentives only available in one country.

Shared policy commitments, sometimes called the level playing field, can also incentivise positive change and make it easier for countries to make regulations that meet wider priorities or tackle social challenges, without reducing the competitiveness of domestic producers. It can also encourage higher standards of production through the incentive of being able to export goods produced at that higher standard to international trading partners. This means that shared policy commitments in, for example, environmental protection, climate change or social and labour protection can improve the quality of goods, the quality of the environment they are made in and the quality of life for the people who make them.

Preserving future policy space to ensure regulation can keep pace with a rapidly changing regulatory environment is also a key trade policy challenge. In areas such as digital trade, where advances in technology can outpace the development of its regulation, remaining anticipatory in approach can be important.⁴⁸ For example, data related provisions agreed within CPTPP and in the recent UK-Japan FTA may make it harder to change its domestic policies on data protection in the future, due to the need to apply trade tests to them. Whilst commitments like this create more certainty for business, they may also have wider social impacts related to data privacy. There is a risk that the complexity of these requirements will restrict future policy development.

46 The UK Chemical Industries Association (CIA) estimates, the UK's new system would add more than £1bn in costs to companies to duplicate registrations and risks repeating animal testing should UK companies be unable to negotiate access to underlying data. Financial Times (August 3 2020)

<https://www.ft.com/content/a1c4a5dc-f627-4689-97aeScotl-909d4aaf6162>

47 Scotch Whisky Association <https://www.scotch-whisky.org.uk/insights/international-trade/>

48 Nesta Foundation (2019) Renewing Regulation: 'anticipatory regulation' in an age of disruption

<https://www.nesta.org.uk/report/renewing-regulation-anticipatory-regulation-in-an-age-of-disruption/>

Scotland's response:

Scotland wants to trade based on its high regulatory standards to protect consumers and enable producers to champion Scottish provenance.

We are seeking opportunities for regulatory cooperation with like-minded trading partners.

Scotland is committed to proportionate regulation in accordance with the precautionary principle, prioritising public interests and reducing harm.

In relation to international trade, regulating in the public interest means that there will be limits on the extent to which Scotland will be prepared to enter into agreements on regulatory cooperation when public policy objectives are different.

This is particularly important for the regulation of imported goods in areas of devolved competence, such as food standards, as highlighted by the examples of chlorinated chicken or hormone-fed beef. The Scottish Government policy objective is to support progressive animal health and welfare and environmental standards throughout production, avoiding a reliance on end stage treatments. Such aims will ensure Scotland meets the high regulatory standards that the public have become accustomed to, and should apply to imported goods as well as those which are produced domestically.

Scotland is committed to regulating in accordance with the precautionary principle,⁴⁹ whereby policy-makers adopt precautionary measures when scientific evidence about an environmental or human health hazard is uncertain,⁵⁰ ensuring a higher level of environmental protection through preventative decision making. For Scotland, an unwillingness to regulate in the public interest must be avoided. Weaker regulation will not attract the inclusive and sustainable trade which Scotland seeks. The approach taken by the UK Government in the Internal Market Act, by contrast, enforces a lowest common denominator for regulating animal health and welfare and environmental standards.

To achieve regulatory convergence which facilitates trade whilst prioritising public interests, Scotland will seek opportunities within its competence for regulatory cooperation with like-minded trading partners, such as helping to facilitate regulator-to-regulator agreements. Where agreements are made which fall under the competence of UK Government, any such cooperation must be entered into voluntarily and agreed through consent, rather than imposed, and place importance on Scotland's economic interests.

The Internal Market Act endangers key public health policies such as minimum unit pricing and opens the door to a regulatory race to the bottom on food standards, animal health and welfare and environmental standards. This would be the case even where imported products made to lower standards face tariffs, as has been suggested by a 'dual tariff approach'.⁵¹

49 EU-Lex (2016) The Precautionary Principle

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM:l32042#:~:text=%20The%20precautionary%20principle%20shall%20be%20informed%20by,once%20the%20results%20of%20the%20scientific...%20More%20>

50 European Parliament Think Tank (2015): The precautionary principle – definitions, applications and governance [https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_IDA\(2015\)573876](https://www.europarl.europa.eu/thinktank/en/document.html?reference=EPRS_IDA(2015)573876)

51 Whilst a dual tariff system may promote better quality food entering the country, it would still also be a backdoor for what we consider low quality food produce, such as chlorinated chicken and hormone-fed beef, pouring into our market." – Chartered Institute of Environmental Health (2020) <https://www.cieh.org/news/press-releases/2020/government-must-not-go-back-on-promises-over-food-standards/>

Scotland fully supports the disciplines contained in the WTO Technical Barriers to Trade Agreement to ensure that technical regulations are non-discriminatory and do not present unnecessary barriers to trade. Scotland will also improve the quality and transparency of regulation through using Good Regulatory Practices in our Better Regulation framework. This will make it easier to take the impact of regulation on trade into consideration and to identify opportunities for regulatory cooperation with key trading partners. To reduce costs for business and facilitate trade, Scotland must continually improve the quality of its domestic regulation, whilst identifying opportunities for International Regulatory Cooperation.

However, to achieve sustainable and inclusive economic growth, it is essential that Scotland only enters into regulatory agreements that are in our long-term interest and on terms that work for Scotland. Arrangements that are imposed, for instance as part of a UK trade agreement negotiated without due consultation, cannot guarantee the net benefits promised. Where regulatory differences are apparent, Scotland should encourage potential trading partners to adopt and uphold high standards through International Regulatory Cooperation. While the Scottish Government has limited levers available for regulatory cooperation, dialogue and exchange of information can improve understanding of regulatory practices and build trust among governments and regulators.⁵² Investor State Dispute Settlement commitments must also not prevent Scotland from regulating in a way that protects the environment and public interests.

It is also important to maintain the ability to align with developments in EU law, where beneficial for Scotland. The UK Withdrawal from the European Union (Continuity) (Scotland) Bill, passed by the Scottish Parliament on 22 December 2020, will help Scotland continue to benefit from high European standards.

Scottish Government levers:

1. Being active and visible on the global stage on regulatory issues that matter for Scotland, including by engaging through WTO committees and networks.
2. Continuing to regulate in the public interest, whilst meeting our transparency and non-discrimination obligations under the WTO Technical Barriers to Trade Agreement.
3. Engaging with intergovernmental bodies to encourage International Regulatory Cooperation to create options that reduce unnecessary diversity of domestic regulation, whilst maintaining national policy objectives.
4. Using the Better Regulation framework to ensure international considerations are taken into account when developing regulation, such as including international trade impacts in Business and Regulatory Impact Assessments; ensuring compliance with WTO notification obligations; and avoiding unnecessary barriers to trade.
5. Using Good Regulatory Practices to foster ongoing collaboration with the EU on regulation.

6. Building a community of practice to identify regulatory barriers to trade, involving, among others, the Regulatory Review Group and Trade Board members. These can be raised at the WTO as a specific trade concern, ensuring Scotland's offensive interests are represented on an international stage.
7. Facilitating trade through increased regulatory transparency for exporters through Scottish Government offices and SDI by, where possible, providing exporters with a basic understanding of the regulatory requirements of their desired export destination. Across Federal nations such as the USA and Germany, for example, state-level regulation can differ across jurisdictions, which could be particularly difficult for small and medium-sized businesses to navigate.
8. Supporting the international recognition of Scottish products that meet high standards by working with conformity assessment bodies to increase their number and build capacity, supporting them to demonstrate their competence to meet particular standards. This will allow our producers to have their goods certified by these bodies using Mutual Recognition Agreements within FTAs.

What Scottish Government calls on UK Government to do:

- Recognise that the correct and proportionate means of dealing with potential regulatory divergence within the UK's domestic market that may arise as a consequence of EU exit is through the common frameworks process, rather than the UK Internal Market Act.
- Commit to regulating in line with the precautionary principle to prevent environmental harm and maintain high regulatory standards in areas such as food safety, energy, animal welfare and climate.
- Commit that food produced and imported into the UK keeps pace with the EU animal health, environmental and food safety standards, as diverging from EU standards will limit export opportunities for Scottish businesses.
- Ensure the continued involvement of devolved administrations in any Committee for Regulatory Cooperation established in free trade agreements. This will ensure Scottish Government can suggest voluntary regulatory cooperation activities with trading partners that reflect its sectoral priorities, such as Food and Drink, Technology Digital and Media, and Energy.
- Take action to reduce regulatory barriers with the EU. For example, continue to pursue a data sharing agreement between EU and UK authorities for our chemicals sector. Not having an agreement on data sharing will increase costs to business.
- Continue collaboration between UKG's Better Regulation Executive and devolved administrations in the development of its IRC strategy.⁵³
- Work with Scottish Government to develop positions on intergovernmental processes and agreements where devolved priorities are impacted, e.g. education, culture, trade, climate and the environment. This includes taking forward action on removing market access barriers, making use of the UK's Digital Market Access Service and ensuring effective Scottish representation at the WTO Committee on Technical Barriers to Trade.

⁵³ Department for Business, Energy and Industrial Strategy, UK Government (2020) International Regulatory Cooperation for a Global Britain https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/913730/international-regulatory-cooperation-for-a-global-britain.pdf

3.1.4 Global Value Chains: focusing on the value Scotland can bring

How does Scotland position itself in Global Value Chains in the face of trends in globalisation?

Key issues:

The concept of free trade is being challenged as a result of uncertainty in the global trading system and public concerns about globalisation. Global value chains have expanded significantly over recent decades, with business locating production and sourcing their inputs across national borders, although the rate of growth has slowed in the past decade. This is partly due to increased labour costs in developing countries and firms moving closer to demand. COVID-19 has tested the resilience of supply chains in unprecedented ways, and has demonstrated the importance of resilient supply chains to ensure the continued flow of critical goods.

The increased importance of global value chains in production means that it is essential to consider “value added” when thinking about trade policy, namely the amount of value added an industry/company contributes rather than just the value of the product/service that they sell on.⁵⁴ Global Value Chains can lead to productivity gains through: more efficient division of labour across countries, increased competition, and availability of greater varieties of input. Global Value Chains can, however, have detrimental impacts on labour markets in the short-run, including the loss of job opportunities from sectors moving overseas. Given increased dependence on Global Value Chains, resilience in a situation where global supplies of goods are restricted can also present a challenge.

There may be pressure for governments to implement protectionist trade policies such as tariffs and quotas in order to protect domestic jobs. However protectionist measures can penalise those they aim to protect, as jobs protected in this way may not be sustainable; retaliatory countermeasures can impact jobs across the wider economy; and the benefits of trade – articulated earlier – are lost to the economy. The imposition of barriers to trade can be particularly harmful to the wider economy although there is the need to address [winners and losers from trade](#).

Taking advantage of Global Value Chains is particularly affected by requirements on rules of origin and associated administrative requirements. For example, to take advantage of trade agreements, goods must qualify under the agreement’s rules of origin, which determine which goods qualify for reduced tariff access. Rules of origin may apply the approach of cumulation which defines when goods can benefit from an FTA even if they originate elsewhere. Such administrative arrangements can often be difficult and time-consuming in terms of record-keeping and uncertainty of application, and unnecessarily restrict access to preferential tariffs, as is being borne out as a consequence of EU exit. The EU Customs Union and Single Market enabled participation in Global Value Chains both through removing barriers to trade within the EU market and through the EU’s extensive suite of FTAs with third countries.

Scotland's response:

Scotland is building a high-wage, high value-added, high productivity economy with a priority placed on premium goods and services.

Scotland supports domestic supply chains while balancing this with active participation in diversified Global Value Chains.

Scotland remains committed to a rules-based trade agenda and supports open, fair and transparent trade without protectionism. Scotland will never be in the situation where we can manufacture everything we need, and for those products we do manufacture we still need to import intermediate products. Global Value Chains are hugely important for Scotland. By strengthening rather than dismantling supply networks this can support our economic recovery and encourage businesses to diversify their supply chains, thereby building greater resilience. Export production is dependent on inputs sourced from abroad. Therefore, disrupting trade flows would impact Scotland's ability to export and impact the value Scotland can add.

Identifying where value is added along the supply chain will enable Scotland to estimate where income and jobs are created. Higher value-added activities contribute more to the economy, and jobs in these industries tend to pay better wages and generate higher profits. This is important to Scotland as we are building a high value-added, high productivity economy with a priority placed on premium goods and services.

Scotland is not a low-wage economy and has long championed the payment of the real living wage. If in Scotland we produce the same products as emerging countries, we are at a competitive disadvantage as we will never win the competition for lower prices given the relative costs of labour, but we can aim to win on quality and on added value, through our high skilled workforce, knowledge and expertise.

For example, the value of some of Scotland's most important exports rests on the very fact that they are made here: Scottish provenance is intrinsic to their identity and reputation for quality. Dedicated geographic indications (GIs) provide protection for high value products such as Scotch Beef and Scottish Farmed Salmon, which account for around £700 million in sales, while Scotch Whisky accounts for around a quarter of all UK food and drink exports.

The Scottish Government also supports predictable and low-cost administrative arrangements which make it easier for a Scottish exporter to prove that a good originates in Scotland under the terms of a particular FTA, or contains the requisite percentage of 'local content'.

There is also an important interaction between trade and our domestic policies in continuing to prioritise value over price. Investing in people is particularly important for upgrading Global Value Chains and focusing on where in Scotland we can add the most value. Without sufficient investment in skills, involvement in Global Value Chains may not translate into productivity growth, and Scotland may no longer be able to compete. We will therefore invest in skills and human capital through centres of expertise and excellence such as the National Manufacturing Institute for Scotland (NMIS) and the Medicines Manufacturing Innovation Centre (MMIC).

Scottish Government levers on Global Value Chains:

1. Carrying out analytical work, using both quantitative and qualitative evidence, to develop data for Scotland to better understand where value is added and to estimate where jobs are created.
2. Rolling out Supply Chain Development Programmes across key sectors of the economy with sustainable economic potential, targeting existing and prospective suppliers in Scotland, to assist Scottish suppliers to grow and compete globally within Global Value Chains.
3. Investing in skills and human capital, for example through centres of expertise and excellence such as the National Manufacturing Institute for Scotland and the Medicines Manufacturing Innovation Centre to take advantage of the new Global Value Chain opportunities created as, for example, we and other countries seek to decarbonise our heat and transport systems.

What Scottish Government calls on UK Government to:

- Pursue trade facilitation measures which are crucial to fostering integration in Global Value Chains.
- Take measures in FTAs to support the value and quality of Scottish exports, such as maintaining an effective scheme for GIs which recognises that the quality of Scottish products is key to maximising agri-food exports. Trade deals should include provisions to ensure UK, and Scottish, GIs are recognised.
- Pursue predictable and low-cost administrative arrangements which allow companies to provide their own origin certificate without the need to request it from an external organisation. There are different types of self-certification and precedent exists in other FTAs (EU – South Korea FTA, CETA and EU-Japan).



3.2 People

Our aim for Scotland's people is to increase wellbeing and opportunity, while reducing inequality. We have identified four key trade-related questions that we see as central to ensuring trade policy contributes to this aim. We then set out how we might apply our five principles to these questions to give Scotland's response.

1. Trade shocks and trends create winners and losers. How can Scotland address these differential impacts within Scotland and amongst different groups?

- Recognising that there are winners and losers from trade shocks, trends and policy, Scotland will identify differential impacts and options to address them.
- Scotland is committed to inclusive growth, by promoting fair work; productivity over low costs; a just transition; and high labour standards at home and abroad.

2. How can Scotland address the tension between trade liberalisation and its impacts on public services, particularly health?

- The NHS must be protected from enforced competition, or increases in drug costs, as a result of trade liberalisation.
- Trade policy should always support our public service priorities.

3. How can Scotland balance priorities of choice and cost for consumers with high standards and protections?

- Scotland's trade policy will aim to protect, serve and empower consumers and support trends towards trade in ethical and sustainable goods.

3.2.1 Fair work and the winners and losers from international trade

Trade shocks and trends create **winners and losers**. How can Scotland address these differential impacts within Scotland and amongst different groups?

Key issues:

Trade has a net positive effect, but there is substantial evidence that increased openness to trade can create “winners” and “losers” within countries.⁵⁵ While evidence shows countries engaging in international trade benefit from faster growth and increased productivity, with higher incomes for workers and lower prices for consumers, costs tend to be concentrated across particular regions and groups. Increased trade liberalisation can have positive impacts on some regions (e.g. border regions, regional production hubs, recipients of FDI), but can often divert economic activity from other areas. These impacts are exacerbated by spillover effects – if primary industry is lost, economic activity will be lost in sectors depending on that industry, for example suppliers, transportation, and cleaning and catering services.

55 D Rodrik (2011) The Globalization Paradox: Democracy and the Future of the World Economy <https://drodrrik.scholar.harvard.edu/publications/globalization-paradox-democracy-and-future-world-economy/>; P.R Krugman (2008) Trade and Wages, Reconsidered https://www.brookings.edu/wp-content/uploads/2008/03/2008a_bpea_krugman.pdf; and D. Autor et.al (2020) The China Trade Shock – Studying the Impact of China's Rise on Workers, Firms, and Markets <https://chinashock.info/>

There are differential impacts of trade on different groups. There are a number of ways by which trade affects different groups: through impacts on household income, in terms of wages and employment opportunities; through impacts on price and availability of consumer goods and services; and through impacts on government revenues, and therefore the provision of public services such as health and social care. The characteristics of groups losing out from increased trade liberalisation in developed economies vary, however they include sectors, firms and workers in industries negatively affected by increased international competition, and the regions where those industries are located. Within this, there can be disproportionate impacts within social groups according to gender, ethnicity, disability, and age, amongst other factors.

Trade theory also suggests that the gains from trade will be unevenly distributed with some geographies and groups of workers – often lower-skilled workers – losing out. There is some evidence that trade liberalisation has increased inequalities of income and wealth across advanced nations, but it should also be noted that the trajectories of inequality have differed markedly despite countries confronting similar trade-induced pressures. A number of factors have influenced rising inequality including rapid de-industrialisation linked to technological and industrial change; domestic economic policy decisions; and changing consumption patterns, and so it is difficult to quantify the precise impact of trade liberalisation.⁵⁶ For instance, the rising exposure of the US economy to international trade was accompanied by cuts in top income tax levels.⁵⁷ However, there are clear costs faced by workers seeking to move out of sectors that are directly competing with imports and have lost out as a result of increased trade and into sectors that are expanding due to exports. This is due to limited labour mobility in different regions or sectors, which is especially low among lower wage earners.⁵⁸

Workforces in different sectors have different demographic profiles.

Female employment is generally higher in ‘non-traded’ service industries, such as health and social care, and is often lower in traded goods. Similarly, ethnic minority groups make up a larger proportion of service industries than in manufacturing and agriculture. Some of these service sectors are non-traded, such as human health and social work, while many other service sectors are traded (e.g. financial services). These workers may be less affected by trade and trade deals; equally, it can also mean that they stand to gain less from them, or may be affected in different ways. Trade not only impacts the economy through effects on workers, people also participate in the economy as consumers, as well as users of public services. Women are also the primary providers of care – an important and often overlooked input into the economy. Trade arrangements that reduce government revenues, or limit a state’s ability to regulate public services and welfare, can decrease the overall amount of care in an economy, leading to declining social wellbeing and productivity.

56 J. Haskell and M.J. Slaughter (1999) Trade, Technology and UK Wage Inequality <https://www.nber.org/papers/w6978>

57 P. Antras (2020) De-globalisation? Global Value Chains in the Post-COVID-19 Age; Harvard University

58 D. Autor et al (2016) The China Shock: Learning from Labor-Market Adjustment to Large Changes in Trade <https://www.annualreviews.org/doi/full/10.1146/annurev-economics-080315-015041>

Trade has the potential to improve or reduce employment standards. Trade is a key driver of innovation and productivity and exporters typically pay higher wages than non-exporters.⁵⁹ Increased international trade also has the potential to trigger a 'race to the top' resulting in higher standards across supply chains, to which producers must adhere to ensure access to profitable markets such as the EU.

However, there is a risk countries may seek to lower the cost of labour by reducing standards in order to become more internationally competitive and the effect may be to erode workers' bargaining power.⁶⁰

It is possible for those benefiting from increased trade to compensate those that are disadvantaged. However, compensation policy can risk creating further distortions and different policy responses are likely to be effective for different types of shock.

A strong social safety net is a requirement to protect living standards for all.

Immediate disruptions (e.g. sudden increases in trade tariffs) can benefit from shorter-term tools such as trade defence remedies – e.g. anti-dumping, countervailing measures, or safeguarding measures – trade adjustment assistance, and diplomatic efforts.

In responding to longer term developments (e.g. the rise of China in world trade and automation), a more effective policy approach will be one which focuses on the evolving structure of the economy and changing comparative advantages and looks to shape that evolution, integrating trade adjustment policies into industrial and regional strategies.

For specific trade shocks, such as leaving the EU or signing a new free trade agreement, different compensatory policies can be considered. The US has a Trade Adjustment Assistance (TAA) programme, where affected parties submit their case to government for consideration and, if approved, are eligible for financial assistance in the form of income support, relocation allowances, or skills development allowances. However, it can be difficult to identify job losses directly resulting from trade and evidence from TAA shows limited effectiveness of the policy.⁶¹

Taking a place-based approach to support "left-behind" areas, investing in housing, infrastructure, local amenities and incentives for businesses, can support local demand, maintaining employment across the supply chain.

59 A.B Bernard et al (1995) Exporters, jobs, and wages in US manufacturing: 1976-1987. Brookings Papers on Economic Activity https://www.researchgate.net/publication/5177099_Exporters_Jobs_and_Wages_in_US_Manufacturing_1976-1987

60 A. Singh and A. Zammit (2004) Labour Standards and the "Race to the Bottom" https://www.cbr.cam.ac.uk/fileadmin/user_upload/centre-for-business-research/downloads/working-papers/wp279.pdf

61 J.F Hornbeck (2013) Trade Adjustment Assistance (TAA) and Its Role in U.S. Trade Policy <https://fas.org/sgp/crs/misc/R41922.pdf> and R.M Vijaya (2010) Broken Buffer; how Trade Adjustment Assistance Fails American Workers https://www.demos.org/sites/default/files/publications/Broken_Buffer_FINAL.pdf

A job creation and a skills-based approach could use tax gains from trade to support job creation in infrastructure, including green infrastructure, as well as technical service jobs, or invest in skills retraining in areas where the supply of productive jobs is high but people do not have matching skills. It could also include targeted support policies to increase women's and other disadvantaged groups' access to high-growth exporting sectors, such as access to training or grants. The work of the Scottish Governments Just Transition Commission, for example, addresses the challenges and opportunities for businesses, communities and individuals as a consequence of the transition to a net zero economy.

Scotland's response:

Scotland recognises there are winners and losers from trade and will identify differential impacts and options to address them.

Scotland is committed to fair work in its trade policy: high productivity, a just transition and high labour standards at home and abroad.

Ensuring that success and opportunity are shared across the whole of Scotland is a key element of the Scottish Government's approach to inclusive growth, and this is reflected in Scotland's trade interests.

The Scottish Government recognises that trade policy is not neutral, depending on income, gender, ethnicity, position in the labour market, educational level and age, among other factors, and active steps need to be taken to understand its impacts and prevent or address these.⁶² Trade policy must be designed to take into consideration outcomes for different groups.

Scotland has a progressive fair work and inclusive growth agenda, which aligns with the European Pillar of Social Rights. The Scottish Government views obligations under European Frameworks as a minimum standard to work from to deliver a progressive fair work agenda that improves workers' rights.

Work is critical to our wellbeing and shaping how we live. The Scottish Government's Fair Work agenda can help people and business flourish, and is critical to achieving a modern, high value, inclusive economy – today and in the future. Fair Work is a key driver for achieving sustainable economic growth and a wellbeing economy.

Scotland's trading relationships should be characterised by high labour standards at home and abroad, similar to those we shared with members states as part of the EU. We also oppose trading partners undercutting production costs and therefore gaining unfair trading advantages by failing to enforce labour standards and worker protection, as part of a level playing field. A common set of minimum standards must be agreed to ensure that trade is efficient, as well as equitable.

62 International Centre for Trade and Sustainable Development (2017) The Case for Mainstreaming Gender in Trade Policy <https://www.ictsd.org/bridges-news/bridges-africa/news/the-case-for-mainstreaming-gender-in-trade-policy>

In line with our Fair Work approach, we need a labour market which can both maintain and improve workers' rights and protections and be able to be competitive economically without getting caught in a 'race to the bottom' by focusing on reducing costs instead of creating productivity gains from investing in staff and businesses. Employment and workers' rights are not cards to be traded to gain competitive advantage, and we will continue to promote our Fair Work approach on the international stage, aiming to share good practice and learn from what other countries are doing to create high quality and fair work. In addition, Scotland's Inward Investment plan, published October 2020 focuses on attracting investment in high-value, sustainable and fair work across Scotland, encouraging international businesses to adopt our Fair Work values.⁶³

Scottish Government levers:

1. Improving the evidence base on differential impacts so we have access to relevant data on differential impacts and can identify priority sectors, regions and groups.
2. Considering trade impacts in our regional development policy and in our skills, education and labour market policy.
3. Monitoring and evaluating the impacts of trade deals, using established approaches to evaluate sustainable and inclusive growth, a just transition to net zero, and progress towards the outcomes in the National Performance Framework.
4. Reviewing a range of policy measures that could mitigate adverse or undesired effects of trade shocks and trends. This would also require consideration of mechanisms for earmarking funds and of the timeframes in which gradual shifts create differential impacts. Policy measures to be considered could include:
 - Direct financial assistance.
 - A place-based approach, consistent with the Community Wealth Building approach; a people-centred approach to local economic development, such as: encouraging regional export promotion campaigns; utilising assets of anchor institutions for community investment e.g. encouraging exporting businesses or investors to invest surpluses in local business opportunities, developments, credit unions or co-operatives; and increasing fair work and local employment opportunities. The Infrastructure Investment Plan shows how the Scottish Government intends to make the right investments in the right places. This will provide opportunities for all of Scotland's people – driving innovation, creating good, sustainable jobs, enhancing local areas and supporting a just and fair transition and wellbeing outcomes.
 - A skills-based approach, including feeding insights and concerns around trade, labour mobility and skill-matching into the Scottish Government's National Mission to create new jobs, good jobs and green jobs.
 - Strengthening welfare and social security.

63 Scottish Government (2020) Shaping Scotland's Economy: Scotland's Inward Investment Plan <https://www.gov.scot/publications/shaping-scotlands-economy-scotlands-inward-investment-plan>

5. Considering implementation of policies to make trade more inclusive and reduce barriers to participation where trade policies intend to foster growth in sectors from which people with protected characteristics are excluded.
6. Applying the 'socio-economic duty' from the 2010 Equalities Act to trade decisions, a legal responsibility on listed public bodies in Scotland to actively consider using their functional powers to reduce inequalities of outcome, caused by socio-economic disadvantage, when making strategic decisions.
7. Ensuring Scotland's trade and economic interests are identified and taken into account in any investigations into unfair trade practices affecting UK industry, and the administration and management of any subsequent trade remedies, both within the Trade Remedies Authority (TRA) and at Ministerial level.
8. Reviewing how we assess exporters' commitment to Fair Work, inclusive employment and corporate social responsibility, and exploring options for accreditation and/or conditionality of support, for example the Freedom Seal on socially-beneficial trade, and; or rewarding and encouraging good practice.
9. Through the creation of our sustainable, green port model creating exemplars for the use of fair work practices, the real living wage and net zero commitments with a focus on trade.
10. Exploring the idea of designating private sector 'champions' to promote the idea of an inclusive and sustainable trade policy amongst the business community.

What Scottish Government calls on UK Government to do:

- Mitigate any undesired effects of FTAs or other trade decisions through increased funding to support affected sectors or localities. The Scottish Government has already lobbied the UK Government to provide funding for specific sectors disproportionately losing out from trade deals – e.g. Agri-foods losing out in the Australia/New Zealand deal.
- Collect detailed disaggregated data on impacts of trade policy on equality groups, and share with Scottish Government.
- Conduct, and consult on, full sustainability impact assessments of potential policy and agreements, before embarking on negotiations, across a broad range of issues and groups, including women and gender inequality.⁶⁴ These should take the form of Sustainability Impact Assessments, using gender-disaggregated wage and employment data, to distinguish between export sectors and import-competing sectors, as well as qualitative data gathered from consultations with women from marginalised groups.⁶⁵
- Include gender equality provisions in FTAs, which are backed by strong monitoring and accountability mechanisms. Provisions to protect gender equality protections and policies should also be carved out from investor protections.
- Mainstream the impact on women as economic and social operators throughout the entirety of trade policy and trade deals.
- Ensure that any new trade agreements do not constrain the Scottish Government's right to take action to defend and promote the wellbeing of Scotland's people.
- Use trade remedies to address unfair trade practices and protect domestic industries from disruptive trade flows. Investigations into unfair trade practices affecting UK industry, and the administration and management of any subsequent trade remedies, will be carried out by the Trade Remedies Authority (TRA). The UK Government should formalise commitments for the participation of the Scottish Government in the TRA within the operating procedures set by the TRA and in guidance set by the Secretary of State, and must deliver on commitments made that the Scottish Government can register as a "contributor" to an investigation and submit information and evidence.
- Labour standards should be included or preserved in FTAs and trading preferences granted to partners – e.g. EU approach of tariff preferences to countries implementing the core UN/ILO human/labour rights international conventions.
- Full sustainability impact assessments of trade and labour should be published, with binding commitments on mitigation of impacts at home and abroad.

64 This was recommended by the International Trade Committee (2018) Trade and the Commonwealth: Developing Countries <https://publications.parliament.uk/pa/cm201719/cmselect/cmtrade/667/667.pdf>

65 The UNCTAD Trade and Gender Toolbox provides a systematic framework to evaluate the impact of trade reforms on women prior to their implementation <https://unctad.org/webflyer/unctad-trade-and-gender-tool-box>

3.2.2 Supporting public services through international trade

How can Scotland address the tension between trade liberalisation and its impacts on public services, particularly health services?

Key issues:

There are tensions between trade liberalisation and supporting public services. Trade Agreements, can limit a state’s ability to regulate public services and their provision. Although agreements such as the General Agreement on Trade in Services (GATS), exclude public services “supplied in the exercise of government authority”, those provided on a commercial basis or for a charge can be in scope. Many modern free trade agreements use ‘negative listing’, so only services which are explicitly referenced are excluded. The onus is on the negotiator to be aware of, list and achieve the necessary carve outs to fully protect public services, including those provided on a commercial basis.

In education, for example, trade agreements can restrict the ability to limit the entry and regulate the operations of private and for-profit schools and institutions. Additionally, agreements on Intellectual Property, such as TRIPS, can limit access to teaching and learning materials through copyright provisions. Such increased commercialisation and privatisation of education has the potential to increase the risk of global educational inequity.⁶⁶ However, agreements on the mutual recognition of professional qualifications can also increase the attractiveness of educational institutions to international students, widening accessibility of education.

Measures designed to protect health and wellbeing, the quality of services, or to enable cross-subsidy between services, could also be interpreted as a trade barrier based on FTA provisions, leading to the risk of “regulatory chill”, whereby governments may be deterred from regulating in the public interest so as to avoid potential disputes with trading partners.

There is evidence of a differential impact of trade on public service users, as services from care to transport are vital levers for addressing a variety of inequities, and how they are affected by trade will lead to a broad range of impacts.⁶⁷ As disadvantaged groups, including women, are disproportionately reliant on public services, any decision taken which affects public services will have a disproportionate impact on them.

When public services are opened up to foreign competition, this can increase provision of services or reduce costs in some areas as the result of greater competition. However, there are concerns that private companies will focus on the most profitable parts of services, leaving some, particularly in rural or isolated areas, without vital public services.⁶⁸

66 Education International (2017) Education and Trade https://www.ei-ie.org/en/detail_page/4640/education-and-trade

67 UK Women’s Budget Group (2019), Gender and Trade: <https://wbg.org.uk/wp-content/uploads/2019/09/FINAL-.pdf> and ActionAid Policy Briefing (2018) From Rhetoric to Rights: Towards Gender-Just Trade <https://www.actionaid.org.uk/media/1000000/From-Rhetoric-to-Rights-Towards-Gender-Just-Trade-ActionAid-Policy-Briefing.pdf>

68 Women’s Budget Group Commission on a Gender-equal Economy (2020) Creating a caring economy <https://wbg.org.uk/wp-content/uploads/2020/10/WBG-Report-v10.pdf>

The burden of unpaid domestic and care work required to replace reduced provision or increased costs of public services will fall to care providers, most often women, who tend to spend around 2.5 times more time on unpaid care and domestic work than men.⁶⁹ The consequence of these increased responsibilities can also result in reduced access to education and paid employment, further compounding these social and economic impacts.

Public procurement is of importance to international trade

Public procurement of goods and services represents a major part of a country's market, so government procurement is of great importance to international trade flows. Over time WTO Members have therefore sought to address government procurement through the multilateral trading system.⁷⁰ When public procurement is included in any bilateral, multilateral or plurilateral trade deal, contracting authorities have a duty to afford equal treatment and non-discrimination to the products, services and companies of other countries that are covered by the terms of the deal when awarding public contracts. The WTO General Procurement Act aims to create transparent and fair procurement systems, thereby ensuring enterprises at all levels are not excluded from information relating to procurement opportunities. However, criticism suggests this may, to an extent, limit the decisions a government can take in deploying preferential schemes, such as reservations or margins of preference.⁷¹

Through the way that public contracts are awarded, the procurement process can also contribute to social and environmental objectives such as sustainability, wellbeing and inclusivity. Procurement can also encourage innovation by providing industry with incentives for developing green products and services,⁷² whilst helping to meet inclusivity goals by alleviating the barriers to securing procurement contracts SMEs might face globally. There are opportunities to encourage this through trade policy.

Tensions are particularly apparent between trade liberalisation and health outcomes. Trade liberalisation can lead to economic growth, which can in turn improve health. In addition, international trade and the cross-border flow of goods, services and people that it supports play a key role in facilitating the global supply of essential products needed to protect health, which has played a significant role during the COVID-19 pandemic. This includes personal protective equipment, much of which is produced across a number of countries and for which trade is the means of ensuring global supply,⁷³ the global cooperation central to the development and production of vaccines and digital technologies for monitoring and responding to health outbreaks through the collection of data.⁷⁴

69 ILO, World Employment and Social Outlook: Trends for women 2017 (Geneva, 2017).

Available at: <http://www.ilo.org/global/research/global-reports/weso/trends-for-women2017/lang-en/index.htm>

70 WTO (accessed January 2021) General overview of WTO work on government procurement https://www.wto.org/english/tratop_e/gproc_e/overview_e.htm

71 International Trade Centre (2014) Empowering Women through Public Procurement <https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/Women%20procurement%20guide-final-web.pdf>

72 European Commission (2016) Buying Green: A handbook on green public procurement 3rd edition <https://ec.europa.eu/environment/gpp/pdf/Buying-Green-Handbook-3rd-Edition.pdf>

73 OECD Policy Responses to Coronavirus (2020) COVID-19 and International Trade – Issues and Actions <http://www.oecd.org/coronavirus/policy-responses/covid-19-and-international-trade-issues-and-actions-494da2fa/>

74 OECD (2020) Regulatory quality and COVID-19: Managing the risks and supporting the recovery <http://www.oecd.org/regreform/regulatory-policy/regulatory-quality-and-covid-19-managing-the-risks-and-supporting-the-recovery.pdf>

However there is evidence that trade policy and agreements can also exacerbate differential impacts between and within countries, which can in turn harm health outcomes.⁷⁵ A link can also be made between trade, nutrition and health. Trade decisions also have the potential to introduce enforced competition in public services, including in the NHS, which can undermine public health improvement policies, including free healthcare at the point of use.⁷⁶

Trade decisions can also extend the duration of the monopoly for new patented drugs and devices, and therefore the period during which their manufacturers can charge a premium, or which impose conditions on how governments set prices. This negatively impacts those of lower socio-economic status who cannot afford to pay a premium for products and offers poorer value for public money. However, intellectual property rights are also important for the healthcare sector. For example, when an NHS employee has an idea for an innovation, it often has a commercial implication. These companies help to establish a brand for their product or innovation, producing and marketing them across the wider healthcare world. A proportion of this revenue is invested back into the NHS, with the NHS employee typically obtaining a share of around 30%, determined locally by each health board. Over the past decade, around 1,200 ideas from those working for NHS Scotland have been commercialised and 7 NHS 'spin-out companies' have been created.

Scotland's response:

The NHS must be protected from enforced competition, or increases in drug costs, as a result of trade liberalisation.

Trade policy should always support our public service priorities.

Trade policy should support our ambitions to deliver a sustainable net zero economy.

In Scotland, there is a strong public and political consensus that free healthcare at the point of use (one of the NHS' core founding principles) is a core priority. The NHS should be protected from enforced competition. All trade negotiations should respect that – it is a red line.

The focus of Scotland's trade policy is not simply on the volume we export, or the level of choice available to consumers. Rather, the critical measure of our success will be how trade impacts on the wellbeing of our society. It is therefore essential to consider the impact trade has on public services which work to ensure this wellbeing. To achieve our aim of sustainable, inclusive economic growth, Scotland must acknowledge and balance the tensions between trade and public services in a way that facilitates opportunities for better service outcomes without sacrificing key public policy objectives.

75 S. Friel et al (2014) Trade Policy and Public Health
<https://www.annualreviews.org/doi/full/10.1146/annurev-publhealth-031914-122739>

76 The NHS in Scotland spent £1.8bn on drugs in 2017/18, 13.4% of its total budget. Terms of trade which increase the price paid for medicines or medical devices could significantly impact NHS finances.

Scotland faces real public health challenges, and has been a leader in taking public health action to address them, such as the ban on smoking in public places and the minimum unit price for alcohol. It is essential that Scotland's ability to set such policy objectives and legislate for the good health of the nation is not compromised by trade and investment policy decisions (including investment chapters within FTAs).⁷⁷ The health and wellbeing of Scotland's population and workforce must be central in line with regulating according to the precautionary principle.

The Scottish Government has concerns related to services provisions in FTAs which may affect our NHS and healthcare. Among our concerns are agreements' 'ratchet' clauses (removing the ability of a government to restore public control to private service delivery), 'standstill' clauses (cementing existing regulations and preventing the introduction of new ones, such as for professional qualifications or technical standards), and barriers to the expansion of public services in the future by requiring compensation for foreign commercial service providers and investors for loss of revenue.

Defending the NHS from privatisation is of particular concern in Scotland where, unlike in the NHS in England, there is no purchaser-provider split and the role of the market is significantly limited. Through its trade-related positions on procurement, in cases where trade negotiations go beyond the GPA, the Scottish Government opposes opening access to public health services. It is also essential for any future trade agreements that extend the scope of access for third countries to bid for public procurement opportunities in Scotland to be based on consent, ensuring the retention of Scottish Ministers' right to determine how services are delivered.

Scotland will however resist the introduction of protectionist measures which reduce access to products and services necessary for a global health recovery. Much of the health research sector is international in character, particularly in relation to commercially-funded activity. There should be no barriers to the import and export of investigational medicinal products.

Delivering a sustainable net zero economy is central to the Scottish Government's ambitions. Scottish procurement policy is targeted at balancing the delivery of inclusive, innovative and sustainable outcomes with achieving value for money helping us achieve our economic, climate and wellbeing objectives. However, we need a whole system approach to embedding green procurement to contribute towards our sustainability goals. Scotland's trade policy will be supportive of this procurement approach.

⁷⁷ For example, the Australian government's decision to introduce plain packaging for tobacco was challenged in court by the tobacco giant Philip Morris, using a clause in Australia's 1993 investment treaty with Hong Kong. Although the court ultimately found for the government, defending the case cost Australia nearly 40 million dollars.

Scottish Government levers:

1. Maintaining the right to regulate on public health, regulating in accordance with the precautionary principle to meet key priorities outcomes on health and social care and the protection of public health. It is essential that the risk of a “regulatory chill” effect on public health policies as a result of any trade agreements is avoided.
2. Exploring links between trade, health and nutrition.
3. Using Supply Chain Development Programmes to target existing and prospective suppliers based in Scotland to enhance participant companies’ fitness to compete for public contracts, helping to secure best value for taxpayers and help Scottish suppliers to grow and compete globally.
4. Supporting the increasing performance of Scotland’s NHS spin-out companies by working with them to ensure appropriate intellectual property protection for their patents is in place in agreements with overseas jurisdictions.
5. Working with life sciences and chemical sciences industries to promote the international mobility of personnel, whilst continuing efforts to attract overseas companies to bring their research to Scotland.
6. Reviewing progress in implementing the sustainable procurement duty across Scotland’s public sector and finding ways to accelerate the adoption of innovation and best practice across public sector buyers.
7. In partnership with the public sector, reviewing our strategic approach to procurement with the aim of closing the gap between social enterprises and private sector SMEs in terms of the number of contracts that they are successfully winning within Scotland’s public sector.

What Scottish Government calls on UK Government to do:

- Shield the NHS in Scotland from any risk of enforced privatisation, competition or fragmentation in trade agreements, either by design or due to a failure to identify unintended consequences.
- Be fully transparent with devolved administrations in the development of schedules of reservations in order to fully protect all public services.
- Do not grant extended patent terms in FTAs that push up costs, or constrain our ability to regulate prices.
- Seek market access that goes beyond the WTO General Procurement Agreement (GPA), whilst opposing opening access to public health services.
- FTAs should offer the opportunity to further develop Scotland’s strong life sciences and chemical sciences industries by, for example, lowering tariffs, improving regulatory cooperation, or promoting the international mobility of scientists and engineers in both the private and academic sectors.
- Exempt the NHS from the WTO Trade in Services Agreement.

3.2.4 Balancing cost, value and protections for consumers

How can Scotland balance priorities of choice and cost for consumers with high standards and protections?

Key issues:

Trade policy has traditionally focused on the interests of producers, however all consumers of goods and services are affected by trade policy and associated trade deals. Well-functioning markets should deliver choice, quality and value for consumers, which can be increased through trade liberalisation. Although open, competitive markets benefit businesses and the consumer, competition alone is not always sufficient to safeguard consumers. It can be at the expense of other consumer interests, such as the protection of consumer rights or environmental safeguards.

Trade liberalisation can benefit consumers by lowering prices, increasing quality and variety of goods and services. For example, while evidence suggests that the strongest impact of EU trade deals tends to be in raising the quality of goods, the 2019 Eurobarometer survey of Europeans' attitudes on trade and EU trade policy found that wider choice was the most popular reason given by UK respondents for why they feel they benefit from international trade. 49% gave this answer, with 30% citing cheaper imported goods. The percentage of UK respondents who feel that they benefit from international trade (66%) has risen significantly from the last study conducted in 2010 (50%).

Consumer priorities for trade deals go beyond price, quality and choice, as shown by recent research by the consumer body Which? as part of its National Trade Conversation, and also include maintaining standards, even if that results in less choice; maintaining data security regulations that protect consumer's data and digital rights; helping address regional inequalities across the UK and protecting the environment.⁷⁸

There is growing evidence that some short-term shifts in consumer behaviour as a result of COVID-19 may become permanent,⁷⁹ such as online purchasing of goods, increased support for local businesses,⁸⁰ more ethical purchases.⁸¹ This can also be an opportunity for Scottish exports, if consumers in other markets choose to purchase Scottish goods.

78 Which? Consumer Organisation (2020) National trade conversation: what really matters to consumers about future trade deals <https://action.which.co.uk/page/-/National%20Trade%20Conversation%20report%20-%20Which.pdf>

79 Ernst & Young (2020) Future consumer index: how COVID-19 is changing consumer behaviours https://www.ey.com/en_gl/consumer-products-retail/how-covid-19-could-change-consumer-behavior

80 YouGov (2020) Could COVID-19 ultimately save the high street? <https://yougov.co.uk/topics/consumer/articles-reports/2020/07/10/-covid-19-coronavirus-UK-high-street-local-effect>

81 Conscious Consumers Spending Index (2020) <https://www.goodmustgrow.com/ccsi> and New Food (2020) <https://www.newfoodmagazine.com/news/109732/covid-19-likely-to-prompt-era-of-ethical-consumption-survey-finds/>

Scotland's response:**Trade policy should protect, serve and empower consumers and support trends towards trade in ethical and sustainable goods.**

We believe that trade policy should protect, serve and empower consumers, as well as supporting producers. The two do not have to be, and should not be, mutually exclusive. An engaged and well-informed nation of consumers has the potential to push forward innovation, for example, to the benefit of producers. The interests of individuals as consumers should form an important part of our trade policy and be balanced against other interests. We will argue for a trade policy that contributes to these outcomes by facilitating trade in order to give consumers improved access to products and services and contributing to dynamic and efficient consumer markets. Across all goods and services sectors, consumer rights must be respected.

However goods standards – from food and pharmaceuticals to toys and medical devices – must not be compromised as a result of trade agreements. Similarly, regulatory frameworks for services should be proportionate and not discriminatory but affording market access should not lead to reduced regulatory standards.⁸²

We will argue for an approach to trade policy that: delivers consumer choice, quality and value in goods and services; facilitates trade in ethical and sustainable goods and services to meet consumer demands; protects consumers through rights frameworks, product standards, regulation and awareness raising of consumer rights; recognises the increasing importance of digital trade and the frameworks needed to protect consumers in a digital context; and ensures consumers have the necessary information to make informed choices.

We believe that one way to help consumers access the benefits of trade deals is shared consumer protection rules between trading partners. Consumer protection rules can help to coordinate action against dangerous goods, resolve contractual or purchase issues more quickly and cheaply, and both give consumers confidence in imports and uphold trust in Scottish exports.

⁸² UK Government Department for International Trade (August 2020) Public Attitudes to Trade Tracker Wave Two Report https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/908023/dit-patt-wave2-main-report.pdf?utm_source=POLITICO.EU&utm_campaign=bca06b1976-EMAIL_CAMPAIGN_2020_08_11_05_59&utm_medium=email&utm_term=0_10959edeb5-bca06b1976-190640272

Scottish Government levers:

1. Supporting labelling in favour of consumer identification of products with ethical credentials, such as Fair Trade labelling.⁸³ Similarly, the British Standards Institution are developing a committee, SDS/3⁸⁴, responsible for the preparation of national and international standards in the field of sustainable consumption and production. There is scope to consider the role the Scottish Government may play in supporting these standards, as a lever in supporting trends in trade in ethical and sustainable goods.
2. Building on the recent devolution of consumer advice, and the expected Autumn 2021 creation of Consumer Scotland⁸⁵ as a non-Ministerial body as to any work that may need to be done to understand the impacts of trade deals on the Scottish consumer.
3. Consulting and engaging consumers and undertaking research to draw on and develop existing consumer-related expertise in Scotland, including the possibility of engaging universities in consumer-related education and research. This may include carrying out research and engagement to understand consumer behaviour and purchasing trends, drawing on business and academic research and engaging with stakeholder organisations which represent and serve consumers, including Consumer Advice Scotland and the Competition and Markets Authority.
4. Examining ways in which we can better inform consumers about trade. This could be through consumer stakeholder groups, for example, or as part of wider trade policy campaigns. Educated consumers are more likely to make better-informed choices when it comes to what they want to purchase, where from, and what they want the government to prioritise when negotiating trade deals. Additionally, they can more accurately participate in consumer research related to international trade, thus strengthening the baseline data upon which we can form our trade policies and, ultimately, help consumers.
5. Continuing to engage internationally to highlight and contribute to best practice in consumer matters. This could be through organisations such as BEUC, the European Consumer Organisation,⁸⁶ for example. Seeking to participate in or learn from international trade initiatives which empower consumers by providing them with information that facilitates comparison between products and allows them to make informed choices.
6. Raising, questioning and debating the challenging trade-offs that we need to make to become sustainable consumers so we can support trade but also respect environmental limits. This will include continuing to prioritise Learning for Sustainability, so our young people mature into globally conscious and educated citizens.

83 ["...83% of people trust the FT Mark. In Scotland (2016 survey) 43% respondents indicated that they had purchased Fair Trade products in the past year, with over half of this group also indicating that they would be prepared to pay more for FT branded goods of the same quality, and 40% indicating that they would pay the same." Scottish Government (2020) What future for Fair Trade in Scotland? <https://www.gov.scot/binaries/content/documents/govscot/publications/independent-report/2020/02/2019-review-fair-trade-scotland/documents/future-fair-trade-scotland-final-report/future-fair-trade-scotland-final-report/govscot%3Adocument/future-fair-trade-scotland-final-report.pdf>

84 BSI (2020) Sustainable consumption and production <https://www.bsigroup.com/en-GB/sustainable-consumption-production/>

85 Consumer Scotland is a new non-Ministerial public body. Once established, it will act as the advocate for Scottish consumers. It will represent the voice of the consumer, providing clear information as to what the Scottish consumer deserves and expects.

86 <https://www.beuc.eu/>

What Scottish Government calls on UK Government to do:

- The voice and interests of consumers must be recognised in the UK's Trade Policy, with consumers consulted. Consumer interests should have a specific chapter in every FTA.
- Goods and services standards and regulations ensuring quality and safety for consumers must be ensured and must not be compromised in FTAs. A key aspect of this is ensuring the right to regulate is robustly enshrined in any investment protection provisions incorporated in FTAs or Bilateral Investment Treaties.
- Trade Agreement Impact Assessments should systematically consider consumers, taking into account regionality, socio-economic status, gender, and ethnicity, amongst other factors.
- Include labour standards and protection of other human rights, alongside environmental obligations in international agreements to give consumers greater guarantees that overseas products are produced in ethical and sustainable conditions.
- Reduce tariffs and other barriers to trade to facilitate trade for socially and environmentally responsible businesses to allow them to compete more effectively on price, widening the ethical choices available to consumers who are subject to greater cost constraints.



3.3 Planet

As a good global citizen Scotland seeks to contribute to addressing global challenges, such as tackling the climate and nature crises, reducing global inequalities and building international cooperation. We have identified four key trade-related questions that we see as central to ensuring trade policy contributes to this aim:

1. In the context of the global climate and nature crises and a green recovery, how can Scotland support the coherence between trade, climate targets and improving environmental sustainability?

- Trade should be used as a lever to increase progress towards net zero targets and improve our international environmental impact.
- Scotland will develop its competitive advantage in areas with positive environmental and economic impact.
- Scotland's trade support is provided to businesses who align with our climate priorities.

2. Trade has differential impacts globally – with implications for developing countries, how can Scotland be part of the solution?

- Recognising that there are global winners and losers from trade, Scotland supports positive terms of trade for developing countries.

3. What aspirations does Scotland have for the multilateral trading system and dispute settlement in the face of exacerbating global tensions?

- Scotland sees it as a priority for the WTO to be strengthened, reformed and enhanced.

4. How will Scotland conduct itself as a trading partner, in the context of a challenging trade environment and rising transnational challenges?

- Scotland will use trade to project its principles internationally.
- Scotland will operate as a good global citizen and trading partner, respecting international law, supporting human rights and seeking to build global relationships on trade.

3.3.1 Climate, nature and trade

In the context of the **global climate and nature crises** and a green recovery, how can Scotland support the coherence between trade, climate targets and improving environmental sustainability?

Key issues:

Often the global trade regime does not operate in synergy with climate and biodiversity policies and there is a need to ensure that these interests complement each other. The WTO's rules aim to maintain and promote free trade, through the removal of tariff and non-tariff barriers, and setting the rules on trade distorting measures such as subsidies. While these rules can facilitate trade in environmental goods and services, they can also make it more complicated to introduce new environmental policies. Members can adopt environmental policies that contribute positively to the environment but could restrict trade, but these can be challenged by other WTO members to ensure they are not protectionism in disguise.⁸⁷ Although the WTO considers that this has increased the coherence and effectiveness of new environmental policies,⁸⁸ there are concerns that the global trade regime could limit future climate action,⁸⁹ as reaching net zero commitments requires shifts in how different sectors of the economy are supported and promoted. For example, disincentivising fossil fuel industries and incentivising environmentally-friendly sectors.

There is a continued question of wider coherence between trade and Multilateral Environmental Agreements (MEAs), for example **there are no specific references to international trade within the Paris Agreement**. In the absence of global solutions, like-minded countries have opted to pursue plurilateral approaches, for example the Agreement on Climate Change, Trade and Sustainability (ACCTS) between New Zealand, Costa Rica, Fiji, Iceland, Norway and Switzerland. One issue under consideration through ACCTS is the phasing out of fossil fuel subsidies.

International trade is also associated with impacts on biodiversity and the natural environment in countries that produce commodities we consume in Scotland. For example, international trade is a key driver of deforestation.⁹⁰

Free Trade Agreements can negatively impact net zero commitments, but also offer opportunities to create coherence between trade and climate action. There is a risk that FTAs increase trade in carbon intensive industries and have an impact on indirect-land use change (ILUC), but they can also promote and facilitate the trade in environmental goods and services. There is wide variation in how ambitious and robust climate provisions are in agreements worldwide. However, the practice of using the 'precedence principle', i.e. copying and pasting text from previous FTAs, can limit the scope for including new and innovative mechanisms related to climate, or other emerging threats. This was a particular issue in the UK Government's recent rollover of EU agreements with 3rd countries.⁹¹

87 World Trade Organization (2020) Short answers to Big Questions on the WTO and the environment [envirqpublication_e.pdf \(wto.org\)](#)

88 Ibid.

89 New Zealand Trade for All Advisory Board (2019) Final Report [FINAL-with-cover-Trade-for-All-report.pdf \(tradeforalladvisoryboard.org.nz\)](#)

90 F.Pendrill et. Al (2020) Agricultural and forestry trade drives large share of tropical deforestation emissions <https://www.sciencedirect.com/science/article/pii/S0959378018314365>

91 UK Trade Policy Observatory (2020) Can the UK Government be 'world-leading' in both trade and climate policy? <https://blogs.sussex.ac.uk/uktpo/publications/can-the-uk-government-be-world-leading-in-both-trade-and-climate-policy/>

There is a complex interaction between emissions, the environment and trade. Local production does not always mean more environmentally friendly production. A range of factors contribute to the environmental impact of goods at every stage of their life cycle, not just the number of times that a product crosses a border; including design, production methods, trade logistics, connections with other supply chains, and their environmental sustainability.

However, the links between trade, transportation and emissions are still important, with trade in goods often involving more than one mode of transport. Seaborne trade represents the majority of movement. However, the use of air transport is increasing at twice the rate of other modes.⁹² While maritime shipping is more efficient than other modes of transport, it is still a major producer of emissions.⁹³ Research undertaken by the Global Maritime Forum reveals that if maritime shipping were a country it would be the world's sixth biggest greenhouse gas emitter.⁹⁴ It is estimated that as global trade increases, emissions from shipping could grow between 50% and 250% by 2050 if no action is taken.⁹⁵

Trade can result in carbon leakage, if differences in domestic climate regulation reduce competitiveness. 'Carbon leakage' occurs when costs of complying with domestic climate regulation leads businesses to transfer activity to other countries with lower climate regulation. As emissions are calculated on the basis of production, rather than consumption, offshoring production reduces emissions domestically but does not reduce global emissions, so policy solutions are sought that allow net zero targets to be met without negatively impacting competitiveness for internationally traded commodities. In the EU the main mechanism to protect against carbon leakage is free allocation of allowances to sectors at risk, thereby reducing their cost under the EU Emissions Trading Scheme (ETS). Since leaving the EU, the UK has established a UK ETS to maintain carbon pricing, which initially mirrors the EU ETS to provide a smooth transition. The EU is due to consider further measures to protect against carbon leakage in the summer of 2021, with proposals for a Carbon Border Adjustment mechanism (CBAM) on imports from countries without equivalent carbon pricing regime to the EU ETS. This could take the form of an import tariff or the extension of the EU ETS to imports, in both cases meaning the carbon embedded in imports is subject to the same price as domestic production, thereby reducing carbon leakage risk and protecting competitiveness.

92 Excluding intra-EU trade, the United Nations Conference on Trade and Development (UNCTAD) (2007) reported that, in 2006, seaborne cargo accounted for 89.6 per cent of world trade transport by volume and seaborne trade made up 70.1 per cent of global trade transport by value. Meanwhile, airborne cargo accounted for 14.1 per cent https://www.wto.org/english/res_e/booksp_e/trade_climate_change_e.pdf.

93 WTO-UNEP Report (2009) Trade and Climate Change https://www.wto.org/english/res_e/booksp_e/trade_climate_change_e.pdf

94 Global Maritime Forum (2020) Getting to Zero Coalition <https://www.globalmaritimeforum.org/getting-to-zero-coalition/>

95 World Economic Forum (2020) How decarbonizing shipping could unlock a global energy transition <https://www.weforum.org/agenda/2020/01/decarbonizing-shipping-global-energy-transition/>

Scotland's response:

Trade should be used as a lever to increase progress towards net zero targets and improve our international environmental impact.

Scotland will develop its competitive advantage in areas with positive environmental and economic impact.

Scotland's trade support is provided to businesses who align with our climate priorities.

The Scottish Government supports moves to reform the global trading system to create more synergy between trade and climate policy, and welcomes the UK's membership of the Friends of Advancing Sustainable Trade (FAST) group at the WTO. We are keen to explore new, innovative trade and climate agreements, such as the Agreement on Climate Change, Trade and Sustainability (ACCTS).

FTAs provide preferential access to Scotland's markets and therefore should be reserved for countries who are willing to make certain environmental commitments.⁹⁶ Recognising there have been varying degrees of success in enforcing previous EU FTAs in these areas, the Scottish Government supports stronger enforcement measures for environmental commitments.

Scotland could be particularly susceptible to carbon leakage as we take steps to reach net zero by 2045, ahead of the UK (and the EU). The Scottish Government welcomes measures that incentivise low-carbon production internationally and that ensure a level playing field for Scottish Energy Intensive Industries that are decarbonising towards net zero. The Scottish Government is working with the UK Government and the other devolved administrations to implement a UK Emissions Trading Scheme (UK ETS), to maintain carbon pricing after leaving the EU ETS. We continue to press the UK Government to reach an agreement with the EU to link the respective Emissions Trading Schemes – as this will ensure a level playing field across the EU and UK, and allow Scottish Energy Intensive Industries continued access to a larger carbon market for cost effective decarbonisation. We will also continue to press the UK Government to ensure that the UK ETS continues to meet the same minimum standards as the EU ETS, to reduce the risk of carbon leakage and any repercussions of divergent standards. The Scottish Government will fully assess any future EU Carbon Border Adjustment Mechanism proposal, its implications for the UK ETS and Scottish Energy Intensive Industries, and consider that any mechanism must be fair, open and transparent in how carbon content is calculated.

We acknowledge that freight emissions have a climate impact. For this reason Scotland included aviation and shipping in our net zero emissions targets from the outset. We welcome the commitment from the UK Government, who did not originally include emissions from aviation and shipping in their climate legislation, to now make moves to incorporate them in future targets. However, we note with disappointment that the UK's Nationally Determined Contributions (NDCs) target will not include these emissions.

⁹⁶ Non paper of the EU Commission services (2018) Feedback and way forward on improving the implementation and enforcement of Trade and Sustainable Development chapters in EU Free Trade Agreements
https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf

Our approach to trade should also aim to support a shift towards environmentally sustainable consumption and production. This will help to achieve our Environment Strategy's ambition of ensuring that Scotland's international impact is sustainable. Scotland's new Environment Strategy includes a strategic outcome on improving the sustainability of our international footprint, as part of our good global citizenship. International trade will be a key lever influencing the delivery of this outcome.

Scottish Government levers:

1. Engaging with the UK Government and International partners on the issue of Fossil Fuel Subsidy Reform (FFSR), recognising the need for increased transparency and reporting of these subsidies. Engaging with key energy sector and supply chain stakeholders, and responding to the UK Government on its consultation on overseas fossil fuel projects with the aim of ensuring a competitive domestic energy supply chain is maintained, and appropriate consideration is given to delivering a Just Transition.
2. Continuing to actively work with the oil and gas industry, to promote the energy transition. The sector is a significant part of the Scottish economy and has a crucial role to play in the energy transition. In line with our Programme for Government commitment, we will ensure that our trade support for the Oil and Gas sector will be conditional on the support assisting the sustainable energy transition and will end all Scottish Government overseas trade support and promotion activities solely focused on fossil fuel goods and services by COP26. In implementing this, we will work with industry and consider the outcome of the UK Government consultation.
3. Working towards reducing emissions in the freight sector, in line with the National Transport Strategy (NTS2), we will work with the industry to understand the most efficient methods and remove the need for new petrol and diesel heavy vehicles by 2035.
4. Building coherence between our climate, environment and trade policies. For example, our Climate Change Plan Update further demonstrates our commitment to reaching net zero by 2045, and sets out our policy pathway to 2032, including references to trade.
5. Working (with the UK Government and the other devolved administrations) to ensure that the jointly established UK ETS drives decarbonisation without carbon leakage.
6. Identifying green technology transfer opportunities with developing countries.
7. Global interest in the area of hydrogen is rapidly growing and our Hydrogen Policy Statement sets the potential for Scotland to produce large scale green hydrogen for export and for this to be a feature of our energy landscape in the future. There are potential levers within these plans to enhance the coherence of climate and trade, such as through actively seeking international collaboration in the development of our shared hydrogen economy and to fully explore our hydrogen export potential.

What Scottish Government calls on UK Government to do:

- Actively support coherence of the climate and trade regimes at a multilateral level, and play an active role on Trade and Environment within the WTO.
- Join the ACCTS negotiations before the next round.
- Ensure that all FTAs link trade and climate change through the following actions:
 - Compliance with the Paris Agreement should be a ‘red line’.
 - Net zero and environmental commitments should be at the forefront of ex-ante impact assessment, including emissions and indirect land-use change (ILUC), for instance deforestation, and this text (including wider environmental and social chapters) should be subject to formal dispute resolution.
 - Innovative and robust text on the environment should be included.
 - Liberalisation of the trade of environmental goods and services should be a key offensive interest.
 - Flexibilities should be provided to Least Developed Countries in line with the Paris Agreement.
- UK Tariff structures should aim to support and further facilitate trade in environmental goods and incentivise greener production mechanisms and materials, to reduce non-recyclable waste in consumer goods and progress towards a global circular economy.
- Reach an agreement with the EU as soon as possible to link the UK ETS to the EU ETS, to maintain a level playing field for Energy Intensive Industries across both regimes, secure access to a larger carbon market to provide cost effective decarbonisation, and ensure protections are in place against carbon leakage.
- Ensure market access and reduce barriers to environmental services by promoting regulatory cooperation and increased transparency.
- Publish data on how its trade support drives the sustainable energy transition.

3.3.2 International development and trade

Trade has differential impacts globally – with implications for **developing countries**, how can Scotland be part of the solution?

Key issues:

There is an **integral link between trade and international development**: in 2018 developing economies' trade, for the first time, exceeded US\$10 trillion, an increase of almost 15 per cent since 2015.⁹⁷ Trade can be mutually beneficial to both developed and developing countries and the role of global trade is recognised as contributing to the global Sustainable Development Goals (SDGs) (target 8). Trade provides jobs, revenue streams, and access to new and evolving technology. It can reduce prices on essential items, such as food, and increase access to medicines. Mechanisms exist within the global trading system to allow developing countries “special and differential treatment”. Under WTO rules, members can offer non-reciprocal tariff and quota free access to developing countries through the Generalised Scheme of Preferences (GSP). The worldwide Fairtrade movement also promotes fair and sustainable trade with developing nations at its centre and supports access to markets for small and marginalised producers.

Components of trade policies however currently can and do undermine economic and social development in developing countries: As we have previously highlighted, removing trade barriers creates winners and losers within and between countries, and this is especially true in developing countries, where tariffs can play an important role in raising revenue, and protecting nascent industries from increased foreign competition. Access to foods and medicines can be restricted through IP provisions that limit the ability to use TRIPS flexibilities. Developing nations, especially, the Least Developed Countries (LDCs),⁹⁸ continue to face many barriers to international trade. These include tariff escalation – processed goods face higher tariffs than raw materials – making it more difficult to keep the value added processing within the LDC. Other barriers include tariffs, quotas and trade-distorting subsidies in developed nations. The highest trade barriers are frequently against imports made predominantly in developing economies – such as agricultural goods, textiles, and footwear.

COVID-19 trade-related disruptions will also have profound implications for the most vulnerable economies, including developing economies and LDCs⁹⁹ which are facing substantial financial and humanitarian distress as commodity prices rise and export earnings fall, foreign investors retreat and remittances from overseas workers decline. WTO analysis shows a stark decline in the value of LDC merchandise and services export value this year.¹⁰⁰ For example, in two of the Scottish Government's International Development partner countries, Zambia and Malawi, this translates to a reduction in value of exports from January to June 2020 of 35% and 22% respectively.¹⁰¹

97 UNCTAD (2020) International Trade in Developing Economies <https://sdgpulse.unctad.org/trade-developing-economies/>

98 United Nations Committee for Development Policy (2020) List of Least Developed Countries https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc_list.pdf

99 UNCTAD (2020) International Trade in Developing Economies <https://sdgpulse.unctad.org/trade-developing-economies/>

100 World Trade Organization Sub Committee on Least Developed Countries (2020) Market access for products and services of export interest to Least Developed Countries

<https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:WT/COMTD/LDCW68.pdf&Open=True>

101 Ibid.

Scotland's response:**Scotland supports positive terms of trade for developing countries.**

The Scottish Government is strongly committed to Policy Coherence for Sustainable Development (PCSD) and a Beyond Aid Agenda, considering key global factors such as trade. Scotland's National Performance Framework (NPF) sets out what outcomes we want to achieve for Scotland, with a framework to measure our progress towards them. These outcomes share the same aims as the Sustainable Development Goals. In November 2020 we added a new indicator, 'Contribution of Development Support to Other Nations', that will measure some trade and development relevant variables including the value of agricultural subsidies and value of goods imported from Official Development Assistance (ODA) countries.¹⁰²

Our International Development Fund (IDF) is a mechanism that has been used to increase the capacity of developing nations to trade, either through funding or by technology and knowledge transfer. Scotland was officially designated as a Fair Trade Nation in 2013 and the Fair Trade market was valued at £68m in Scotland in 2018.¹⁰³

As we leave the EU it is also imperative that developing countries are not negatively impacted. Without coherence of trade and development policy, there is the risk that whenever the UK lowers tariffs, either unilaterally or through trade agreements, developing country preferences are eroded. Recent analysis shows that the UK Global Tariff (UKGT), which has applied to goods imported into the UK from 1 January 2021, will lead to a reduced 'preference margin' for GSP recipients.¹⁰⁴ There is the potential that new UK trade agreements have a similar impact.

Scottish Government levers:

1. Contributing to a healthy trade environment and market development for developing countries.
2. Exploring all actions we can take to further help producers in our partner countries grow exports, particularly to Scotland, and realise investment opportunities.
3. Continuing to support and promote Fair Trade in Scotland.

¹⁰² Scottish Government (2020) National Performance Framework
<https://nationalperformance.gov.scot/contribution-development-support-other-nations>

¹⁰³ Scottish Government (2020) Fair Trade in Scotland: review
<https://www.gov.scot/publications/2019-review-fair-trade-scotland/pages/5/>

¹⁰⁴ Center for Global Development (October 2020) Policy Paper 187: Developing country trade access after Brexit – the UK's plans for the Generalized System of Preferences <https://www.cgdev.org/sites/default/files/developing-country-trade-access-after-brex-it-uks-plans-generalized-system-preferences.pdf>

What Scottish Government calls on UK Government to do:

- When the UK Government liberalises tariffs, unilaterally or through a FTA, the impact on developing countries must be assessed and published. Degradation of developing country preferences and margins should be avoided.
- Use its position in multilateral fora to advance the interests of developing countries, and protect against moves to restrict or limit their preferential rights.
- Impact assess and explore how UK GSP can be improved including through the widening of the list of qualifying products in the General and Enhanced Framework, and level of tariff reduction in the General Framework. Also impact assess and explore the relaxation of the Rules of Origin, increasing cumulation, and other methods of increasing regional value added production.
- Use its voice at the WTO to promote and protect developing country rights to use flexibilities granted under WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS), and avoid IP conditions in any agreement that would limit the use of these flexibilities, food production, access to medicines, treatments, and data sharing for the purposes of public health, including in response to COVID.
- Assess the effectiveness of rolled over Economic Partnership Agreements (EPAs), originally agreed between the EU and African, Caribbean and Pacific countries and regions, in facilitating trade, and their impact on partners' economies, public services and integration in regional supply chains.

3.3.3 Multilateral trading system and dispute settlement

What aspirations does Scotland have for the **multilateral trading system** and **dispute settlement** in the face of exacerbating global tensions?

Key issues:

The WTO and rules-based multilateral system are being challenged by global trade tensions, economic fragmentation and a resurgence in bilateral agreements. The current round, the Doha Round, commenced in 2001 and is still going. Members are increasingly turning to bilateral or regional Free Trade Agreements to advance trade liberalisation goals. Trade tensions and disputes, particularly between the United States, China and the EU, have contributed to the slowdown in world trade and threaten the underpinnings of the multilateral system.

The settlement of trade disputes at the WTO is a key strand of work carried out by the World Trade Organization (WTO).¹⁰⁵ The dispute settlement system provides for resolution of disputes through an independent ruling which, if not implemented, could result in countermeasures. A core element of the dispute settlement system is the Appellate Body, a permanent group of seven judges, each appointed for a 4 year term (with the opportunity of re-appointment for one further term) by WTO Member consensus. Since December 2019, consensus has not been reached to appoint new judges, leaving the Appellate Body non-operational. One of the first tasks of the new WTO Director General will be negotiating a longer-term solution to the Appellate Body crisis, alongside wider reforms. The plurilateral Ottawa Group of WTO Members are seeking to reform the WTO and a smaller group have reached a temporary accord – the ‘Multi-Party Interim Appeal Arbitration Arrangement’ (MPIA) – to enable appeals within the existing WTO framework and thereby preserving binding WTO dispute settlement between MPIA parties.

Trade and environment at the WTO plays a central role both as a vehicle for promoting the trade of environmental goods and services, as well as arbitrating on disputes in relation to ‘green subsidies’. The WTO dispute settlement system has decided on cases that relate to domestic climate policies with trade implications and has previously put trade interests above environmental and social policy objectives. Progress towards the Environmental Goods Agreement, which aims to remove tariff and non-tariff barriers that limit the trade of ‘green’ goods, stalled in 2016.

Dispute settlement is also included in Free Trade Agreements, including elements of compliance and enforcement. The EU includes sustainable development provisions in FTAs, including climate, which are not subject to formal dispute resolution, though there are indications this could change in future agreements.¹⁰⁶ The United States applies formal dispute resolution to environmental and labour chapters, but does not include climate.

¹⁰⁵ World Trade Organization (2017) Introduction to the WTO dispute settlement system https://www.wto.org/english/tratop_e/dispu_e/disp_settlement_cbt_e/c1s2p1_e.htm

¹⁰⁶ Non paper of the EU Commission services (2018) Feedback and way forward on improving the implementation and enforcement of Trade and Sustainable Development chapters in EU Free Trade Agreements https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf

Scotland's response:**Scotland sees it as a priority for the WTO to be strengthened, reformed and enhanced.**

Scotland is a supporter of the WTO, including the principle of a strong dispute settlement system which ensures that the negotiated multilateral agreements are respected. We support the UKG's participation in efforts to resolve the current Appellate Body impasse to allow an effective dispute settlement system to be restored.

The Scottish Government is already engaging with the WTO. This includes the network of Committees, ensuring that our obligations are complied with and that our contributions, when made, are taken into account. However, we do believe that Scotland can have a stronger role at the WTO.

Although separate from trade disputes, investment dispute settlement mechanisms, including Investor-State Dispute Settlement or ISDS, are often included in trade agreements. No future Investor-State Dispute Settlement (ISDS) system should prevent the UK and Scotland from making laws on health, social, environmental and economic matters. Any future ISDS system should be transparent, based on judicial procedures, and permit meaningful representations by all parties with a potential stake in the matter.

Scottish Government levers:

1. Continuing to use WTO Committees to uphold the rules-based system from the bottom up by engaging in the committee structure; promoting and raising issues which affect market access for Scottish traders (e.g. at the Committee on Market Access); and providing necessary notifications (e.g. on TBT). We will also look to work further with the UK Government to make sure our position is represented in UK submissions.
2. Ensuring Scottish participation at future WTO Ministerial Conferences, alongside that of the wider UK Government.
3. Supporting the UK to play an active role on Trade and Environment within the WTO, including through initiatives to promote the trade in Environmental Goods and strengthen the coherence of multilateral climate and trade regimes (so that the two are able to complement each other).

What Scottish Government calls on UK Government to do:**WTO:**

- Involve the Scottish Government in UK WTO delegations (e.g. where matters falling in devolved policy areas are in question).
- Engage with the Scottish Government on any specific trade concerns raised at the WTO that relate to, impact on, or are otherwise relevant to Scotland.
- Work with other WTO members to remove barriers and increase opportunities for Scottish services providers, building on the Joint Initiative on Services Domestic Regulation.
- Play an active role on Trade and Environment within the WTO, including through initiatives to promote the trade in Environmental Goods and strengthen the coherence of multilateral climate and trade regimes (so that the two are able to complement each other).

WTO Appellate Body reform:

- As a distinct member of the WTO, develop positioning regarding the functioning of the WTO dispute settlement system (including proposals for reform) as part of its overall working relationship with the WTO. This should involve meaningful and substantive engagement with the Scottish Government.
- Ensure the Scottish Government is given a meaningful and substantive role in the preparation and conduct of disputes to which the UK is a party, where the matters in dispute are ones that engage with or impact on or threaten Scottish interests (or are otherwise relevant to Scotland).
- Actively participate in seeking a resolution to the Appellate Body situation.
- Join the 'Multi-party interim appeal arbitration arrangement' (MPIA).

FTA dispute settlement

- All FTA dispute settlement mechanisms should meet the following standards: be fit for purpose; have an open and transparent process, with appropriate information being made publicly available; and be enforceable, as far as possible.
- Dispute settlement mechanisms in each FTA should cover the climate, environment and sustainability provisions.

ISDS:

- Recognising widespread concerns expressed about the current ISDS system, including from civil society and the EU, the UK should reject the classic private arbitration model of ISDS, and actively contribute to the development of international best practice and the consideration of alternative models of dispute resolution. This will ensure the interests of all stakeholders, including investors, are recognised and taken into account, and maintains consistency with international partners including the EU and other like-minded countries.

3.3.4 Projecting our principles internationally: Scotland's role as a trading partner

How will Scotland distinguish itself as a trading partner, in the context of a challenging trade environment and rising transnational challenges?

There are a range of ways that countries have chosen to operate within the international trading environment, which have enhanced or reduced the strength of global governance structures. Some have set out polarised positions on trade and have moved away from building relationships, resulting in increased trade tensions. This has created challenges for the multilateral trading system (as addressed above), but has also more widely affected how countries cooperate and the relationships between countries. However, others have taken the approach of investing in global cooperation and governance, for example using soft power mechanisms such as international networks to set out shared policy commitments with like-minded countries. This can build relationships in a way that supports a positive trading environment, allowing nations to feel confident that trading partners will deliver on the commitments made to one another in good faith.

Building trust and strong international relationships has a direct positive economic effect on trade. Whilst international law supports the governance of international trade, it is still reliant on countries continuing to follow a set of rules, norms, and standards in good faith. The British Council's analysis, "The Value of Trust"¹⁰⁷ states that openness, contribution to international development, and cooperation are the strongest drivers of trust, and those states which hold the values of free, open, diverse, democratic societies are the most attractive and trusted. The development of such trust has a direct and positive economic effect on trade. Evidence¹⁰⁸ shows strong links between the levels of mutual trust between the populations of two countries and levels of trade. A one per cent increase in mutual trust correlates with increases in exports of 0.6 per cent and increases in the stock of foreign direct investment of three per cent. This is based theoretically on the idea that high-trust relationships have lower transaction costs, and lower transaction costs stimulate investment, production and trade, which in turn lead to economic growth.

To maintain this trust, countries must uphold their values within their trade policies to address transnational challenges. Sweden has operated a Feminist Foreign Policy since 2014, as part of which it supported better integration of gender equality in EU trade policy, gender mainstreaming in the work of the WTO and in EU FTAs with third countries. Sweden also worked to increase awareness of the impact trade policy decisions have on women and men and funded the UN Conference on Trade and Development to produce a toolbox for the ex-ante gender assessment of trade measures.

¹⁰⁷ British Council (2018) The Value of Trust https://www.britishcouncil.org/sites/default/files/the_value_of_trust.pdf

¹⁰⁸ Dekker et al. (2007) Diverse Europe – Public opinion on the European Union <https://www.scp.nl/dsresource?objectid=dc8589a6-b1e3-4fd3-a473-62098c7a55ca>

This is important as economic empowerment of women has been widely recognised as a key driver of gender equality and sustainable growth and achieving this empowerment is a transnational challenge.¹⁰⁹ Trade policy, when developed through a gender-focused lens, can increase better quality employment opportunities. Women still account for a large part of vulnerable and informal employment (ILO 2018).¹¹⁰ Globally, women also undertake more than 76% of the world's unpaid care work.¹¹¹ Where trade does create opportunities for employment for women, their total workload may increase if the time needed for their unpaid care and domestic work remains the same.¹¹²

New Zealand has also used its trade policy to support wider climate ambitions. Its Trade for All Advisory Board sets out recommendations on taking active leadership internationally on trade and environment.¹¹³ The report sets out how their environmental work in the WTO and Agreement on Climate Change, Trade and Sustainability (ACCTS) reflects New Zealand's long-standing trade policy objectives, such as pursuing an Environmental Goods Agreement at the WTO, which seeks to remove trade barriers to facilitate the free flow of 'green goods'. They have also opposed subsidies for agriculture, fossil fuels and fisheries, whilst setting out an aim to taking positions in the Committee on Trade and Environment that reflect the significance and urgency of climate change.

Human rights are a central consideration in relation to trade policy.

International trade and the relationships built with trading partners around the world contribute directly to shaping the wider global environment in which any country seeks to prosper. To deliver a secure and successful economic future for domestic business and wider society, countries are required to step up to their wider responsibilities as a participant in international markets. It is incumbent on governments and businesses to demonstrate leadership in responding to human rights challenges.

Many of our closest European neighbours have well-established policies which directly address the importance of human rights and equality as integral components of their own approach to international trade. This includes the development of national action plans on business and human rights, and robust controls which help to prevent abuses such as modern slavery. In doing so, they recognise that international markets are interconnected in a way that means human rights violations elsewhere in the world must also be a domestic concern.

A central issue within international trade is the provision and sale of arms to countries with poor human rights records. Multilaterally, efforts have been made to prohibit the sale or transfer of weapons where it is known they will be used for genocide, crimes against humanity, or war crimes. The Arms Trade Treaty – to which the UK is signatory – is a global treaty introduced in 2014, which seeks to reduce the sale in conventional arms through measures such as annual reporting and assessment of end user, reducing human suffering, and promoting accountability and transparency.

109 OECD Library (2019) Aid for Trade at a Glance [18ea27d8-en.pdf \(oecd-ilibrary.org\)](#)

110 [World Employment and Social Outlook – Trends for Women 2018 – Global snapshot \(ilo.org\)](#)

111 ActionAid Policy Briefing (2018) From Rhetoric to Rights: Towards Gender-Just Trade [from_rhetoric_to_rights_towards_gender-just_trade_actionaid_policy_briefing.pdf](#)

112 OECD Library (2019) Aid for Trade at a Glance [18ea27d8-en.pdf \(oecd-ilibrary.org\)](#)

113 New Zealand Trade for All Advisory Board (2019) Final Report [FINAL-with-cover-Trade-for-All-report.pdf \(tradeforalladvisoryboard.org.nz\)](#)

The EU Common Position on Arms Exports also aims to aid Member States in making decisions on the export of arms, promoting transparency in decision making and defining common rules governing the control of exports of military technology and equipment.

The UN Guiding Principles on Business and Human Rights (UNGPs) also stipulate that companies must assess and address human rights risks and abuses arising in all aspects of their business, including how clients such as national armies and police forces use their weaponry and related services.

Whilst critics argue that such multilateral efforts do not go far enough to address arms regulation at a domestic level, where trade in arms is most often regulated, and cannot be sufficiently enforced, these agreements can restrict arms supplies and signal international disapproval, condemning human-rights abuses or violations of international humanitarian law. They can also bring international focus and pressure on the offending party to prevent them committing grave human rights violations.

Another prominent issue for human rights and international trade is addressing the risk of forced labour in international supply chains. A report on the Global Estimates of Modern Slavery stated that on any given day in 2016, 24.9 million people were in forced labour.¹¹⁴ In many cases, the goods and services produced as a result of such labour have entered into seemingly legitimate commercial channels. Given the global and cross-border dimensions of modern slavery and forced labour, it is essential for governments to look at expectations of international partners and of business and engage in coordinated international action to address this risk. Such measures include those taken or under consideration internationally to address the issue of forced labour in Xinjiang, China, including import bans, due diligence and other measures.¹¹⁵

Trading arrangements can be used to improve human rights standards and protections through shared policy commitments and by holding governments to account in relation to international obligations. An example of this is the EU's Generalised System of Preferences (GSP) – a tool to protect human rights and labour rights in non-EU countries. This scheme grants 90 developing countries preferential trade access to the EU market. However, this depends on them respecting human rights. Access can be withdrawn when systematic violations occur.¹¹⁶

114 International Labour Organisation (2017) 'Global Estimates of Modern Slavery',

https://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms_575540.pdf

115 Canada and the US have imposed import bans on goods produced with forced labour, whilst France has introduced legislation which requires due diligence from companies on forced labour. Germany and the EU are considering similar measures. Most recently, the UK announced a series of measures to ensure UK businesses and the public sector are not complicit in these human rights violations.

116 EU Parliament News (2019) Globalisation: how EU trade policy helps promote human rights <https://www.europarl.europa.eu/news/en/headlines/economy/20190612STO54309/globalisation-how-eu-trade-policy-helps-promote-human-rights>].

While the primary motivation in addressing human rights within trade policy is moral and ethical, disregard for human rights in trade policy also enables unfair competition and there is an economic interest in ensuring internationally-agreed standards are met and maintained. For example, goods produced in a country where production costs can be externalised by underpaying workers or threatening trade union organisers creates unscrupulous competition, while also causing international harm and transferring the cost of production to the most vulnerable. Trade measures also have the potential to be used to tackle human rights challenges such as by viewing forced labour, or appropriation of other resources contrary to international law as an illegal government labour subsidy to exporters, meaning products are produced at “less than fair value” (LTFV). If viewed in this way, it would mean forced labour products exports are classified as unfair competition, and therefore liable for anti-dumping or countervailing measures.

Policy Coherence for Sustainable Development (PCSD) also provides a guide for how trade can have a positive impact on sustainable development globally. The global landscape is becoming increasingly interconnected, especially in the context of international trade. We must be aware of the potential impact trade policy can have on other countries, as well as shared global spaces and resources such as the climate or oceans. PCSD is an approach and policy tool to integrate the economic, social, environmental and governance dimensions of sustainable development at all stages of domestic and international policy making.¹¹⁷

Scotland’s response:

Scotland will use trade to project its principles internationally.

Scotland will operate as a good global citizen and trading partner, respecting international law, supporting human rights and seeking to build global relationships on trade.

All international trading partners must comply with fundamental human rights law.

The way we trade and conduct ourselves internationally tells us a lot about who we are as a country. Scotland will use trade to project our principles internationally. Scotland is also committed to the rules-based international system, and seeks to be a responsible and transparent trading nation.

Scotland can be a good global citizen at the same time as we promote our exports and work towards wider national priorities like protecting the environment or fair work for everyone. This is why Scotland favours commitments in trade negotiations that support our trade in high quality goods and services produced fairly and that are aligned with social and environmental priorities. The Scottish Government’s view is that any future trade agreement should allow Scotland to continue to act as a world leader, in its capacity as a good global citizen.

Scotland's great cultural and educational assets, including our Festivals and Universities, have strong international links which lend them themselves to providing opportunities and bridges with other governments and institutions on the global to build relations and cooperation which can aid trade developments.

Scotland also recognises the important role played by social enterprises in strengthening our links with the international community as a potential source of international trade; in supporting Scotland as an international destination; and in developing Scotland's reputation as a good global citizen.

In projecting its trade principles internationally Scotland has a strong and enduring commitment to securing and supporting democracy, the rule of law and human rights in other parts the world. The Scottish Government is committed to an inclusive Scotland that protects, respects, promotes and implements internationally recognised human rights, including economic, social, cultural and environmental rights.

Scotland is committed to delivering on the UN Sustainable Development Goals (SDGs), not just as a nation but as a partner for developing countries. To meet these goals, progress towards one objective cannot be at the expense of another. The Scottish Government is therefore strongly committed to Policy Coherence for Sustainable Development (PCSD).¹¹⁸

We must work to ensure that employment created as a result of increased trade includes quality jobs along with social protection and respect for rights at work. Human rights due diligence must be undertaken to ensure that businesses proactively manage potential and actual adverse human rights impacts with which they are involved. All parties to any trade agreement signed should be required to commit to relevant international human rights standards, including the UN Guiding Principles on Business and Human Rights (UNGPs), relevant UN resolutions, OECD Guidelines and core ILO Conventions.

The Scottish Government expects all States to comply with fundamental human rights law and we are committed to the UN Guiding principles on Business and Human Rights. These principles recognise the obligation on state institutions to respect, protect and fulfil human rights, including through the enforcement of human rights laws governing the activity of commercial interests. The UN Guiding Principles make clear that businesses have a responsibility to ensure their activities do not have adverse human rights impacts. Where impacts do occur, private sector actors have a clear ethical duty to address and remediate¹¹⁹ violations by taking immediate and effective action. The Scottish Government recognises that the UN Guiding Principles should directly inform Scotland's trade policy, in a way that assists Scottish businesses to ensure that their own activities promote and uphold human rights.

¹¹⁸ Ibid

¹¹⁹ The UNGPs offer guidance on the forms remediation may take, particularly where violations have occurred.

Actions include compensation, replacement housing for communities, apologies for harms caused, reinstatement in a job, contribution to communities' livelihoods, agreement on joint monitoring of a situation, compensation for crops destroyed across multiple individuals or communities, agreement to provide improved living quarters for workers.

<https://www.ungpreporting.org/reporting-framework/management-of-salient-human-rights-issues/remediation/>

In doing so, Scotland can play a role in setting, maintaining and enforcing common international standards in a way that protects both producers and consumers. Scotland's trade policy acknowledges that trade can only genuinely be free and fair when the true costs of production are properly reflected in the prices charged for goods. Human rights abuses, including low wages, anti-trade union laws, forced labour, illegal appropriation of resources through occupation or political repression all act to distort markets. The need for Scotland's trade policy to directly address human rights is therefore both a moral imperative and a practical necessity.

As such, Scottish Government welcomes and supports coordinated international action to address human rights violations, such as those taken by the UK Government to help ensure UK businesses and the public sector are not complicit in human rights violations in Xinjiang Province, China.

We recognise that the aerospace, defence and shipbuilding sectors in Scotland play a legitimate role in supporting our armed forces and those of like-minded countries, but we also recognise the critical importance of ensuring that arms exports do not contribute to human rights abuses and other violations of international law. As well as upholding our commitment to the UN Guiding principles on Business and Human Rights the support of our enterprise agencies for businesses that operate in defence industries is focused on helping firms to diversify and develop non-military applications for their technology.

Scotland will not turn a blind eye to the potential of exports which harm human rights. Where we have the power to act we have done so, for instance introducing essential safeguards such as Human Rights due diligence checks, which are now a normal part of the Scottish Enterprise application process.

Scottish Government levers:

1. Building relationships with other like-minded countries based on shared principles on trade as a tool to help deliver policy priorities and stronger trade, and being active in the global debate on trade, including through international conferences. Specifically explore engagement with Sweden on gender and trade, with New Zealand on their Trade for All agenda and with Wellbeing Economy Governments (WEGo) members on trade principles that work towards creating and maintaining a wellbeing economy.
2. Increasing engagement and building relationships (including through our established international Scottish Government and SDI offices) with organisations such as OECD, UN agencies, and WTO to enhance Scotland's global citizenship. For example, recognising that our regulatory choices may have repercussions for people and communities locally, nationally and internationally. This can be modelled on the existing engagement between OECD with the Water Industry Commission Scotland to provide an independent peer review of their innovative approach to regulation in the water industry.
3. Raising awareness of, promoting understanding about, and supporting adherence to the UN Guiding Principles on Business and Human Rights and the undertaking of human rights due diligence, using ongoing dialogue with states at ministerial and official level, raising human rights where appropriate in a diplomatic and culturally sensitive manner that has practical impact.
4. Implementing human rights obligations in Scottish Government activity related to trade, such as through due diligence, procurement and in any actions taken by the Scottish Government to improve the trading environment for goods and services and investment, as well as exploring further options on the connections between human rights and trade. This includes exploring options to take action on the risk of forced labour entering global supply chains and other abuses of international law that distort trade.
5. Supporting Scottish businesses to ensure they do not, consciously or inadvertently, become party to such human rights abuses and to remediate where breaches occur.
6. Ensuring Scotland's voice is heard in the UK approach to international trade and ensuring Scotland's trade policies establish a benchmark for wider UK conduct.
7. Using the Policy Coherence for Sustainable Development (PCSD) initiative to better understand the social, economic and environmental impacts of trade policy on development.
8. Expanding the GlobalScot network in key markets, as well as making use of other wider international networks, including diaspora and alumni, to project our principles internationally and increase the international reputation of our exports, including our creative and cultural exports.

9. Engaging internationally through cultural events such as international festivals.
10. Building relationships, through our Trade Envoy network and COP 26, with companies listed in the UN Business Avengers who are leading on UN Sustainability Goals to promote the alignment of our values.

What Scottish Government calls on UK Government to do:

- Compliance with fundamental human rights should be a red line for the initiation of FTA negotiations with any partner, and human rights should be embedded in all aspects of trade policy. FTAs should have clear human rights commitments, which require all parties to commit to relevant international human rights standards, including the UN Guiding Principles on Business and Human Rights and core ILO Conventions.
- Human rights impact assessments should be carried out at the outset of preparations for FTA negotiations and updated throughout the process, either following the integrated approach (used by the EU) or as a standalone assessment.¹²⁰ Engagement with NGOs and human rights defenders in countries entering into agreements – either directly or through our own domestic NGOs – should be carried out. Ex post monitoring should be undertaken.
- Ensure increased support and guidance for SMEs that begin or expand exporting activities so that they are equipped to undertake effective due diligence throughout their supply chain and across their operations and relationships in order to be able to know, prevent or mitigate any potential risk of human rights abuses.
- FTAs should establish or promote forums for dialogue and sharing best practice with a view to raising human rights standards. No other part of a trade or investment agreement – for example provisions regarding investment protection and ISDS mechanisms – should reduce the ability to fulfil international human rights obligations or build more robust domestic protections.
- Use competencies on trade remedies in a way that upholds human rights globally, for example by applying trade remedies to imports using forced labour, on the grounds that forced labour represents an illegal production subsidy for exporters to discourage human rights abuses across global supply chains.
- Abide by the principles of the UK Arms Trade Treaty which it ratified in 2014, and formally align with the EU Common Position on the arms trade, ending arms exports to countries where there is concern they will be used to commit war crimes and human rights violations.

¹²⁰ J. Zerk (2019) Human Rights Impact Assessment of Trade Agreements
<https://www.chathamhouse.org/sites/default/files/2019-02-18HumanRightsTradeAgreements.pdf>

4

Scotland's role in UK Trade Policy

The Scottish Government has sought to engage constructively and in detail as the UK Government has developed its position in advance of, and during, discussions with specific future trading partners. We have also presented an evidence-based set of proposals, arguing for a clear and consistent role in the development of future trade arrangements. Our August 2018 discussion paper [Scotland's Role in the Development of Future UK Trade Arrangements](#) set out the Scottish Government's position on how Scotland should be involved in the process of agreeing trade policy and trade deals. Our responses to consultations or calls for input have considered the content of those deals – the what, how and why of Scotland's trade interests. The UK Government has not engaged fully on these proposals, nor shown any sign of trying to create trade policy that genuinely works for all communities, regions and nations in the UK. That approach has pushed the Scottish Government out of key decisions, despite the Scottish Government's expertise on Scotland's interests.

Responsibility for the regulation of international trade is reserved to the UK Parliament and Government, but the broad and increasing scope of modern trade agreements means that they often deal with, and merge, a range of reserved and devolved policy areas. International trade profoundly affects devolved policy areas and a wide range of non-devolved issues that affect the day-to-day lives of people in Scotland. The Scottish Government is also responsible for observing and implementing international obligations in devolved areas and these include some of the most contentious areas of trade such as agriculture and food standards. The UK Government should seek our agreement on priorities and the pursuit of its trade policy, as it can dramatically affect devolved policies, such as food standards. In current circumstances, and now that the direction of travel of the UK Government is clear, the Scottish Government's call for a comprehensive, formal role for devolved administrations and legislatures is even more important. This relationship needs good governance in line with our trade principles.

5

NEXT STEPS – Stakeholder Dialogue and Monitoring

An invitation to ongoing dialogue on trade policy

Our Vision for Trade is based on five established Scottish Government trade principles. However, it is important that the application of these principles to the many real world issues that the Scottish economy will face in the future is informed by the experience and expertise of consumers, businesses, workers, civil society and others. We will reach out to organisations and other interested individuals to ensure that we hear the voices of those who will be affected by future trading arrangements. Hearing the voices of individuals, businesses, academics and other organisations in Scotland and globally on trade policy is a priority for the Scottish Government and this Vision for Trade acts as our call for an ongoing and open dialogue on trade policy. The Scottish Parliament will also have an important role to play in the future consideration of trade-related issues and has already started to consider how this can be achieved. The Scottish Government looks forward to discussing this issue.

Discussions with a wide range of interested parties and the opportunity to take these into account will also be central to the success of our approach to monitoring the Vision for Trade. This applies to the development of monitoring arrangements and the proposed indicators as much as the use of those arrangements to test future trade-related decisions. The indicators we use are likely to develop over time.

Monitoring the Vision for Trade

The Vision for Trade sets out the guiding principles by which we will judge our own future trade policy decisions and contribute to any shared decisions with future trading partners. It is more than a statement of where we are now and will provide a basis for consideration and decision into the future. Over time (and as part of the process outlined above) we will refine our indicators against which to test future decisions.

Initially we propose a two part process which will contribute to an Annual Trade Policy Review:

Part 1: testing policy development and decisions against the trade principles

This sets out a series of questions we will use when developing trade-related policy and or taking trade policy decisions, based on the five trade principles described in this document. This process can also be used to inform our assessment of future trade policy decisions taken by the UK Government.

Inclusive Growth



Are there opportunities for sectors and or businesses in Scotland as a result of this policy/decision?

Are particular sectors and/or protected characteristic groups likely to be asymmetrically affected by this policy or decision?

If there is likely to be a differentiated impact, have options been considered to mitigate adverse effects where they might arise?

Does this policy/decision contribute to providing good quality jobs, fair work, an enhanced quality of life and to reducing inequality?

Wellbeing



Has the impact of this policy/decision on individual and collective wellbeing been assessed according to the Scottish Government's National Performance Framework outcomes?

Has the impact of this policy/decision on the role of businesses in contributing to individual and or collective wellbeing been assessed?

Does the policy/decision support the Scottish Government's desired public service outcomes?

Sustainability



How does this policy/decision relate to the United Nations' Sustainable Development Goals?

Specifically, have the economic, social and environmental impacts been considered?

Have both short term and long-term impacts of the policy/decision been considered?

Net Zero



Does this policy/decision have an impact on progress towards the Scottish Government's net zero targets?

Does this policy/decision have an impact on environmental sustainability?

Good Governance



Does this policy/decision respect good governance requirements?




Is this policy/decision in line with the Scottish Government's commitment to the rule of law, transparency and accountability and support for human rights?




Will this policy/decision be evaluated and will it be possible for the policy/decision to be reviewed as a result of any evaluation?

Does this policy comply with international law in respect of human rights abuses?

Part 2: monitoring of progress of the Vision for Trade

This will allow the progress of the Vision for Trade to be tracked through monitoring the outcomes for the interests of particular sectors of the Scottish economy, businesses, consumers and individuals. We will also use this methodology to assess the effectiveness and impact of international networks and our engagement with the UK Government.

	Indicator	Sources
Sectors 	Sector based changes in the trading environment for Scottish goods and services sectors (including digital trade).	<p>Interviews with purposive sample of businesses within key goods and service sectors in the Scottish economy.</p> <p>Market access tracker.</p> <p>Existence of regulator-to-regulator agreements or sectoral agreements on services.</p> <p>Funding for businesses that includes support on improving the use/take up of Free Trade Agreements.</p> <p>Business and Regulatory Impact Assessments assessing international trade impacts.</p> <p>Evidence of consideration of the impact of trade on climate within climate, transport, procurement, environment and other policies.</p>
Businesses 	Qualitative indicator to be defined in consultation with businesses to capture: Changes experienced by Scottish businesses in the trading environment and business' experience of the trade principles.	<p>Interviews with sample of businesses within key goods and service sectors.</p> <p>Identification of good practices of businesses in contributing to the application of the trade principles.</p>
Consumers 	Level of participation of consumers in trade policy.	<p>Annual trade attitudes survey – consumer-related questions.</p> <p>Reports from Scottish Government commissioned research on consumers.</p> <p>Records of engagement with consumer stakeholder groups on trade.</p> <p>Products of Scottish Government supported involvement of universities in consumer-related research and education.</p>

<p>Individuals</p> 	<p>Changes in impact of trade on individual wellbeing.</p>	<p>Annual trade attitudes survey – on trade-resultant changes in wellbeing as experienced by individuals.</p> <p>Evidence of steps taken to consider impacts of trade decisions, shocks and trends on people and options to mitigate them, such as: existence of an evidence base on the differential impacts of trade; policies on mitigation of differential impacts; evidence of consideration of trade’s impacts within labour market, education, skills and regional development policies.</p>
<p>International networks</p> 	<p>Quality of global trade relationships built with like-minded countries.</p>	<p>Case studies with examples of Scotland projecting its trade principles internationally; presence at international conferences of Scottish Government Ministers or Scottish businesses; press coverage; reports of conferences.</p> <p>Link to International Networks indicator in the National Performance Framework.</p>
<p>UK Government engagement</p> 	<p>Level of engagement with UK Government on trade issues of importance for Scottish people and businesses.</p>	<p>Formal submissions and record of official engagements, which may include the following:</p> <ul style="list-style-type: none"> – Improving the trading environment for Scottish businesses; – Prioritising regulating in the public interest; – Supporting public services; – Consumer interests; – Linking trade & climate; – Supporting developing countries through trade; – Reinforcing the WTO; – Addressing differential impacts of trade.



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