



Scotland, 'Brexit' and the UK

Briefing note

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Scotland In Union is a non-party movement which unites people around a positive view of Scotland in the UK. We are a not-for-profit organisation. We have supporters from all points on the political spectrum, and many diverse views about how to improve life in the Scotland. This briefing note is designed to help make the case for a stronger Scotland in the UK. For more information, please see www.scotlandinunion.co.uk

Scotland, 'Brexit' and the UK

SiU has no view either way on 'Brexit', except that it is a matter for the UK as a whole. But it's clear that in the event that the UK votes to leave the EU, it would be all the more important for the UK to stick together. Leaving the UK in these circumstances would damage Scots business and risk thousands of additional jobs on top of the other costs of Scotland trying to re-join the EU alone. It would also disrespect the clear result of the 2014 referendum on independence.

Don't erect trade barriers with your main trading partner

The forthcoming vote on EU membership is a UK matter with no separate franchise in Scotland. SiU does not support 'Brexit', it has no view on the vote. However, there has been debate about Scotland's place in the UK in the event of 'Brexit'. The key point is that Scotland trades far more with the rest of the UK than it does with the rest of the EU. For this reason, to leave a post-'Brexit' UK and seek to re-join the EU as an independent country would risk severe economic damage to the Scottish economy. Any trade barriers that were erected between the EU and the UK post-'Brexit' would necessarily be imposed between Scotland and the rest of the UK, with potentially disastrous consequences.

Scotland currently exports around £46 billion to the rest of the UK, three and a half times more than it does with the EU (£12.9 billion)¹.

So an independent Scotland could face damaging additional barriers to trade if it left a post-'Brexit' UK. These could take the form of:

- tariffs on cross border trade in goods and services;
- exclusion from the UK single market;
- discriminatory procurement rules;
- diverging regulatory rules in financial services and other sectors;
- barriers to cross border investment including mergers.

This situation would be distinct from the scenarios discussed at the time of the independence referendum in 2014. Then, nationalists envisaged a separate Scotland becoming a member of the EU alongside the rest of the UK, so both countries would remain in the EU single market, allowing Scots businesses continued access to the rest of the UK. There was some debate about whether Scotland could easily re-join the EU as an independent country. But under this new post-'Brexit' scenario it is certain that a separate Scotland and the rest of the UK would be in different trade blocs, so we risk a situation where significant barriers to trade would arise between Scotland and the rest of the UK.

The added costs of a separate Scotland post-'Brexit'?

It is impossible to predict what trading arrangement a post-'Brexit' UK would negotiate with the EU. It could arrange continued full access to the EU single market. But it is also easily possible that some of the trade barriers mentioned above would be erected.

In that event, again, it is impossible to predict how trade flows would react and change in response. However, to illustrate the risks involved we can look at tariff levels between developed economies to estimate costs of Scotland leaving the UK after Brexit. According to the World Bank, average tariffs

¹ According to Scotland's Global Connections Survey 2013 (Scottish Government)
<http://www.gov.scot/Topics/Statistics/Browse/Economy/Exports/GCSIntroduction>

imposed by the EU on non-EU developed countries with 'Most Favoured Nation' status are 4.4%². If these tariffs were imposed by the EU on the UK and vice versa that would imply additional costs on Scottish business of c. £1.5bn annually³.

The cost of EU re-entry would be high

Any of these additional costs from new barriers to trade with the EU would be added to the further costs of Scotland having to negotiate EU membership as an independent country. These were well established at the time of the EU referendum, but it is useful to revisit them now in the different context of Scotland separating from a post Brexit UK and seeking to re-join the EU. Under these circumstances and in today's Europe it is likely that:

- Scotland would lose its share of the rebate from the EU budget negotiated by the UK;
- However, unlike with the UK remaining inside the EU, it would not have to contribute to the UK's rebate (since the UK would no longer be an EU member);
- Given the political debate in the EU on border controls, Scotland might not have to join the 'Schengen' border free zone for the time being. But since Scotland would pursue a different migration policy for the rest of the UK, border controls would probably anyway be erected between Scotland and the rest of the UK;
- Given the recent and ongoing difficulties experienced in the Eurozone, Scotland might not have to join the euro immediately, though legally it would have to commit to future membership. Whether it would be able to use the pound sterling within the EU with the rest of the UK outside is even more unlikely than with both UK successor states within the EU.

Research at the time of the referendum suggested that losing the rebate and facing border controls with the rest of the UK would cost Scotland c. £380. There would also be further trading risks from pursuing a different monetary policy from the rest of the UK⁴.

Ignoring the people

Some nationalist politicians, including SNP leader Nicola Sturgeon, have hinted that they would seek a second referendum on Scottish independence if the UK votes to leave the EU and Scotland has a majority to remain. But at the time of the Scottish referendum, Scots voters were fully aware there would be a vote on EU membership. Nationalists tried to raise the spectre of 'Brexit' at the time and voters still opted decisively to stay in the UK.

Moreover, at the time, nationalist leaders pledged that the vote would be decisive and that they would respect its verdict, calling the referendum a 'once in a lifetime' event.

To go back on that promise and ignore the express will of the Scottish people on such a damaging prospectus as leaving the UK post-'Brexit' would be an act of wanton political opportunism.

Whatever the merits of 'Brexit' – and Scotland in Union has no view on it – it's clear that Scotland is stronger within the UK, and faced with a choice between the UK and an uncertain attempt to join the EU alone, we should opt decisively in favour of our friends and main trading partners in the UK.

² World Bank Data <http://data.worldbank.org/indicator/TM.TAX.MRCH.SM.FN.ZS>

³ On leaving the UK and re-joining the EU Scotland would face £2.03bn on its UK trade and save £0.57bn of tariffs on its EU trade.

⁴ *Three EU Related Impacts of Scotland Leaving the UK*. Europe Economics 2014.