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**Scotland, the UK and the European Union**

***Briefing note***

**May 2016**

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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

*As part of the UK, which is one of the EU’s large member states, Scotland plays a pivotal role in EU decision making. It can help to influence the EU for the better, completing the single market and ensuring that common rules and policies are reformed in Scotland’s interests.*

*If it were separate from the UK, Scotland could go its own way, but it would lose influence over EU affairs. Breaking away would risk losing the special arrangements that the UK has negotiated on the EU budget, the single currency, border controls, financial regulation and immigration policy. This would incur major economic costs.*

**At the heart of EU decision making**

EU policy making is heavily influenced by the large member states such as Germany, France and the United Kingdom. The UK has had a profound influence on the development of EU since its accession in 1973. In particular, the development of the single market has been driven by UK pressure, with the European Commission focused on implementing a largely UK-inspired agenda that promotes integrated cross-border trade and a more open approach to international affairs.

The European Union is not faultless, and the UK does not always get its own way in EU discussions. However, it is important to recognise the significance of UK influence, as one of the major players in the organization.

While a separate Scotland would not be guaranteed EU membership, it is worth considering the scenario of a separate Scotland, within the EU. In that case, Scotland would be represented in the Commission and European Parliament. But in practice countries of Scotland’s size have relatively little influence over EU policy or decision making. As part of the UK, Scotland plays a pivotal role in UK and therefore EU affairs. Leaving the UK would mean Scotland losing power over EU affairs and therefore issues important to Scotland such as trade, fishing, agriculture, financial and economic and social regulation.

**How would an independent Scotland join the EU?**

Nationalists claim that Scotland would automatically become a member of the European Union on leaving the UK. They say that the European treaties do not specifically deal with a country seceding from a member state, and that these special circumstances would be dealt with while Scotland was negotiating the break-up of the UK from within the EU and so its membership would continue seamlessly.

It is more likely that Scotland would have to apply from outside the EU under the provisions of Article 49 of the Lisbon Treaty once it had broken from the UK, a circumstance confirmed by the last president of the European Commission, Manual Barroso, at the time of the 2014 referendum. This process would take several years during which Scotland’s access to the single market (including the rest of the UK) could be disrupted, causing significant economic disruption.

There is a credible case that Scotland would face considerable difficulty joining the EU. First, its budget deficit, which could well be 9% or more, is incompatible with Eurozone membership, and it is likely that any new state would be expected to be on track to adopt the Euro. Second, several countries with their own separatist movements, including Spain and Belgium, might want to set tough conditions in order to reduce the expectations of their separatist movements. While all post-independence scenarios are of course speculative, these are not risks which should be taken lightly.

Either way, Scotland would have to negotiate the terms of its EU membership from scratch - not just its representation in EU institutions but its budget contribution, its currency arrangements and border controls. Several EU member states have a keen interest in discouraging separatist movements, and all have an interest in removing the special advantages enjoyed by the UK. Scotland’s bargaining position would be weak and it is inevitable that its terms of membership would be worse than it currently enjoys as part of the UK.

**The UK’s special status within the EU**

The UK enjoys three major ‘opt-outs’ of mainstream EU policy which bring significant economic benefits to all of the UK, including Scotland: the rebate on contributions to the EU budget, the opt-out from the single currency (euro) and the opt-out from the Schengen agreement on cross-border movement. Also, it has recently negotiated additional special arrangements to protect its financial sector (a key industry in Scotland, of course); to adjust its benefits system to adapt to migration from other EU countries and to exclude it from ‘ever closer union’.

Overall, then, the UK has used its power and influence as one of the EU’s major states to develop a special status that fits its circumstances and delivers major economic and / or political advantages.

All of these special arrangements would be at risk for a Scotland having to negotiate the terms of its membership of the EU as an independent state.

The EU Budget rebate

The UK has negotiated a special rebate from its contribution to the EU budget that is enshrined by treaty in EU law. This means that, while the UK remains one of the main net contributors to the EU, on a per capita basis it reflects much more closely our relative wealth compared to other member states.

This arrangement is only possible because of the UK’s clout in the EU. The rebate is unpopular among other member states who try repeatedly to reduce it. It is inconceivable that an independent Scotland, negotiating the terms of its membership from scratch, would be granted a similar rebate.

Latest estimates indicated that the UK rebate is worth £450 million annually to Scotland. In addition, an independent Scotland, like the other member states, would have to contribute to the (remaining) UK’s continuing rebate, which would cost an extra £75 million. So independence would cost Scotland £525 million annually from losing the UK’s EU budget rebate[[1]](#footnote-1).

Schengen and border controls

The United Kingdom has negotiated an opt-out from the ‘Schengen’ area of passport-free travel in the European Union. This means that the UK is able to control its borders by checking the identity of people arriving and departing, an essential control over immigration and criminal entry.

Other EU member states, including all new entrants, have to commit to the Schengen agreement, and it is highly likely that an independent Scotland would have to do the same.

The Republic of Ireland is not in the Schengen area and instead has a common travel arrangement with the UK. This arrangement works for the RoI because its immigration policy is compatible with that of the UK. However, because nationalist policy is to pursue a very different approach to migration from the UK, and because of the land border between Scotland and the rest of mainland UK, it is highly likely that the remaining UK would impose border controls on an independent Scotland, whether or not it was forced to join Schengen. In addition, an independent Scotland might have to introduce separate visa arrangements for tourists, which would impact on cross border movement by non-EU tourists visiting the UK. Recent economic analysis indicates that Anglo-Scottish border controls would cost the Scottish economy between £77 million and £104 million a year[[2]](#footnote-2).

The euro and Scotland’s currency

The Maastricht Treaty obliges EU Member States to adopt the euro upon meeting certain monetary and budgetary convergence criteria, and all countries that joined the EU since 1993 have committed to adopt the euro.

The UK has a treaty-enforced opt-out from the single currency, but this is unpopular with other member states and it is unlikely that an independent Scotland would be able to negotiate the same.

On breaking away from the UK, Scotland might be able to postpone euro-entry, as some other countries have done, because of its likely failure to meet the euro entry criteria set out in Maastricht. But even in this case its options are limited and involve incurring significant costs.

At the time of the 2014 referendum, the UK government and opposition parties ruled out continuing to share its monetary arrangements with an independent Scotland. Former SNP leader Alex Salmond has since suggested that Scotland would have continued to use Sterling outside the formal jurisdiction of the Bank of England (an arrangement known as ‘sterlingisation’). This scenario is unrealistic because it would force the departure of any Scottish bank that required last resort lending (i.e. all modern institutions) and might also be incompatible with EU membership, since all EU members are required to have a central bank or equivalent institution to participate in cross-border supervision or the rescuing of failing banks.

Scotland could establish its own currency as an interim measure. But whether Scotland joined the euro immediately upon independence or whether it would initially form its own currency there would be significant costs:

* One-off costs associated with the changeover to the new currency;
* Ongoing additional transaction costs on trade with the sterling area (partially offset by reduced transaction costs with the Eurozone if the euro were adopted)
* Ongoing trade-related costs associated with changing trade patterns.

Recent research indicates total costs in the first year of independence of £415 million[[3]](#footnote-3).

In addition to these impacts, on joining the euro Scotland would face macroeconomic risks from euro area monetary policy being less suited to Scotland than UK policy (over which Scotland has more of a say). It would also face constraints on fiscal policy imposed by Eurozone rules and costs from switching to a different financial regulatory regime.

An interim arrangement of a new Scottish currency would incur set up costs, currency volatility and the risk of higher interest rates (and hence mortgage payments).

**Conclusion**

Over the years, the UK has used its influence as one of the major players in EU decision making to establish a special status that brings unique political and economic advantages to the whole of the UK. Meanwhile it continues to pay a big role in the EU, driving forward a pro-UK agenda of completing the single market and ensuring an open approach to global engagement.

By being part of the UK, Scotland plays a pivotal role with more influence over EU policy than if it were a separate country. Alone, Scotland would most likely lose the UK’s opt outs and, like other countries of similar size, would have little say over the future direction of the EU.

By playing a full and constructive part in the UK, Scotland maximises its influence in the EU and the benefits it gains from EU membership.

1. Calculations by Europe Economics in *First Year Costs of an Independent Scotland*, March 2016. [↑](#footnote-ref-1)
2. Ibid. [↑](#footnote-ref-2)
3. Ibid. [↑](#footnote-ref-3)