

The UK Government should be planning for close links with an independent Scotland



It is highly likely that there will be another referendum on Scottish independence, sooner or later. Unionists argue that independence would be a financial disaster for Scotland but if there were a 'yes' vote, it would be wrong and self-harming for the UK to punish Scotland for that decision, writes [Derrick Wyatt](#). Geography and common values would dictate that any government of the new UK that emerged from Scottish secession would seek the closest possible economic and political links with an independent Scotland.

British officials have been considering the option of [moving the UK's nuclear deterrent to France or the USA](#) in the event of a 'yes' vote in Indyref2. Is it time for more wide-ranging contingency planning than this, not only by the government, but by Labour and the Liberal Democrats too, and for at least the beginnings of a public debate about options?

Scottish independence would be potentially damaging to the rest of the UK. It would erode the image and influence [around the world](#) of the 'new UK' (NUK) which emerged from Scottish secession, it would create a customs border between the two countries, and it would pose challenges to national defence policy for NUK as well as Scotland. If the Scots vote for independence, then emerging NUK should aspire to be the best friend and ally of an independent Scotland, and seek close links with it. Geography, common values and self-interest would demand no less.

Scottish independence, like Brexit, would be a process rather than an event. It would involve complicated negotiations, agreement on a start date, and probably a transitional period. [The SNP advocates](#) an independent Scotland joining the EU, and using sterling unilaterally, pending the adoption of a new Scottish currency. But a different future for Scotland might be possible. That future would be a close economic and political relationship with NUK, based on a customs union, a comprehensive free-trade agreement, a common travel area, a pact on defence, and, possibly, a pact on sterling and a banking union. Such options are likely to be downplayed by unionists lest they undermine a 'project fear' campaign in IndyRef2. They are also likely to be downplayed or dismissed by the SNP. Their plan for a pact on sterling was rejected by the UK Government in the 2014 referendum, they have moved on, and a customs union with the UK would rule out Scotland joining the EU. Yet none of this should close down a broader conversation about the future of an independent Scotland.

Avoiding a visible border between Scotland and NUK

[In a recent blog](#) I suggested a model for a customs union between an independent Scotland and NUK. A key advantage for both parties would be the avoidance of a customs border between the two. Such a border would be an inevitable consequence of Scottish independence, whether Scotland joined the EU or not, unless Scotland and NUK entered into a customs union. Under the suggested model, Scotland would have a far greater say in the negotiation of trade agreements around the world than it would have as a member of the EU, [where it would muster less than 2% of the votes in the Council and European Parliament](#).

A customs union and a free-trade agreement would eliminate all restrictions and frontier checks on goods moving between Scotland and NUK, which would remain Scotland's biggest export market for the foreseeable future. There could be a common travel area in which Scots and Brits could live and work anywhere in Scotland and NUK. These arrangements would ensure that there was no visible border between Scotland and NUK.

A defence pact

One reason a defence pact would benefit both Scotland and NUK is that Scotland, with 8% of the current UK's population, would take over surveillance and defence of a third of the land mass and territorial waters for which the UK as a whole is currently responsible. It would strain Scottish resources to do this alone, and it would threaten the security of NUK as well as Scotland if, as a result, the task were undertaken less effectively than it is at present.

The defence pact could provide for close cooperation and interoperability between Scottish and NUK armed forces and intelligence services, for the purposes of homeland defence and broader NATO operations. The pact could be negotiated in tandem with negotiations on the division of the UK's military personnel and assets between Scotland and NUK.

There could be arrangements for cooperation on air and maritime surveillance and response. The [Lossiemouth airbase](#) in north-east Scotland could be home for fighter squadrons and maritime patrol aircraft operated by both the RAF and the Scottish Air Force. Input from radar stations on both sides of the border could be pooled as it is now, to common advantage. Scotland's extensive national waters could continue to be patrolled by NUK's nuclear-powered hunter-killer submarines (currently based at Faslane in Scotland) pending Scotland's acquisition of its own fleet (whether nuclear powered or diesel-electric), and even thereafter, on a burden-sharing basis.

The UK nuclear deterrent would have to leave Scotland and its future would be called in question

The SNP is committed to the removal of the UK's nuclear deterrent from an independent Scotland. The UK Government will have to accept that this will be the position. Contingency planning should focus on a transfer of the nuclear deterrent from its two bases on the Clyde to alternative sites in England or Wales. Relocation would require [expensive adaptation of the new sites](#), and this could take a decade. For the sake of political argument, the costs might be set against savings resulting from the fact that the UK Government would no longer make financial transfers to Scotland which [exceeded the taxes raised in Scotland](#), but this would not foreclose argument on the future of the UK deterrent.

The relocation of the UK's nuclear deterrent could not be completed overnight. But nor could Scottish independence. An agreement on transitional use of the existing bases might be reached, or relocation of the deterrent might be completed within the period between a 'yes' vote and the agreed start date for independence. If not, the UK Government might negotiate a temporary home for the UK deterrent in the USA. Officials are reported to have discussed [permanent relocation to France or the USA](#), but this would call in question the genuine independence of the UK deterrent. Relocation of the UK deterrent would inevitably provoke a review of current UK policy to maintain an independent nuclear deterrent, and could see that policy changed.

A pact on sterling and a banking union

The choice of currency for an independent Scotland would be primarily a political choice. Since opinion polling has suggested [most Scots want to keep the pound](#), a pact on sterling might work for an independent Scotland. Former Bank of England Governor Mark Carney has accepted that a currency union would be [economically feasible](#). Taken in isolation, NUK would probably not opt for a sterling pact with Scotland, but as part of a package of overall advantage to NUK, it might. A credible sterling pact underpinning a banking union could ensure continuity and stability for both countries.

Financial services providers in the two countries would be licensed and regulated by the Bank of England, and the services of these businesses could be provided throughout Scotland and NUK. Scotland could continue to use the pound sterling, while the Bank of England would continue to exercise its present role in respect of both countries, including its key role as lender of last resort. This option could be challenging if a newly independent Scotland had to move at short notice to financing [a high public sector deficit](#) without the support hitherto provided by UK central government. This problem could be mitigated by a transition period in which UK central government support was gradually phased out.

An independent Scotland would nevertheless be likely to have a larger (relative) national debt than NUK, and higher borrowing costs. Higher borrowing costs for Scotland might be mitigated by provision in the sterling pact for the Bank of England to purchase Scottish Government bonds as well as NUK Government bonds under its [Quantitative Easing programme](#). But to address potential inflationary pressures, and to safeguard the Bank of England, the sterling pact would need provisions along the lines of the [EU's Stability and Growth Pact](#).

There would accordingly need to be an agreed limit on Scottish debt. Scotland could align with this limit gradually during a transition period. But to make ongoing compliance with the debt limit credible, it would have to be enforceable. For example, Scottish Government Bonds might be excluded from the Bank of England's quantitative easing measures if the Bank considered that deviation from the agreed Scottish debt limit justified this. This would however play into a narrative of a dominant England still seeking to control the Scottish Government.

A sterling pact would certainly not be plain sailing. But it might be feasible, and in the short to medium term at least, it could provide a stability which would suit both sides.

About the Author



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