Why an independent Scotland might have second thoughts about joining the EU

An independent Scotland would be a net contributor to the EU budget, and economic modelling for the Scottish Government suggests that Scottish exports of goods to the EU are back to where they would have been if Brexit had not happened, writes **Derrick Wyatt***. He asks whether the Scots would opt for European identity and a federal future, even if it brought no obvious economic advantages.*

Scottish independence is an unknown quantity. It might never happen. If it does happen, it will not be for some years yet. None of this means that only nationalists or indeed only Scots should be thinking about it or discussing possible links between an independent Scotland (IndyScotland) and the EU, the wider world, and the New UK (NUK) which would emerge from Scottish secession.

Part of the SNP's plan is that an independent Scotland would join the EU. For many Scots, this sounds like a good way of fixing Brexit, and a recent poll suggested that 72% of Scots supported Remain and that 69% would seek to reverse Brexit. Scottish First Minister Nicola Sturgeon has said that 'the people of Scotland went to the polls' in the 2016 Brexit referendum 'as citizens of the European Union and overwhelmingly voted to remain as such'. Yet the lack of Scottish enthusiasm for the euro and the fact that Scots are even less likely than other Brits to identify as 'European' could mean that Scottish support for EU membership is based more on the belief that it will bring tangible advantages to Scotland than on the ideal of an 'ever closer union among the peoples of Europe'.

Officials of the Scottish Government have modelled the impact of Brexit on Scottish exports to the EU during 2021, and their model 'finds no significant impact of EU Exit on exports to the EU beyond the first quarter'. It is early days yet, and *imports* of goods from the EU did fall significantly, but the rapid bounce back of Scottish exports of goods to the EU could be significant for Scotland, because 60% of Scottish exports to the EU are exports of goods.

If Scottish exports of goods to the EU under the EU/UK Trade and Cooperation Agreement (TCA) can match Scottish exports to the EU when it was part of the EU's Single Market and Customs Union – which is what the Scottish Government's model implies – how much does Scotland really need the Single Market and Customs Union?

The picture is likely to be different for exports of services to the EU, both by the UK as a whole and by Scotland. Financial services are the top services export to the EU of the UK as a whole, and in the first three quarters of 2021 they were 25% down on exports in 2018, regarded by the ONS as the last year of stable trade with the EU. Financial services, along with insurance, are major business sectors in Scotland, and they are Scotland's top services export to the combined destinations of the EU, rest of the world, and rest of the UK. Yet Brexit will leave this sector in Scotland largely unscathed, because before Brexit only 6.5% of exports in this category (2018) went to the EU, with 10.5% going to the rest of the world, and 83% (£10.5 billion) going to the rest of the UK. If the reduction in Scottish exports of financial services and insurance as a result of Brexit turns out to be the same as that for UK's exports of financial services (though the UK's insurance exports more than held up and Scotland's might have too), the impact would amount to 1.25% of Scotland's total exports to the EU.

One remedy for Scotland's financial services sector would be for IndyScotland to stay out of the EU and instead to enter into a financial services union with the NUK, initially in conjunction with a sterling pact, which would allow the Bank of England to regulate banks and insurance companies on both sides of the border.

Scotland's third highest exporting industry is professional scientific and technical services. In 2018, Scotland exported £3.8 billion worth of services in this category to the rest of the UK, £2.3 billion worth to non-EU countries, and £1.2 billion worth to the EU. For the UK overall, exports of professional services dipped in the first three quarters of 2021 by 10% compared with 2018, but this was matched by a rise of 11% in exports of technical services to the EU. If Scottish exports turn out to reflect the overall UK position, Brexit is having little or no overall impact on Scottish exports of services in this category. Moreover, as the above figures from the Scottish Government show, 52% of Scotland's exports of services in this category go to the rest of the UK, with only 16% going to the EU.

Any discussion of potential trade gains for IndyScotland as a result of joining the EU should take account of Scotland's export record during its actual participation in the EU Customs Union and Single Market over a period of thirty years or so. Prior to Brexit, 60% of Scottish exports went to the UK, 21% of Scottish exports went to non-EU countries, and 19% of Scottish exports went to the EU. There is no obvious reason why an IndyScotland should expect better results second time round if it joined the EU in the coming years. In fact, the 19% figure overstates exports to the EU and understates exports to non-EU countries. Two of Scotland's top five international export destinations are the Netherlands and Belgium. In both cases some of the transactions recorded as exports of goods to those countries will actually be exports through Rotterdam and Antwerp to non-EU destinations. This anomaly is known as the Rotterdam effect or the Rotterdam-Antwerp effect, and it is acknowledged in the Scottish Government's Publications on Export Statistics.

If IndyScotland joined the EU, it would join an EU which had much evolved since Brexit. An important part of that evolution has been the EU issuing bonds on behalf of all Member States to finance EU activities. The decision of the EU to borrow 750 billion euros to fund a post-pandemic Recovery Plan was a remarkable exercise in solidarity that the UK would almost certainly have vetoed had it still been in the EU.

The German Finance Minister at the time (and now Chancellor) Olaf Scholz described agreement on the Plan as a 'Hamiltonian moment'. This was a reference to measures adopted by the United States' first Treasury Secretary Alexander Hamilton, and what Scholz meant was 'we have just taken a step towards a United States of Europe'.

The Recovery Plan should not be downplayed as a one-off. France is cautious about more EU joint debt, but seems to regard that route to be open to the EU in future in the right circumstances. All this is probably to the good, and essential for the EU if it is to rise to the challenges of the future, but it creates implications for EU Membership which were not there before, and which might give Scots pause for thought about the depth of European integration to which they wish to commit.

Constitutional changes under discussion at EU level are further pointers to a federal future for the EU. The European Parliament recently submitted proposals to the European Council for Treaty revision covering a range of issues, including an expansion of EU powers and the powers of the Parliament itself, and the abolition of national vetoes. National vetoes can only be abolished by unanimity, and some Member States – understandably – would prefer to hang on to the leverage which a national veto gives to them.

Yet without abolishing vetoes in at least some of the cases where they still exist – such as tax policy and international sanctions – it is unlikely the EU will agree to further enlargement, because of the increased risk of deadlock on key political issues that it would bring. France has repeatedly ruled out enlargement until reform on EU decision-making is achieved. In a recent speech, Chancellor Scholz of Germany has done the same. In coming years he forecasts an EU of 30 to 36 Member States, with its centre of gravity moving eastwards. He calls for the removal of national vetoes and a reallocation of seats in the European Parliament which would reduce the voting power of smaller Member States in favour of larger ones. No great news for IndyScotland here.

Some of the Member States which want to hang on to their national vetoes also want further EU enlargement. It is possible there may be a political deal to be done, whereby national vetoes are surrendered as part of the institutional reform needed to make further enlargement possible. Only time will tell. But the history of the EU to date has been one of increasing powers for the Union, increasing powers for the European Parliament, and the progressive elimination of national vetoes in EU decision-making. Few commentators believe that that process has come to an end.

If IndyScotland were in the EU now, it would be a net contributor to the EU budget. It would likely appear in the table here immediately below Ireland, whose annual net contribution was 377 million euros per year in 2018-2020. Ireland's GDP per head is inflated by its tax haven status, which increases it net contribution to the EU budget. Scottish GDP per head is close to that of the UK and is higher than that of any Member State which is currently a net recipient from the EU budget, including Spain.

In 2016, Scotland's SNP Government accepted that an independent Scotland would be a net contributor to the EU budget, but also referred to 'the importance of the value of access to the single market'. Scotland's External Affairs Minister Fiona Hyslop also rejected a purely transactional approach to EU Membership: 'This is also about what we want to continue to contribute to the European Union', she said, citing Scotland's natural resources in fishing grounds, oil and gas and renewable energy.

What might be a more difficult equation for the Government and people of IndyScotland would be pros and cons of EU Membership if the scale of Scotland's net contribution to the EU budget seemed unfairly high (it would likely run into hundreds of millions of euros and rise with enlargement), if the Single Market and Customs Union appeared in retrospect to have been of less value than had hitherto been believed, and if the say of individual Member States in EU decision-making had been weakened by the loss of the national veto in areas such as tax and EU spending and by diluted voting power in the European Parliament.

About the Author

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